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, 2020 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, 2020, and the additional requirements pursuant to § 315e section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations as well as amendments to existing standards and interpretations are effective for financial years beginning on January 1, 2020 and have been applied for the first time to these consolidated financial statements:

- **Definition of a Business – Amendment to IFRS 3 (EU effective date: January 1, 2020):** The amendment provides additional guidance in order to help entities determine whether they have acquired a business or a group of assets. This amendment did not have an impact on the consolidated financial statements.

- **Interest Rate Benchmark Reform – Amendments to IFRS 9, IFRS 7 and IAS 39 (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 financial years 2019 and 2020, adidas did not conclude or possess any hedge instruments which were affected by the changes. Therefore, this amendment did not have any impact on the consolidated financial statements.

- **Definition of Material – Amendments to IAS 1 and IAS 8 (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 did not 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. These amendments did not have an 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.

The following new standards and interpretations and amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB), endorsed by the EU, and which are effective for financial years beginning after January 1, 2020, have not been applied in preparing these consolidated financial statements :

- **Deferral of IFRS 9 – Amendment to IFRS 4 (IASB effective date: January 1, 2021):** The amendment provides two optional solutions to reduce the impact of the differing effective dates of IFRS 9 and IFRS 17. IFRS 4 Insurance Contracts' is currently not applied by the company. Therefore, the amendment is not expected to have any impact on the consolidated financial statements.

- **Interest Rate Benchmark Reform: Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IASB effective date: January 1, 2021):** The amendments offer a practical expedient for financial instrument modifications and lease modifications, specific relief from discontinuing hedging relationships, and the amendment introduces new disclosure requirements. The impacts of the amendment on the consolidated financial statements are currently under evaluation.

- **Covid-19- Related Rent Concessions - Amendment to IFRS 16 (EU effective date: June 1, 2020):** This amendment provides lessees with the choice of an exemption from assessing whether a COVID-19-related rent concessions are to be treated as lease modifications as defined by IFRS 16. If the exemption is applied, the lessee recognizes the effects of the rent concession in the consolidated income statement in the period in which it occurs. adidas has decided not to apply the exemption; thus, the amendment will not have any 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:

- **Insurance Contracts – IFRS 17 including Amendments (IASB effective date: January 1, 2023):** 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.

- **Reference to the Conceptual Framework – Amendment to IFRS 3 (IASB effective date: January 1, 2022):** The amendment updates the references surrounding the *Conceptual Framework* and clarifies that an acquirer does not recognize contingent assets acquired in a business combination. The amendment is not expected to have any material impact on the consolidated financial statements.

- **Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – Amendment to IAS 1 (IASB effective date: January 1, 2023):** 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.

- **Property, Plant and Equipment: Proceeds before Intended Use – Amendment to IAS 16 (IASB effective date: January 1, 2022):** The amendment prohibits deducting any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating from the cost of an item of property, plant and equipment. These are instead recognized in the income statement as they occur. The amendment is not expected to have any material impact on the consolidated financial statements.

- **Onerous Contracts: Cost of Fulfilling a Contract – Amendment to IAS 37 (IASB effective date: January 1, 2022):** The amendment clarifies the fact that the cost of fulfilling a contract comprises the costs that relate directly to the contract, whether they are incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is not expected to have any material impact on the consolidated financial statements.

- **Annual Improvements to IFRS Standards 2018–2020 (IASB effective date: January 1, 2023):** The annual improvements include minor adjustments relating to the Subsidiary as a First-time Adopter (Amendment to IFRS 1), Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to IFRS 9), Lease Incentives (Amendment to Illustrative Example 13 of IFRS 16) and Taxation in Fair Value Measurements (Amendment to IAS 41). The improvements are 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.

Business development in 2020 was significantly impacted by the effects of the coronavirus pandemic. Estimates and assumptions relevant to the financial statements were made to the best of our knowledge, based on current events and actions. Due to the ongoing situation, it is difficult to predict the impact on assets and liabilities as well as income and expenses. The impact of the coronavirus pandemic is described in the individual Notes to the consolidated financial statements, if relevant, and include in particular accounts receivable, inventories, property, plant and equipment, right-of-use assets, goodwill, trademarks, financial instruments as well as other operating expenses. ► SEE NOTE 7 ► SEE NOTE 9 ► SEE NOTE 11 ► SEE NOTE 12 ► SEE NOTE 13 ► SEE NOTE 14 ► SEE NOTE 30 ► SEE NOTE 32

The consolidated financial statements are presented in euros (€) and, unless otherwise stated, all values are presented in millions of euros (€ 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 2020 and 2019, respectively:

Number of consolidated subsidiaries

	2020	2019
January 1	**125**	**128**
First-time consolidated subsidiaries	–	4
Thereof: newly founded	–	3
Thereof: control obtained in accordance with IFRS 10	–	1
Deconsolidated/divested subsidiaries	(1)	(5)
Intercompany mergers	(3)	(2)
December 31	**121**	**125**

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. 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. ► SEE SHAREHOLDINGS

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 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 following table includes an overview of selected subsequent measurement principles used in the preparation of the consolidated financial statements.

Overview of selected subsequent measurement principles

	Subsequent measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Cash and cash equivalents (investments in certain money market funds)	Fair value through profit or loss
Short-term financial assets	Fair value through profit or loss
Accounts receivable	Amortized cost
Contract assets	Impairment-only approach
Inventories	Lower of cost and net realizable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant, and equipment	Amortized cost
Right-of-use assets	Amortized cost
Goodwill	Impairment-only approach
Intangible assets (except goodwill):	
With definite useful life	Amortized cost
With indefinite useful life	Impairment-only approach
Financial assets	See separate table
Liabilities	
Borrowings	Amortized cost
Accounts payable	Amortized cost
Liabilities/provisions for cash-settled share-based payment arrangements	Fair value
Contract liabilities	Expected settlement amount
Other financial liabilities	Amortized cost
Provisions:	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Accrued liabilities	Amortized cost
Lease liabilities	Amortized cost

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 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 at fair value through profit or loss: financial asset which is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (business model 'Hold to collect and sell') and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In principle, all investments in equity instruments are measured at fair value through profit or loss. At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor a contingent consideration acquired by a purchaser in a business combination. This election is made on an investment-by-investment basis.

All financial assets which are not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Financial assets are only reclassified when the business model for managing financial assets is changed, in which case all affected financial assets are reclassified.

The subsequent measurement of financial assets is as follows:

Overview of financial asset subsequent measurement principles according to IFRS 9

IFRS 9 category	Subsequent measurement principle	Subsequent measurement
Fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.	Fair value through profit or loss
Amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.	Amortized cost
Fair value through other comprehensive income (debt instrument)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, accumulated gains and losses are reclassified to profit or loss.	Fair value through other comprehensive income
Fair value through other comprehensive income (equity instrument)	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.	Fair value through other comprehensive income

Currency translation

Transactions in foreign currencies are initially recorded in the respective functional currency by applying the spot exchange rate valid at the transaction date to the foreign currency amount.

In the individual financial statements of subsidiaries, monetary items denominated in non-functional currencies of the subsidiaries are generally translated into the functional currency at closing exchange rates at the balance sheet date. The resulting currency gains and losses are recorded directly in the income statement.

Assets and liabilities of the company's non-euro functional currency subsidiaries are translated using closing exchange rates at the balance sheet date into the presentation currency, the euro, which is also the functional currency of adidas AG. For practical reasons, revenues and expenses are translated at average rates for the period which approximate the exchange rates on the transaction dates. All cumulative differences from the translation of equity of foreign subsidiaries resulting from changes in exchange rates are included in a separate item within shareholders' equity without affecting the income statement.

A summary of exchange rates to the euro for major currencies in which the Group operates is as follows:

Exchange rates

€ 1 equals	Average rates for the year ending Dec. 31,		Spot rates at Dec. 31,	
	2020	2019	2020	2019
USD	1.1410	1.1196	1.2271	1.1234
GBP	0.8889	0.8773	0.8990	0.8508
JPY	121.7887	122.0868	126.4900	121.9400
CNY	7.8717	7.7393	7.9441	7.8057
RUB	82.4398	72.5070	90.6529	69.5449

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 of subsidiaries in hyperinflationary economies are restated in terms of a measuring unit current at the balance sheet date. These are indexed using a general price index in accordance with IAS 29 'Financial Reporting in Hyperinflationary Economies'. In contrast, no restatement is required for monetary assets and liabilities carried at amounts current at the end of the balance sheet date because they represent money held, to be received or to be paid. ► SEE NOTE 35

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 IFRS.

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 qualitatively and quantitatively 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 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 as well as 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. In the case that indicators for impairment are present at any point in time other than on September 30, these assets are also tested for impairment at this point in time.

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 and which are impacted by the effects of the coronavirus pandemic as of December 31, 2020. 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 the 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 judgment 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.

Lease contract renegotiations that result in changes to the original contractual conditions, e.g. changes in scope, consideration (including discounts and concessions) or lease term contain judgments and are treated as lease modifications, even if they are a result of the coronavirus pandemic. Depending on the circumstances of the renegotiation, lease modifications are either accounted for as a new separate contract or they trigger a remeasurment of the lease liability using the discounted future lease payments. In the latter case, a corresponding adjustment is made to the right-of-use asset with, in some instances, a difference recognized in profit or loss.

Lease reassessments are the result of changes in assumptions or judgments, such as changes in lease term due to amended estimates surrounding existing extension and termination options.It is necessary to remeasure the lease liability using the discounted or existing future lease payments and make a corresponding adjustment to the right-of-use asset.

In rare cases, adidas acts as a lessor when the company signs sub-leasing contracts for real estate properties with third parties. These contracts are not material to the company's consolidated financial statements.

adidas does not own any investment property.

Goodwill

Goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. This results when the purchase cost exceeds the fair value of acquired identifiable assets, liabilities and contingent liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets received, liabilities and contingent liabilities are treated as assets, liabilities and contingent liabilities of the respective reporting entity, and are translated at exchange rates prevailing at the date of the initial consolidation.

Goodwill is carried in the functional currency of the acquired foreign entity.

Intangible assets (except goodwill)

Intangible assets with indefinite useful lives (in particular trademarks) are recognized at purchase cost and are subject to an impairment test at least on an annual basis ('impairment-only' approach).

Intangible assets with definite useful lives are valued at amortized cost. Amortization is calculated on a straight-line basis over the estimated useful life, taking into account any potential residual value.

Expenditure during the development phase of internally generated intangible assets is capitalized as incurred if it fulfills the recognition criteria under IAS 38 'Intangible Assets'.

Estimated useful lives are as follows:

Estimated useful lives of intangible assets

	Years
Trademarks	indefinite[1]
Software	5 – 7
Patents, trademarks and licenses	5 – 15
Websites	2

1 For exceptions see note 14.

Research and development

Research costs are expensed in full as incurred. Development costs for internally generated intangible assets are also expensed as incurred if they do not meet the recognition criteria of IAS 38 'Intangible Assets', paragraph 57.

Borrowings and other liabilities

Borrowings (e. g. eurobonds) and other liabilities are recognized at fair value using the 'effective interest method', net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortized cost using the 'effective interest method'. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the term of the borrowing.

Compound financial instruments (e.g. convertible bonds) are divided into a liability component shown under borrowings and into an equity component resulting from conversion rights. The equity component is included in the capital reserve. The fair value of the liability component is determined by discounting the interest and principal payments of a comparable liability without conversion rights, applying risk-adjusted interest rates. The liability component is subsequently measured at amortized cost using the 'effective interest method'. The equity component is determined as the difference between the fair value of the total compound financial instrument and the fair value of the liability component and is reported within equity. There is no subsequent measurement of the equity component. At initial recognition, directly attributable transaction costs are assigned to the equity and liability component pro rata on the basis of the respective carrying amounts.

Provisions and accrued liabilities

Provisions are recognized where a present obligation (legal or constructive) to third parties has been incurred as a result of a past event which can be estimated reliably and is likely to lead to an outflow of resources, and where the timing or amount is uncertain. Non-current provisions are discounted if the effect of discounting is material.

Accrued liabilities are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Here, however, the timing and amount of an outflow of resources is not uncertain.

Pensions and similar obligations

Provisions and expenses for pensions and similar obligations relate to the company's obligations for defined benefit and defined contribution plans. The obligations under defined benefit plans are determined separately for each plan by valuing the employee benefits accrued in return for their service during the current and prior periods. These benefit accruals are discounted to calculate their present value, and the fair value of any plan assets is deducted in order to determine the net liability. The discount rate is set on the basis of yields of high-quality fixed-rate corporate bonds at the balance sheet date provided there is a deep market for such corporate bonds in a given currency. Otherwise, government bond yields are used as a reference. Calculations are performed by qualified actuaries using the 'projected unit credit method' in accordance with IAS 19 'Employee Benefits'. Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as incurred.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of adidas. Additionally, contingent liabilities may be present obligations that arise from past events, but which are not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed and explained in the Notes. ► SEE NOTE 40

Treasury shares

When adidas AG shares are repurchased and recognized as treasury shares, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The nominal value of € 1 per treasury share is debited to share capital. Any premium or discount to the nominal value is shown as an adjustment to the retained earnings. 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 retained earnings.

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 include rebates for customers' increasing adidas product sales, for customer loyalty as well as for 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 intended 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.

Interest paid is presented within the net cash used in financing activities.

Government grants

adidas receives 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.

Government grants are recognized if there is reasonable assurance that the grants will be received and that the company satisfies the conditions attached.

Government 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 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. 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. ► SEE NOTE 28

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.

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 of our knowledge of current events and actions, actual results may ultimately differ from these estimates. In 2020 assumptions and estimates were significantly impacted by the coronavirus pandemic and due to the ongoing situation future assumptions and estimates will be impacted by the coronavirus pandemic.

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 accounts receivable, inventories, right-of-use-assets, goodwill, trademarks, other provisions, pensions, derivatives, income taxes, as well as litigation and other legal risks. ► SEE NOTE 7 ► SEE NOTE 9 ► SEE NOTE 12 ► SEE NOTE 13 ► SEE NOTE 14 ► SEE NOTE 20 ► SEE NOTE 25 ► SEE NOTE 30 ► SEE NOTE 36 ► SEE NOTE 40

Judgments have also been used in determining the lease term for lease contracts as well as in selecting valuation methods for intangible assets. ► SEE NOTE 12 ► SEE NOTE 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, 2020 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 2020, adidas received a cash consideration of US $ 50 million. The fair value of the earn-out component at December 31, 2020 amounts to US $ 15 million (2019: US $ 50 million).

Gains from discontinued operations for the year ending December 31, 2020 in an amount of € 13 million (2019: gains of € 59 million) are entirely attributable to the shareholders of adidas AG. The tax expense in respect of discontinued operations is € 14 million (2019: tax benefit of € 4 million).

Further information about the reporting of the Reebok business from the first quarter 2021 onward is provided in these Notes. ▸ SEE NOTE 44

04 FIRST-TIME CONSOLIDATION/DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES

In 2020, no disposals of subsidiaries or first-time consolidation took place.

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 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	–	87	87
Accounts payable	(1)		(1)
Current provisions	(2)		(2)
Other current liabilities	(54)		(54)
Deferred tax liabilities	–	(2)	(2)
Net assets	**178**	**106**	**284**
Consideration settled in cash			–
Cash and cash equivalents acquired			54
Net cash inflow due to obtaining control			**54**

Loss allowance recognized for accounts receivable amounted to € 3 million.

An increase of the license agreement resulted from the final calculation of the fair values. As the adjustment was immaterial it was recognised in 2020.

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 logistics 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.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

05 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held by 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 short-term financial assets are marketable securities which are mainly investments in money market funds.

07 ACCOUNTS RECEIVABLE

Accounts receivable consist mainly of the currencies US dollar, euro as well as Chinese renminbi and are as follows:

Accounts receivable € in millions

	Collective loss allowance				Individual loss allowance	Total
	Not yet due	Past due 31 – 90 days	Past due > 90 days			
	Not credit-impaired	Not credit-impaired	Not credit-impaired	Credit-impaired	Credit-impaired	
Dec. 31, 2020						
Accounts receivable, gross	1,699	235	27	55	203	2,219
Weighted average loss rate	0.7%	4.9%	29.0%	61.5%	98.8%	12.0%
Loss allowance	(13)	(12)	(8)	(34)	(201)	(267)
Accounts receivable, net	**1,686**	**224**	**19**	**21**	**2**	**1,952**
Dec. 31, 2019						
Accounts receivable, gross	2,329	286	25	34	139	2,814
Weighted average loss rate	0.7%	4.3%	39.1%	59.5%	92.9%	6.7%
Loss allowance	(17)	(12)	(10)	(20)	(129)	(189)
Accounts receivable, net	**2,312**	**274**	**15**	**14**	**10**	**2,625**

Movement in loss allowances for accounts receivable € in millions

	2020	2019
Loss allowances at January 1	**189**	**193**
Net remeasurement of loss allowances	98	0
Write-offs charged against the loss allowance accounts	(5)	(7)
Currency translation differences	(12)	1
Other changes	(2)	1
Loss allowances at December 31	**267**	**189**

Compared to December 31, 2019, the total loss allowance increased by € 78 million, which is predominantly a consequence of the worldwide coronavirus pandemic. Thereof € 6 million is related to the collective loss allowance mainly due to a deterioration of the accounts receivable ageing structure as well as higher allowance percentages due to an increase in the expected default rates. The individual loss allowance increased by € 72 million to reflect a higher credit risk of specific customers.

As at December 31, 2020, the loss allowance for not credit-impaired accounts receivable in the amount of € 241 million and credit-impaired accounts receivable in the amount of € 1 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.

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, 2020	Dec. 31, 2019
Currency options	8	18
Forward exchange contracts	117	118
Revaluation of total return swap	60	30
Security deposits	36	28
Receivables from credit cards and similar receivables	161	165
Promissory notes	6	34
Receivables from retail business	68	43
Other Investments	55	–
Earn-out components	–	9
Sundry	203	109
Other current financial assets, gross	**715**	**554**
Less: accumulated allowances	(13)	(11)
Other current financial assets, net	**702**	**544**

The line item 'Sundry' mainly relates to customs claims of € 117 million and suppliers with debit balances.

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, 2020			Dec. 31, 2019		
	Gross value	Allowance for obsoles-cence	Net value	Gross value	Allowance for obsoles-cence	Net value
Merchandise and finished goods on hand	3,321	(171)	3,150	2,984	(80)	2,904
Goods in transit	1,239	–	1,239	1,175	–	1,175
Raw materials	8	–	8	6	–	6
Work in progress	0	–	0	0	–	0
Inventories	**4,568**	**(171)**	**4,397**	**4,165**	**(80)**	**4,085**

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.

As a result of store closures due to the coronavirus pandemic and resulting low sales, the age structure of inventories deteriorated compared to the previous year. This led to an increase in inventory allowance.

010 OTHER CURRENT ASSETS

Other current assets consist of the following:

Other current assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Prepaid expenses	204	290
Return assets	340	305
Tax receivables other than income taxes	401	343
Contract assets	16	17
Sundry	41	125
Other current assets, gross	**1,003**	**1,080**
Less: accumulated allowances	(4)	(5)
Other current assets, net	**999**	**1,076**

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.

011 PROPERTY, PLANT, AND EQUIPMENT

The following table presents a reconciliation of the carrying amount of property, plant, and equipment:

Property, plant, and equipment € in millions

	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Property, plant, and equipment
Acquisition cost					
January 1, 2019	**1,324**	**357**	**1,808**	**480**	**3,969**
Additions	144	31	303	121	599
Disposals	(42)	(9)	(219)	(3)	(272)
Transfers	347	43	(15)	(380)	(6)
Increase in companies consolidated	40	1	0	–	41
Decrease in companies consolidated	–	–	(2)	–	(2)
Currency translation differences	28	9	35	4	76
December 31, 2019/ January 1, 2020	**1,842**	**432**	**1,910**	**221**	**4,405**
Additions	73	13	165	128	378
Disposals	(32)	(7)	(162)	(4)	(205)
Transfers	51	6	17	(75)	(1)
Currency translation differences	(82)	(28)	(129)	(13)	(251)
Net change due to lease modification / remeasurement	0	–	–	–	0
December 31, 2020	**1,852**	**416**	**1,800**	**258**	**4,326**
Accumulated depreciation and impairment					
January 1, 2019	**412**	**180**	**1,221**	**–**	**1,814**
Depreciation	105	39	288	–	432
Impairment losses	3	1	0	–	5
Reversals of impairment losses	(2)	–	(7)	–	(8)
Disposals	(36)	(9)	(207)	–	(252)
Transfers	31	(5)	(28)	–	(3)
Decrease in companies consolidated	–	–	(2)	–	(2)
Currency translation differences	6	7	25	–	39
December 31, 2019/ January 1, 2020	**520**	**214**	**1,291**	**–**	**2,025**
Depreciation	128	42	287	–	456
Impairment losses	6	0	10	–	16
Reversals of impairment losses	(1)	–	(5)	–	(6)
Disposals	(23)	(6)	(146)	–	(175)
Transfers	21	(0)	(21)	–	–

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
Currency translation differences	(30)	(19)	(98)	0	(147)
December 31, 2020	**620**	**230**	**1,319**	**0**	**2,169**
Net carrying amount					
January 1, 2019	912	177	587	480	2,155
December 31, 2019/ January 1, 2020	1,322	219	618	221	2,380
December 31, 2020	**1,231**	**185**	**482**	**258**	**2,157**

As a general principle, it is regularly assessed whether there are any indications that property, plant, and equipment might be impaired.

Due to the coronavirus pandemic in 2020, impairment tests were carried out on March 31, June 30 and December 31, 2020, particularly for furniture and fixtures in own-retail stores, taking into account the potential economic impacts of the pandemic.

Irrespective of the existence of such indications, furniture and fixtures in adidas' 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 adidas' own-retail stores respectively.

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 the methodology on impairment losses for adidas' own-retail stores is provided in these notes . ► SEE NOTE 12

Further information on total depreciation and amortization expenses, impairment losses and reversals of impairment losses is provided in these Notes. ► SEE NOTE 33

In 2019, borrowing costs of € 1 million related to the construction of qualifying assets at adidas AG were capitalized at a rate of 1.3%. In 2020 no borrowing costs were capitalized.

012 RIGHT-OF-USE ASSETS

The company recognized right-of-use assets in an amount of € 2.4 billion (2019: € 2.9 billion). 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
January 1, 2020	**2,785**	**100**	**46**	**2,931**
Additions	456	36	14	507
Disposals	(75)	(0)	(8)	(83)
Depreciation	(611)	(48)	(25)	(684)
Impairment losses	(67)	–	(1)	(68)
Currency translation differences	(161)	(0)	(2)	(162)
Other changes	(10)	(0)	(0)	(10)
December 31, 2020	**2,317**	**88**	**25**	**2,430**

Right-of-use assets € in millions

	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Right-of-use assets
January 1, 2019	**2,751**	**126**	**61**	**2,938**
Additions	672	4	10	686
Depreciation	(596)	(30)	(25)	(651)
Impairment losses	(13)	–	–	(13)
Other changes	(29)	0	(0)	(29)
December 31, 2019	**2,785**	**100**	**46**	**2,931**

As a general principle, it is regularly assessed whether there are any indications that right-of-use assets might be impaired. Irrespective of the existence of such indications, right-of-use assets in adidas' 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 adidas' own-retail stores respectively.

In light of the coronavirus pandemic, facts and circumstances indicated that non-current assets (e.g. property, plant, and equipment, right-of use assets and intangible assets including goodwill) might be impaired. In addition to the impairment testing for individual assets, impairment tests were carried out for all significant non-current assets at the respective level of cash-generating units due to this 'triggering event' and related reassessment of the business development, under consideration of the expected consequences of the coronavirus pandemic on March 31, June 30 and December 31, 2020. These were based on updated financial planning and estimates. Given the unforeseeable future consequences of the coronavirus pandemic, these estimates and judgments are subject to an increased level of uncertainty. However, future changes in expected cash flows and discount rates may lead to (additional) impairments and reversals of impairment losses.

Impairment losses for right-of-use assets 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. The expenses from impairments in 2020 are distributed to Europe with € 31 million; North America with € 16 million; Asia-Pacific with € 19 million and Emerging Markets with € 2 million. Reversals of impairment losses in an amount of € 1 million are represented under impairment losses.

Income from sub-leasing of right-of-use assets recognized in the consolidated income statement in 2020 amounted to € 3.2 million (2019: € 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

013 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, 2020	Dec. 31, 2019
Goodwill, gross	1,584	1,659
Less: accumulated impairment losses	(376)	(402)
Goodwill, net	**1,208**	**1,257**

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 negative € 49 million and positive € 12 million were recorded for the years ending December 31, 2020 and 2019, respectively.

adidas determines whether goodwill impairment is necessary on at least 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 in line with our new strategy 'Own the Game'covering a five-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 mid-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 five-year period are extrapolated using steady growth rates of 1.7% (2019: 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, adidas North America, Reebok North America, 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 2020 and 2019, respectively.

In light of the coronavirus pandemic, there were indications of possible impairment on goodwill during the year ending December 31, 2020. In response to this 'triggering event', and taking into account the potential future impact of the coronavirus pandemic, impairment tests were carried out at the level of the cash-generating units on March 31, June 30, September 30, and December 31, 2020. These tests were based on updated financial planning and estimates. Given the unforeseeable future consequences of the coronavirus pandemic, these estimates and judgments are subject to an increased level of uncertainty. The goodwill impairment tests revealed no need for goodwill impairment for the years ending December 31, 2020 and 2019.

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, 2020	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Europe	593	620	8.2%	7.4%
Asia-Pacific	361	379	8.2%	7.4%
adidas Golf	178	179	7.7%	7.0%
Emerging Markets	76	79	10.5%	9.0%
Total	**1,208**	**1,257**		

A change in the discount rate by up to approximately 5.2 percentage points or a reduction of planned free cash inflows by up to approximately 50% would not result in any impairment requirement.

Future changes in expected cash flows and discount rates may lead to impairments of the reported goodwill in the future.

The reconciliation of goodwill is as follows:

Reconciliation of goodwill, net € in millions

	Europe	Asia-Pacific	adidas Golf	Emerging Markets	Total
January 1, 2020	**620**	**379**	**179**	**79**	**1,257**
Currency translation differences	(27)	(18)	(1)	(3)	(49)
December 31, 2020	**593**	**361**	**178**	**76**	**1,208**

014 TRADEMARKS AND OTHER INTANGIBLE ASSETS

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets € in millions

	Trademarks	Other intangible assets
Acquisition cost		
January 1, 2019	**1,394**	**912**
Additions	–	112
Disposals	(9)	(26)
Transfers	–	3
Increase in companies consolidated	–	83
Decrease in companies consolidated	–	(1)
Currency translation differences	26	4
December 31, 2019/January 1, 2020	**1,412**	**1,086**
Additions	–	64
Disposals	–	(22)
Transfers	–	1
Increase in companies consolidated	–	3
Currency translation differences	(117)	(26)
December 31, 2020	**1,295**	**1,107**
Accumulated amortization and impairment		
January 1, 2019	**550**	**716**
Amortization	0	78
Impairment losses	–	6
Disposals	(9)	(26)
Transfers	–	2
Decrease in companies consolidated	–	(0)
Currency translation differences	10	5
December 31, 2019/January 1, 2020	**553**	**781**
Amortization	0	104
Impairment losses	41	–
Disposals	–	(12)
Currency translation differences	(48)	(18)
December 31, 2020	**545**	**856**
Net carrying amount		
January 1, 2019	844	196
December 31, 2019/January 1, 2020	859	305
December 31, 2020	**750**	**252**

At December 31, 2020, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and Runtastic GmbH in 2015, have indefinite useful lives. This is due to the expectation of permanent use of the acquired trademarks Reebok and Runtastic.

Trademarks € in millions

	Dec. 31, 2020	Dec. 31, 2019
Reebok	1,263	1,379
Other	32	34
Trademarks, gross	**1,295**	**1,412**
Less: accumulated amortization and impairment losses	(545)	(553)
Trademarks, net	**750**	**859**

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 light of the coronavirus pandemic, facts and circumstances indicated that trademarks might be impaired. Due to this 'triggering event', impairment tests at the respective level of cash-generating units were carried on March 31, June 30, September 30, and December 31, 2020, taking into consideration the expected consequences of the coronavirus pandemic. These were based on updated financial planning and estimates. Given the unforeseeable future consequences of the coronavirus pandemic, these estimates and judgments are subject to an increased level of uncertainty. In order to reflect the increased uncertainty in assessing the expected consequences of the coronavirus pandemic, planned free cash inflows were subject to additional stress scenarios. In 2020, total impairment losses of € 41 million were recognized for the Reebok trademark within the impairment test of June 30, 2020, and therefore the carrying amount amounts to € 733 million at December 31, 2020.

The impairment test for the Reebok trademark is performed based on Reebok cash-generating units in the individual markets. There has been no change in the methodology compared to 2019. 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 2020 (2019: six).

This calculation uses cash flow projections based on the financial planning covering a five-year period in total. The planning is based on long-term expectations of the company and reflects in total for the Reebok markets an average annual mid-single to-low-double-digit sales increase with varying forecast growth prospects for the different Reebok markets. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning of capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual Reebok markets. Cash flows beyond the detailed planning period of the respective Reebok markets are extrapolated using a steady growth rate of 1.7% (2019: 1.7%). According to the company's expectations, this growth rate does not exceed the long-term average growth rate of the business sector in the individual markets in which Reebok operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market weighted debt/equity structure and financing costs referencing major competitors for each Reebok market. The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant Reebok markets. The respective discount rates applied to the cash flow projections of the respective cash-generating Reebok business units range from 7.2% to 11.8% (2019: 6.6% to 9.9%).

A change in the discount rate by approximately 0.1 percentage points or a reduction of planned free cash inflows by approximately 5% would result in an additional impairment requirement of € 15 million. However, future changes in expected cash flows and discount rates may lead to (additional) impairments and reversals of impairment losses of the Reebok trademark.

As part of the impairment tests, the Reebok trademark is allocated on a pro rata basis to the groups of cash-generating units. Thereof, the major shares relate to Europe (€ 307 million), Asia-Pacific (€ 180 million), North America Reebok (€ 160 million), Russia/CIS (€ 50 million) and Emerging Markets (€ 37 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

015 LONG-TERM FINANCIAL ASSETS

Long-term financial assets primarily include an 8.33% investment in FC Bayern München AG (2019: 8.33%) of € 87 million (2019: € 84 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, 2020 and 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 € 1 million in 2020 (2019: positive adjustment of € 12 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 € 0 million in 2020 (2019: positive adjustment of € 2 million).

Long-term financial assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Investment in FC Bayern München AG	87	84
Other equity investments	84	81
Other investments	183	201
Loans	0	1
Long-term financial assets	**353**	**367**

016 OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets consist of the following:

Other non-current financial assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Currency options	19	10
Forward exchange contracts	2	2
Revaluation of total return swap	17	59
Options	85	86
Security deposits	93	110
Earn-out components	12	36
Promissory notes	166	149
Sundry	20	0
Other non-current financial assets	**414**	**450**

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 30 ▶ SEE NOTE 03

017 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

Other non-current assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Prepaid expenses	100	101
Sundry	2	3
Other non-current assets	**103**	**103**

Prepaid expenses mainly relate to long-term promotion contracts. ▶ SEE NOTE 40

018 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, 2020 are denominated in euro (2020: 98%; 2019: 99%).

The weighted average interest rate on the Group's gross borrowings decreased to 1.0% in 2020 (2019: 1.5%).

As at December 31, 2020, adidas had cash credit lines and other long-term financing arrangements totaling € 7.3 billion (2019: € 3.6 billion); thereof unused credit lines accounted for € 4.1 billion (2019: € 1.9 billion). In addition, as at December 31, 2020, adidas had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.5 billion (2019: € 0.5 billion).

On November 6, 2020, adidas entered into a new syndicated credit facility agreement with 12 banks totaling € 1.5 billion. The credit facility will run until November 2025 and includes two extension options of one year each after year 1 and year 2. It can be drawn in euro and further currencies. The interest bearing is based on a defined margin on a reference rate (€STR or EURIBOR for euro). This new syndicated loan facility transaction replaced the syndicated revolving loan facility under participation of KfW, Germany's state-owned development bank.

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, 2020 € 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	87	37	38	27	189
Eurobond	599	–	500	1,389	2,488
Equity-neutral convertible bond	–	491	–	–	491
Total	**686**	**528**	**538**	**1,416**	**3,168**

Gross borrowings as at December 31, 2019 € in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Bank borrowings incl. commercial paper	43	38	38	46	165
Eurobond	–	598	–	388	986
Equity-neutral convertible bond	–	–	487	–	487
Total	**43**	**636**	**525**	**434**	**1,638**

The above table includes five Eurobonds with a total outstanding value of € 2.5 billion.

Two of these eurobonds were issued on October 1, 2014. The seven-year eurobond of € 600 million has a coupon of 1.25% and matures on October 8, 2021. The twelve-year eurobond of € 400 million and a coupon of 2.25% maturing on October 8, 2026. 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.

In 2020, adidas issued three rated eurobonds with a size of € 500 million and denominations of €100,000 each. The four-year eurobond maturing on September 9, 2024 with a coupon of 0.00% and the fifteen-year eurobond maturing on September 10, 2035 with a coupon of 0.625% were issued on September 1, 2020. These bonds were priced with a spread of 33 basis points and 63 basis points, respectively, above the corresponding euro mid-swap rate. The issue price was fixed at 100.321% and 99.360%, respectively. In adidas' inaugural sustainability bond issuance on September 29, 2020 an eight-year eurobond was issued with a coupon of 0.00% maturing on October 5, 2028. The sustainability bond was priced with a spread of 40 basis points above the corresponding euro mid-swap rate. The issue price was fixed at 99.410%. Proceeds from the issuance will be used in accordance with adidas' newly created sustainability bond framework. Eligible sustainable projects include investments into sustainable materials and processes, as well as projects with a positive impact on the community. More specifically, this includes the sourcing of recycled materials for sustainably manufactured products, investments into renewable energy production and energy-efficient buildings as well as various initiatives aimed at creating lasting change in underrepresented communities.

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

019 OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities consist of the following:

Other current financial liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Forward exchange contracts	282	169
Sundry	164	66
Other current financial liabilities	**446**	**235**

The line item 'Sundry' mainly relates to payables due to customs duties and customers with credit balances.

Further information about forward exchange contracts is contained in these Notes. ► SEE NOTE 30

020 OTHER PROVISIONS

Other provisions consist of the following:

Other provisions € in millions

	Jan. 1, 2020	Additions	Usage	Reversals	Increase/ decrease in companies consoli-dated	Transfers	Currency translation differences	Dec. 31, 2020	Thereof non-current
Marketing	16	20	(9)	(1)	–	–	(2)	24	–
Personnel	413	220	(168)	(49)	–	(1)	(17)	398	151
Returns and warranty	725	739	(573)	(45)	–	–	(27)	818	–
Taxes, other than income taxes	42	17	(8)	(1)	–	1	(2)	49	1
Customs	184	2	(4)	–	–	–	–	182	10
Sundry	323	298	(212)	(31)	–	–	(14)	367	67
Other provisions	**1,703**	**1,296**	**(974)**	**(127)**	**–**	**–**	**(62)**	**1,838**	**229**

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.

021 LEASE LIABILITIES

The company recognized lease liabilities in an amount of € 2.7 billion (2019: € 3.1 billion).

Lease liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Land and buildings	2,611	2,985
Technical equipment and machinery	84	101
Other equipment, furniture and fixtures	26	47
Lease liabilities	**2,722**	**3,133**

The contractual payments for lease liabilities held by adidas as at December 31, 2020 in an amount of € 3.1 billion (2019: € 3.6 billion) mature as follows:

Contractual payments for lease liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Within 1 year	644	723
Between 1 and 5 years	1,641	2,110
After 5 years	789	732
Total	**3,074**	**3,566**

Interest recognized on lease liabilities in 2020 amounted to € 90 million (2019: € 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 2020, the total cash outflows for leases, including the above-mentioned leases not included in the calculation of the lease liability, amounted to € 854 million (2019: € 874 million).

022 ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued liabilities € in millions

	Dec. 31, 2020	Thereof: non-current	Dec. 31, 2019	Thereof: non-current
Goods and services not yet invoiced	934	2	1,011	1
Marketing and sales	1,037	3	1,018	3
Personnel	181	1	387	0
Sundry	28	2	31	4
Accrued liabilities	**2,180**	**8**	**2,446**	**9**

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.

023 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

Other current liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Tax liabilities other than income taxes	211	296
Liabilities due to personnel	44	49
Liabilities due to social security	20	23
Deferred income	75	63
Contract liabilities	0	0
Sundry	49	107
Other current liabilities	**398**	**538**

024 OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities consist of the following:

Other non-current financial liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Forward exchange contracts	17	7
Revaluation of total return swap	9	–
Embedded derivatives	85	86
Sundry	4	0
Other non-current financial liabilities	**115**	**92**

Embedded derivatives relate to the equity-neutral convertible bond which was issued on September 5, 2018.

Further information about forward exchange contracts is provided in these Notes. ▸ SEE NOTE 30

025 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, 2020	Dec. 31, 2019
Liability arising from defined benefit pension plans	277	223
Similar obligations	2	2
Pensions and similar obligations	**279**	**225**

Defined contribution pension plans

The total expense for defined contribution pension plans amounted to € 67 million in 2020 (2019: € 74 million).

Defined benefit pension plans

Given the company's diverse subsidiary 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 sacrifices 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, for certain former members of the Executive Board of adidas AG, a pension fund ('Pensionsfonds') in combination with a reinsured provident fund ('Unterstützungskasse'). Further details about the pension entitlements of members of the Executive Board of adidas AG are provided in this Annual Report. ▸ SEE COMPENSATION REPORT

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 salary defined pension plan to certain employees. This plan is open 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, 2020			Dec. 31, 2019		
	Germany	UK	South Korea	Germany	UK	South Korea
Active members	318	–	16	281	–	19
Former employees with vested rights	163	55	–	140	57	–
Pensioners	110	7	–	101	8	–
Total	**592**	**62**	**16**	**522**	**64**	**19**

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 mortality. A lower discount rate results in a higher defined benefit obligation and/or in higher contributions to the pension funds. Lower than expected performance of the plan assets could lead to an increase in required contributions or to a decline of the funded status.

The following tables analyze the defined benefit plans, plan assets, present values of the defined benefit pension plans, expenses recognized in the consolidated income statement, actuarial assumptions and further information.

Amounts for defined benefit pension plans recognized in the consolidated statement of financial position € in millions

	Dec. 31, 2020	Dec. 31, 2019
Present value of funded obligation from defined benefit pension plans	694	626
Fair value of plan assets	(458)	(442)
Funded status	**236**	**184**
Present value of unfunded obligation from defined benefit pension plans	41	39
Net defined benefit liability	**277**	**223**
Thereof: liability	282	227
Thereof: adidas AG	231	178
Thereof: asset	(5)	(4)
Thereof: adidas AG	–	–

The determination of assets and liabilities for defined benefit plans is based upon 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, 2020	Dec. 31, 2019
Discount rate	1.3	1.6
Expected rate of salary increases	3.6	3.8
Expected pension increases	1.6	1.6

The weighted average actuarial assumptions as at the balance sheet date are used to determine the defined benefit liability at that date and the pension expense for the upcoming financial year.

The actuarial assumptions for withdrawal and mortality rates are based on statistical information available in the various countries. In Germany, the Heubeck 2018 G mortality tables are used. In the UK, assumptions are based on the S3 base tables 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 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, 2020	Year ending Dec. 31, 2019
Current service cost	49	30
Net interest expense	3	6
Thereof: interest cost	10	12
Thereof: interest income	(7)	(7)
Past service credit	(0)	(0)
Expenses for defined benefit pension plans (recognized in the consolidated income statement)	**52**	**35**
Actuarial losses	36	89
Thereof: due to changes in financial assumptions	39	75
Thereof: due to changes in demographic assumptions	(3)	(1)
Thereof: due to experience adjustments	0	15
Return on plan assets (not included in net interest income)	(13)	(21)
Remeasurements for defined benefit pension plans (recognized as decrease in other reserves in the consolidated statement of comprehensive income)	**23**	**68**
Total	**75**	**103**

Of the total pension expenses recorded in the consolidated income statement, an amount of € 42 million (2019: € 25 million) relates to employees of adidas AG and € 3 million (2019: € 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

	2020	2019
Present value of the obligation from defined benefit pension plans as at January 1	**665**	**547**
Currency translation differences	(7)	4
Current service cost	49	30
Interest cost	10	12
Contribution by plan participants	1	0
Pensions paid	(19)	(17)
Actuarial losses	36	89
Thereof: due to changes in financial assumptions	39	75
Thereof: due to changes in demographic assumptions	(3)	(1)
Thereof: due to experience adjustments	0	15
Past service (credit)/cost	(0)	(0)
Business combinations/transfers/divestitures	0	–
Present value of the obligation from defined benefit pension plans as at December 31	**735**	**665**

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, 2020			Dec. 31, 2019		
	Germany	UK	South Korea	Germany	UK	South Korea
Present value of the obligation from defined benefit pension plans	592	62	16	522	64	19
Increase in the discount rate by 0.5%	542	55	15	479	56	18
Reduction in the discount rate by 0.5%	649	70	17	572	74	20
Average duration of the obligations (in years)	18	24	11	18	27	11

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 with the introduction of the Core Benefits arrangement, German pension plans are mainly paid as lump sums, 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

	2020	2019
Fair value of plan assets as at January 1	**442**	**303**
Currency translation differences	(4)	3
Pensions paid	(7)	(8)
Contributions by the employer	7	115
Contributions paid by plan participants	1	0
Interest income from plan assets	7	7
Return on plan assets (not included in net interest income)	13	21
Fair value of plan assets as at December 31	**458**	**442**

Approximately 96% (2019: 96%) of the total plan assets are allocated to plan assets in the three major countries: Germany (2020: 79%, 2019: 78%), UK (2020: 13%, 2019: 13%) and South Korea (2020: 5%, 2019: 5%).

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 2020, no additional employer funding contribution 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 in an external trust. 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 2021 financial year amount to € 19 million. Thereof, € 13 million relate to benefits directly paid to pensioners by the subsidiaries and € 6 million to employer contributions paid into the plan assets. In 2020, the actual return on plan assets (including interest income) was € 19 million (2019: return on plan assets of € 28 million).

Composition of plan assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Cash and cash equivalents	43	85
Equity instruments	95	59
Bonds	120	98
Real estate	89	90
Pension plan reinsurance	53	50
Investment funds	56	60
Other assets	2	0
Fair value of plan assets	**458**	**442**

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.

026 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

Other non-current liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Deferred income	5	4
Liabilities due to personnel	2	2
Sundry	10	0
Other non-current liabilities	**17**	**7**

027 SHAREHOLDERS' EQUITY

The nominal capital of adidas AG has remained unchanged since December 31, 2019. 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 5,350,126 treasury shares, corresponding to a notional amount of € 5,350,126 in nominal capital and consequently to 2.67% 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 2020 financial year.

The authorized capital of adidas AG, which is set out in § 4 sections 2, 3, 4, and 5 of the Articles of Association on the balance sheet date, entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital based on the following authorizations:

Based on the authorization granted by the 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 the 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, where 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, employees, members of the management bodies or employees of subsidiaries;

Based on the authorization granted by the 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 significantly 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 the 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. 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, fulfilling the respective option and/or conversion obligations, or when exercising the company's right to choose to partially or fully 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, by its subordinated Group companies, by third parties on behalf 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 3,223,214 shares for a total price of € 814,826,285 (excluding incidental purchasing costs), i.e. for an average price of € 252.80 per share, in a second tranche between January 1, 2019 and December 18, 2019 inclusive. This corresponded to a notional amount of € 3,223,214 in the nominal capital and consequently to 1.61% of the nominal capital. The sharebuy back program was resumed on January 7, 2020, in the form of a third tranche which was terminated on March 16, 2020. More information on the adidas AG shares repurchased in the 2020 financial year, is set out in the table 'Repurchase of adidas AG shares in the 2020 financial year'.

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

In the 2020 financial year, a total of 49,691 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. Due to the use of treasury shares with the exclusion of subscription rights, adidas AG was able to acquire the intellectual and intangible property rights (or licenses) from their owner at attractive terms while preserving the company's liquidity. Based on the share price at the time of transfer, the 49,691 treasury shares had a value of altogether approx. € 14 million, corresponding to a notional amount of € 49,691 in the nominal capital and consequently to 0.02% of the nominal capital.

Repurchase of adidas AG shares in the 2020 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	259,148	79,061,929.95	305.08	259,148	0.13
February	408,772	114,323,851.00	279.68	408,772	0.20
March	285,098	63,153,226.31	221.51	285,098	0.14
April	–	–	–	–	–
May	–	–	–	–	–
June	–	–	–	–	–
July	–	–	–	–	–
August	–	–	–	–	–
September	–	–	–	–	–
October	–	–	–	–	–
November	–	–	–	–	–
December	–	–	–	–	–
2020 financial year total[1]	**953,018**	**256,539,007.26**	**269.19**	**953,018**	**0.48**

1 In the period from January 7, 2020 up to and including March 16, 2020.

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.

In addition to the share buyback program initiated in March 2018, adidas AG purchased adidas AG shares in connection with this employee stock purchase plan in the 2020 financial year. More details on the repurchase of adidas AG shares and use of treasury shares in connection with the employee stock purchase plan in the 2020 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 2020' and 'Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2020/Matching shares'. ► SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT ► SEE NOTE 02 ► SEE NOTE 28

Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2020

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, 2020	21,059	6,232,463.70	295.95	21,059	0.01	January 10, 2020
April 9, 2020	27,861	6,115,018.65	219.48	27,861	0.01	April 15, 2020
July 5, 2020	26,851	6,648,895.64	247.62	26,851	0.01	July 9, 2020
October 8, 2020	23,516	6,565,469.67	279.19	23,516	0.01	October 10, 2020

Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2020 /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, 2020	3,771	1,116,036.88	295.95	3,771	0.002	January 10, 2020
April 9, 2020	3,077	675,349.50	219.48	3,077	0.002	April 15, 2020
July 5, 2020	2,746	679,969.74	247.62	2,746	0.001	July 9, 2020
October 8, 2020	2,770	773,360.82	279.19	2,770	0.001	October 10, 2020

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

Notified reportable shareholdings

Notifying party	Date of reaching, exceeding or falling below	Reporting threshold	Notification obligations and attributions in accordance with WpHG[1]	Share-holdings in %	Number of voting rights
BlackRock, Inc., Wilmington, DE, USA[2]	September 3, 2020	Exceeding 5%	§§ 34, 38 sec. 1 no. 1, 38 sec. 1 no. 2	6.41	12,799,500
FMR LLC, Wilmington, DE, USA[2]	November 10, 2020	Falling below 3%	§ 34	2.96	5,927,682
Ségolène Gallienne	November 30, 2020	Exceeding 5%	§§ 34, 38 sec. 1 no. 1	6.84	13,714,524
Gérald Frère	November 30, 2020	Exceeding 5%	§§ 34, 38 sec. 1 no. 1	6.84	13,714,524
The Desmarais Family Residuary Trust, Montreal, Canada[2]	November 30, 2020	Exceeding 5%	§§ 34, 38 sec. 1 no. 1	6.89	13,807,393
Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands[2]	December 16, 2016	Exceeding 5%	§§ 21, 25 sec. 1 no. 2	5.71	11,950,482
Capital Research and Management Company, Los Angeles, CA, USA	July 22, 2015	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6	3.02	6,325,110
The Capital Group Companies, Inc., Los Angeles, CA, USA	July 22, 2015	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2 and 3	3.02	6,325,110

1 The provisions of the WpHG stated refer to the version applicable at the time of publication of the respective individual voting rights notification.
2 Voluntary group notification due to crossing a threshold on subsidiary level.

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 adjusted net borrowings below two times EBITDA over the long term. adidas intends to maintain a continuous rating in the middle of the upper rating class (S&P: A and Moody's: A2). In August, adidas was rated 'A +' by Standard & Poor's and 'A2' by Moody's for the first time. The outlook for both ratings is stable.

Financial leverage amounts to 48.8% (2019: 61.4%) and is defined as the ratio between adjusted net borrowings in an amount of € 3.148 billion (2019: € 4.173 billion) and shareholders' equity in an amount of € 6.454 billion (2019: € 6.796 billion). EBITDA amounted to € 2.079 billion for the financial year ending December 31, 2020 (2019: € 3.845 billion). The ratio between adjusted net borrowings and EBITDA amounted to 1.5 for the 2020 financial year (2019: 1.1).

In 2020, the definition of the ratio net borrowings over EBITDA was changed to adjusted net borrowings over EBITDA to reflect changes in the company's Financial Policy. The most significant difference between the previous net borrowings definition and the new adjusted net borrowings definition is the inclusion of the present value of future lease and pension liabilities. Prior year figures are restated.

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 IFRSs.

The capital reserve includes restricted capital in an amount of € 4 million (2019: € 4 million). Furthermore, other reserves include additional restricted capital in an amount of € 91 million (2019: € 69 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 2020 Annual General Meeting, retained earnings of € 828 million reported in the adopted annual financial statements of the company as at December 31, 2019 were fully carried forward to new account.

The Executive Board of adidas AG will propose to use retained earnings of adidas AG in an amount of € 1.166 billion as reported in the 2020 financial statements of adidas AG for a dividend payment of € 3.00 per share and to carry forward the subsequent remaining amount.

As at February 22, 2021, 195,066,060 dividend-entitled shares exist, resulting in a dividend payment of € 585 million.

028 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, as a one-off, 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, 2019	As at December 31, 2020				
	13th investment quarter	13th investment quarter	14th investment quarter	15th investment quarter	16th investment quarter	17th investment quarter
Grant date	Oct. 1, 2019	Oct. 1, 2019	Jan. 2, 2020	April 1, 20 20	July 1, 20 20	Oct. 1, 2020
Share price at grant date (in €)	282.20	282.20	291.55	199.85	235.10	278.90
Share price at December 31 (in €)	289.80					297.90
Number of granted investment shares based on the share price as at December 31	21,507					23,474
Number of actually purchased investment shares	–	21,059	27,861	26,851	23,516	–
Number of actually purchased matching shares	–	2,843	–	–	–	–
Outstanding granted matching shares based on the share price as at December 31 or actually purchased investment shares	3,585	–	4,644	4,475	3,919	3,912
Average remaining vesting period in months as at December 31 (in months)	12	–	3	6	9	12

The number of forfeited matching shares during the period amounted to 2,936 (2019: 4,059).

As at December 31, 2020, the total expenses recognized relating to investment shares amounted to € 3.8 million (2019: € 3.1 million).

Expenses recognized relating to vesting of matching shares amounted to € 3.2 million in 2020 (2019: € 2.8 million).

As at December 31, 2020, a total amount of € 6 million (2019: € 5 million) was invested by the participants in the stock purchase plan and was not yet transferred into shares by the end of December 2020. 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 2022.

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 fourth transfer in 2020 equated to 16,520 shares. The fifth granting for 2021 was transferred in 2020 and equated to 15,764 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, 2020 (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. In 2020 the first bonus shares were granted, hence 17,407 shares were transferred. The shares from the fifth tranche of repurchased shares with an average price of € 198.91 per share were used as a consideration. As at December 31, 2020, it was likely that the second bonus shares will be issued. Therefore, the accrual amounting to € 4 million for the second bonus shares was kept in 2020 (2019: € 4 million).

Cash-settled share-based payment transactions with employees

In 2017, adidas implemented a Long-Term Incentive (LTI) Plan, which is a share-based remuneration scheme with cash settlement. RSUs (Restricted Stock Units) are granted on the condition that the beneficiary is employed for three or four years by adidas AG or one of its subsidiaries in a position where he or she is not under notice during that period. This minimum period of employment pertains to the calendar year in which the RSUs are granted and the three subsequent calendar years.

The total value of the cash remuneration payable to senior management is recalculated on each reporting date and on the settlement date, based on the fair value of the RSUs, and recognized through an appropriate increase in the provision as personnel expenses that are spread over the period of service of the beneficiary. Furthermore, social security contributions are considered in the calculation of the fair value, if appropriate for the respective country regulations and the seniority of the participants. All changes to the subsequent measurement of this provision are reported under personnel expenses.

Once a year, one tranche with a three-year term and another with a four-year term are issued. The number of RSUs granted depends on the seniority of the beneficiaries. In addition, for the four-year plan, the number of RSUs also depends on the achievement of a target figure which is based on the growth of the diluted earnings per share from continuing operations.

The value of one RSU is the average price of the adidas AG share as quoted for the first 20 stock exchange trading days in January of the respective financial year. The effects are presented in the following table:

Cash-settled share-based payment transactions with employees

	As at December 31, 2020							
Plan year	**2017**		**2018**		**2019**		**2020**	
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 €)	297.90	–	296.90	297.90	295.53	296.90	292.99	295.53
Number of granted RSUs based on the share price as at December 31 (in €)	206,427	–	214,818	126,594	184,315	212,678	36,286	150,136
Average risk-free interest rate based on the share price as at December 31 (in %)	1.02%	–	0.90%	1.02%	0.84%	0.90%	0.82%	0.84%
Average remaining vesting period as at December 31 (in months)	–	–	12	–	24	12	36	24

Cash-settled share-based payment transactions with employees

	As at December 31, 2019					
Plan year	**2017**		**2018**		**2019**	
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 €)	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 €)	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 %)	0.70 %	–	0.64 %	0.70 %	0.60 %	0.64 %
Average remaining vesting period as at December 31 (in months)	12	–	24	12	36	24

The fair value is based on the closing price of the adidas AG share on December 31, 2020, adjusted for future dividend payments.

In 2020, this resulted in an expense of € 96 million (2019: € 170 million). The corresponding provision amounted to € 247 million (2019: € 254 million).

029 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, 2020 and as at December 31, 2019. ▸ SEE SHAREHOLDINGS

As a result of obtaining control over Agron, Inc., its net assets, which are attributable entirely to the non-controlling interest, were consolidated for the first-time into the company's consolidated statement of financial position as at December 31, 2019. ▸ SEE NOTE 04

A merger of Reebok Israel Ltd. with adidas Israel Ltd. (formerly: Life Sport Ltd.) was completed in 2019.

Reebok India Company was acquired in connection with the acquisition of Reebok in 2006.

For the following subsidiaries with non-controlling interests the main financial information is presented combined.

Subsidiaries with non-controlling interests

Legal entity name	Principal place of business	Ownership interests held by non-controlling interests (in %)	
		Dec. 31, 2020	Dec. 31, 2019
Agron, Inc.	USA	100%	100%
adidas Israel Ltd. (formerly: Life Sport Ltd.)	Israel	15%	15%
Reebok India Company	India	6.85%	6.85%

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

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

	Non-controlling interests			
	Dec. 31, 2020		Dec. 31, 2019	
	Total	Thereof: Agron, Inc.	Total	Thereof: Agron, Inc.
Net sales	517	349	222	–
Net income	**4**	**12**	**14**	**–**
Net income attributable to non-controlling interests	**11**	**12**	**2**	**–**
Other comprehensive income	7	(23)	(8)	(6)
Total comprehensive income	**10**	**(11)**	**6**	**(6)**
Total comprehensive income attributable to non-controlling interests	**(10)**	**(11)**	**(4)**	**(6)**
Current assets	315	185	361	209
Non-current assets	172	119	195	121
Current liabilities	(158)	(53)	(174)	(55)
Non-current liabilities	(28)	(1)	(42)	(2)
Net assets	**301**	**249**	**340**	**274**
Net assets attributable to non-controlling interests according to the consolidated statement of financial position	**237**	**249**	**261**	**274**
Net cash generated from operating activities	65	51	14	–
Net cash (used in) / generated from investing activities	(25)	(20)	0	–
Net cash used in financing activities	(31)	(15)	(11)	–
Net increase of cash and cash equivalents	**9**	**16**	**3**	**–**
Dividends paid to non-controlling interests during the year[1]	**17**	**17**	**2**	**–**

1 Included in net cash used in financing activities.

030 FINANCIAL INSTRUMENTS

Carrying amounts of financial instruments and their fair values including hierarchy according to IFRS 13 € in millions

	Category	December 31, 2020					December 31, 2019				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets											
Cash and cash equivalents											
Cash and cash equivalents	Amortized cost	1,762		–	–	–	1,636		–	–	–
Cash equivalents	Fair value through profit or loss	2,232	2,232	–	2,232	–	584	584	–	584	–
Short-term financial assets	Fair value through profit or loss	0	0	–	0	–	292	292	–	292	–
Accounts receivable	Amortized cost	1,952		–	–	–	2,625		–	–	–
Other current financial assets											
Derivatives used in hedge accounting	Hedge accounting	163	163	–	163	–	141	141	–	141	–
Derivatives not used in hedge accounting	Fair value through profit or loss	32	32	–	32	–	25	25	–	25	–
Promissory notes	Fair value through profit or loss	6	6	–	–	6	33	33	–	–	33
Earn-out components	Fair value through profit or loss	–	–	–	–	–	9	9	–	–	9
Other financial assets	Amortized cost	511		–	–	–	336		–	–	–
Long-term financial assets											
Other equity investments	Fair value through profit or loss	89	89	–	–	89	87	87	–	–	87
Other equity investments	Fair value through other comprehensive income	80	80	–	–	80	79	79	–	–	79
Other investments	Fair value through profit or loss	35	37	–	37[1]	–	35	37	–	37[2]	–
Other investments	Amortized cost	149	–	–	–	–	167	–	–	–	–
Loans	Amortized cost	0		–	–	–	1		–	–	–
Other non-current financial assets											
Derivatives used in hedge accounting	Hedge accounting	14	14	–	14	–	62	62	–	62	–
Derivatives not used in hedge accounting	Fair value through profit or loss	99	99	–	99	–	95	95	–	95	–
Promissory notes	Fair value through profit or loss	166	166	–	–	166	149	149	–	–	149
Earn-out components	Fair value through profit or loss	12	12	–	–	12	36	36	–	–	36
Other financial assets	Amortized cost	114		–	–	–	110		–	–	–
Financial assets per level				**–**	**2,577**	**352**			**–**	**1,236**	**392**
Financial liabilities											
Short-term borrowings											
Bank borrowings	Amortized cost	87		–	–	–	43		–	–	–
Eurobond	Amortized cost	599	605	605	–	–	–	–	–	–	–
Accounts payable	Amortized cost	2,390		–	–	–	2,703		–	–	–
Current accrued liabilities	Amortized cost	939		–	–	–	1,017		–	–	–
Current accrued liabilities for customer discounts	Amortized cost	743		–	–	–	740		–	–	–
Other current financial liabilities		–	–	–	–	–	–	–	–	–	–
Derivatives used in hedge accounting	Hedge accounting	258	258	–	258	–	138	138	–	138	–
Derivatives not used in hedge accounting	Fair value through profit or loss	24	24	–	24	–	31	31	–	31	–

Carrying amounts of financial instruments and their fair values including hierarchy according to IFRS 13 € in millions

	Category	December 31, 2020					December 31, 2019				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Earn-out components	Fair value through profit or loss	–		–	–	–	–		–	–	–
Other financial liabilities	Amortized cost	164		–	–	–	66		–	–	–
Lease liabilities	n.a.	563		–	–	–	733		–	–	–
Long-term borrowings											
Bank borrowings	Amortized cost	103		–	–	–	122		–	–	–
Eurobond	Amortized cost	1,888	1,987	1,987	–	–	986	1,044	1,044	–	–
Convertible bond	Amortized cost	491	631	631	–	–	487	615	615	–	–
Non-current accrued liabilities	Amortized cost	2		–	–	–	0		–	–	–
Other non-current financial liabilities											
Derivatives used in hedge accounting	Hedge accounting	26	26	–	26	–	7	7	–	7	–
Derivatives not used in hedge accounting	Fair value through profit or loss	85	85	–	85	–	86	86	–	86	–
Other financial liabilities	Amortized cost	4		–	–	–	–		–	–	–
Lease liabilities	n.a.	2,159		–	–	–	2,399		–	–	–
Financial liabilities per level				**3,223**	**393**	**–**			**1,659**	**262**	**–**
Thereof: aggregated by category according to IFRS 9											
Financial assets at fair value through profit or loss (FVTPL)		2,670					1,345				
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					–				
Thereof: held for trading (FAHfT)		87					84				
Financial assets at fair value through other comprehensive income (FVOCI)		80					79				
Thereof: debt instruments		–					–				
Thereof: equity investments (without recycling to profit and loss)		80					79				
Financial assets at amortized cost (AC)		4,489					4,873				
Financial liabilities at fair value through profit or loss (FVTPL)		108					117				
Thereof: held for trading (FLHfT)		–					–				
Financial liabilities at amortized cost (AC)		7,409					6,165				

1 Net gains in the amount of € 0 million and losses in the amount of € 2 million due to currency translation differences were recognized in equity in 2020.
2 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.

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 2020 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2020	Additions	Dis-posals	Gains	Losses	Gains	Losses	Currency translation	Fair value Dec. 31, 2020
Investments in other equity instruments held for trading (FAHfT)	84	–	–	–	–	2	–	–	87
Investments in other equity instruments (FVTPL)	2	–	–	–	–	–	–	–	2
Investments in other equity instruments (FVOCI)	78	3	–	–	–	–	(2)	–	79
Promissory notes (FVTPL)	182	–	(1)	–	(3)	9	–	(15)	171
Earn-out components – assets (FVTPL)	45	–	(41)	–	–	12	–	(4)	12

Reconciliation of fair value hierarchy Level 3 in 2019 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2019	Additions	Dis-posals	Gains	Losses	Gains	Losses	Currency translation	Fair value Dec. 31, 2019
Investments in other equity instruments held for trading (FAHfT)	83	–	–	–	–	1	–	–	84
Investments in other equity instruments (FVTPL)	2	–	–	–	–	–	–	–	2
Investments in other equity instruments (FVOCI)	58	8	–	–	–	15	(3)	–	78
Promissory notes (FVTPL)	147	22	(5)	1	–	14	–	3	182
Earn-out components – assets (FVTPL)	21	–	(45)	45	–	24	–	–	45
Earn-out components – liabilities (FVTPL)	15	–	(15)	–	–	0	–	–	0

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 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 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 2020, 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, 2020.	Not applicable	Amortized cost
Eurobond	The fair value is based on the market price of the Eurobond as at December 31, 2020.	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, 2020.	Not applicable	Fair value through profit or loss
Forward exchange contracts	In 2020, adidas applied the par method (forward NPV) for all currency pairs to calculate the fair value, implying actively traded forward curves.	Not applicable	Hedge accounting/fair value through profit or loss
Currency options	adidas applies the Garman-Kohlhagen model, which is an extended version of the Black-Scholes model.	Not applicable	Hedge accounting/fair value through profit or loss
Share option (cash settled)	adidas applies the Black-Scholes model.	Not applicable	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, 2020, 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, 2020. 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 (0.2% – 0.5%), 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 (0.6% – 4.5%)	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, 2020	Year ending Dec. 31, 2019
Financial assets classified at amortized cost (AC)	(114)	(18)
Financial assets at fair value through profit or loss (FVTPL)	18	90
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	2	1
Equity instruments at fair value through profit or loss (FVTPL)	–	–
Equity instruments at fair value through other comprehensive income (FVOCI)	–	–
Financial liabilities at amortized cost (AC)	39	29
Financial liabilities at fair value through profit or loss (FVTPL)	–	–
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 2020, 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, 2020	Dec. 31, 2019
Forward exchange contracts	13,142	14,697
Currency options	386	920
Total	**13,528**	**15,617**

Fair values € in millions

	Dec. 31, 2020		Dec. 31, 2019	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward exchange contracts	119	(300)	120	(175)
Currency options	10	–	17	–
Total	**129**	**(300)**	**137**	**(175)**

Notional amounts of outstanding US dollar hedging instruments € in millions

	Dec. 31, 2020	Dec. 31, 2019
Forward exchange contracts	4,968	4,590
Currency options	261	844
Total	**5,229**	**5,434**

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 the US dollar, British pound, Japanese yen, and Chinese renminbi.

As governed by the company's Treasury Policy, adidas has established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon.

adidas uses a combination of different hedging instruments, such as forward exchange contracts, currency options, and swaps, to protect itself against unfavorable currency movements. These contracts are generally designated as cash flow hedges.

Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on the company's financial performance.

Further information about the accounting and hedge accounting treatment is included in these Notes. ▸ **SEE NOTE 02**

Exposures are presented in the following table:

Exposure to foreign exchange risk based on notional amounts € in millions

	USD	GBP	JPY	CNY
As at December 31, 2020				
Exposure from firm commitments and forecast transactions	(5,897)	926	731	1,913
Balance sheet exposure including intercompany exposure	(233)	41	(37)	388
Total gross exposure	**(6,130)**	**967**	**694**	**2,301**
Hedged with currency options	261	(59)	(66)	–
Hedged with forward contracts	4,808	(805)	(542)	(1,645)
Net exposure	**(1,061)**	**103**	**86**	**656**
As at December 31, 2019				
Exposure from firm commitments and forecast transactions	(6,522)	1,061	796	1,497
Balance sheet exposure including intercompany exposure	(274)	(31)	(7)	310
Total gross exposure	**(6,796)**	**1,030**	**789**	**1,807**
Hedged with currency options	844	(23)	(53)	–
Hedged with forward contracts	4,243	(936)	(607)	(1,681)
Net exposure	**(1,709)**	**71**	**129**	**126**

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 2020 and 2019.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2020 would have led to a € 6 million increase in net income.

Sensitivity analysis of foreign exchange rate changes € in millions

	USD	GBP	JPY	CNY
As at December 31, 2020				
	EUR +10%	**EUR +10%**	**EUR +10%**	**EUR +10%**
Equity	(379)	77	55	105
Net income	6	(41)	3	(2)
	EUR -10%	**EUR -10%**	**EUR -10%**	**EUR -10%**
Equity	478	(91)	(66)	(128)
Net income	(11)	5	(4)	7
As at December 31, 2019				
	EUR +10%	**EUR +10%**	**EUR +10%**	**EUR +10%**
Equity	(328)	86	59	99
Net income	6	3	1	(26)
	EUR -10%	**EUR -10%**	**EUR -10%**	**EUR -10%**
Equity	465	(104)	(71)	(122)
Net income	(8)	(3)	(2)	32

The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 379 million. A 10% weaker euro at December 31, 2020 would have led to a € 11 million decrease in net income. Shareholders' equity would have increased by € 478 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 2021 was around € 6.1 billion at year-end 2020, 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 2020, 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 2020, 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+. 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. ► SEE TREASURY

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, 2020, 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 € 225 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 2020, adidas held derivatives of foreign exchange with a positive fair market value in the amount of € 129 million. The maximum exposure to any single bank resulting from these assets amounted to € 42 million and the average concentration was 8%.

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 agreements mentioned here, are also presented in the following table:

Set-off possibilities of derivative financial assets and liabilities € in millions

	2020	2019
Assets		
Gross amounts of recognized financial assets	309	322
Financial instruments which qualify for set-off in the statement of financial position	–	–
Net amounts of financial assets presented in the statement of financial position	**309**	**322**
Set-off possible due to master agreements	(212)	(160)
Total net amount of financial assets	**97**	**162**
Liabilities	**–**	**–**
Gross amounts of recognized financial liabilities	(393)	(262)
Financial instruments which qualify for set-off in the statement of financial position	–	–
Net amounts of financial liabilities presented in the statement of financial position	**(393)**	**(262)**
Set-off possible due to master agreements	212	160
Total net amount of financial liabilities	**(181)**	**(102)**

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 short-term gross borrowings. Beyond that, adidas may consider adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks. ▸ SEE TREASURY

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, 2020 would have led to a € 19 million increase in net income and a € 9 million increase in shareholders' equity. Whereas a 10% decrease in the adidas AG share price versus the closing share price at December 31, 2020 would only have led to a € 19 million decrease in net income and would have decreased shareholders' equity by € 9 million.

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, 2020, cash and cash equivalents together with marketable securities amounted to € 3.994 billion (2019: € 2.511 billion). Moreover, the company maintains € 4.274 billion (2019: € 2.105 billion) in bilateral credit lines, which are designed to ensure sufficient liquidity at all times. On November 6, 2020 adidas entered into a new € 1.5 billion syndicated credit facility with twelve of its partner banks. This new syndicated credit facility replaced the syndicated loan facility under participation of KfW, Germany's state-owned development bank. The company had received the approval from the German government for the participation of KfW in the total € 3.0 billion syndicated loan credit in April 2020 to bridge the unprecedented situation caused by the global coronavirus pandemic. Transaction costs of € 9 million have been booked into profit and loss. ▸ SEE TREASURY

Future cash outflows arising from financial liabilities that are recognized in the consolidated statement of financial position are presented in the table.

Future cash outflows € in millions

	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	More than 5 years	Total
As at December 31, 2020							
Bank borrowings	87	18	19	19	19	27	189
Eurobond[1]	620	12	12	512	12	1,441	2,609
Equity-neutral convertible bond	–	–	491	–	–	–	491
Accounts payable	2,390	–	–	–	–	–	2,390
Other financial liabilities	164	4	–	–	–	–	168
Accrued liabilities[2]	939	–	–	–	–	1	940
Derivative financial liabilities	6,878	983	503	3	3	11	8,381
Total	**11,078**	**1,017**	**1,025**	**534**	**34**	**1,480**	**15,168**
As at December 31, 2019							
Bank borrowings	43	19	19	19	19	46	165
Eurobond[1]	17	616	9	9	9	407	1,067
Equity-neutral convertible bond	–	–	–	487	–	–	487
Accounts payable	2,703	–	–	–	–	–	2,703
Other financial liabilities	66	–	–	–	–	–	66
Accrued liabilities[2]	1,016	–	–	–	–	1	1,017
Derivative financial liabilities	7,497	712	5	503	3	15	8,735
Total	**11,342**	**1,347**	**33**	**1,018**	**31**	**469**	**14,240**

1 Including interest payments.
2 Accrued interest excluded.

This includes payments to settle obligations from borrowings as well as cash outflows from cash-settled derivatives with negative market values. Financial liabilities that may be settled in advance without penalty are included on the basis of the earliest date of potential repayment. Cash flows for variable-interest liabilities are determined with reference to the conditions at the balance sheet date.

adidas ended the year 2020 with an adjusted net borrowings of € 3.148 billion (2019: € 4.173 billion).

In 2020, the definition of the ratio net borrowings over EBITDA was changed to adjusted net borrowings over EBITDA to reflect changes in the company's Financial Policy. The most significant difference between the previous net borrowings definition and the new adjusted net borrowings definition is the inclusion of the present value of future lease and pension liabilities.

Financial instruments for the hedging of foreign exchange risk

As at December 31, 2020, adidas held the following instruments to hedge exposure to changes in foreign currency:

Average hedge rates

	Maturity	
As at December 31, 2020	**short-term**	**long-term**
Foreign currency risk		
Net exposure (€ in millions)	**768**	**614**
Forward exchange contracts		
Average EUR/USD forward rate	1.165	1.216
Average EUR/GBP forward rate	0.887	0.906
Average EUR/JPY forward rate	120.630	126.640
Average EUR/CNY forward rate	8.085	8.328
Option exchange contracts		
Average EUR/USD forward rate	1.200	1.229
Average EUR/GBP forward rate	0.872	0.924
Average EUR/JPY forward rate	122.460	–
Average USD/CNY forward rate	–	–
Equity risk		
Net exposure (€ in millions)	**122**	**82**
Total return swap		
Average hedge rate	190.630	298.745

Average hedge rates

As at December 31, 2019	Maturity short-term	Maturity long-term
Foreign currency risk		
Net exposure (€ in millions)	**853**	**360**
Forward exchange contracts		
Average EUR/USD forward rate	1.167	1.142
Average EUR/GBP forward rate	0.899	0.869
Average EUR/JPY forward rate	123.132	117.975
Average USD/CNY forward rate	7.961	8.079
Option exchange contracts		
Average EUR/USD forward rate	1.143	–
Average EUR/GBP forward rate	0.862	1
Average EUR/JPY forward rate	119.913	–
Average USD/CNY forward rate	–	–
Equity risk		
Net exposure (€ in millions)	**–**	**118**
Total return swap		
Average hedge rate	–	190.215

The amounts at the reporting date relating to items designated as hedged items were as follows:

Designated hedged items as at December 31, 2020 € in millions

	Change in value used for calculating hedge ineffectiveness	Hedging reserve	Cost of hedging reserve	Balances remaining in the cash flow hedging reserve from hedge relationships for which hedge accounting is no longer applied
Foreign currency risk				
Sales	(87)	89	(48)	–
Inventory purchases	290	(256)	28	–
Net foreign investment risk	**(19)**	**(163)**	**–**	**–**
Equity risk				
Long-Term Incentive Plans	127	10	–	–

Designated hedged items as at December 31, 2019 € in millions

	Change in value used for calculating hedge ineffectiveness	Hedging reserve	Cost of hedging reserve	Balances remaining in the cash flow hedging reserve from hedge relationships for which hedge accounting is no longer applied
Foreign currency risk				
Sales	(59)	(49)	(47)	–
Inventory purchases	(42)	8	59	–
Net foreign investment risk	**(44)**	**(182)**	**–**	**–**
Equity risk				
Long-Term Incentive Plans	(85)	26	–	–

The amounts relating to items designated as hedging instruments and hedged ineffectiveness were as follows:

Designated hedge instruments € in millions

	2020								During the period 2020				
		Carrying amount											
	Nominal amount	Assets	Liabilities	Line item in statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognized in hedging reserve	Changes in the value of the hedging instrument recognized in cost of hedging reserve	Hedge ineffectiveness recognized in profit or loss	Line item in income statement which includes hedge ineffectiveness	Amount from hedging reserve transferred to inventory	Amount from cost of hedging reserve transferred to inventory	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in income statement affected by the reclassification
Foreign exchange contracts – sales	4,436	112	(23)	Other financial assets/ liabilities	87	(134)	–	Cost of sales	–	–	(41)	43	Cost of sales
Foreign exchange contracts – inventory purchases	5,001	9	(265)	Other financial assets/ liabilities	(290)	29	–	Cost of sales	31	107	–	–	Cost of sales
Foreign exchange contracts – net foreign investments	473	6	–	Other financial assets/ liabilities	19	–	–	Financial result	–	–	–	–	Financial result
Total return swap – Long-Term Incentive Plans	205	77	(9)	Other financial assets/ liabilities	(127)	–	–	Financial result	–	–	112	–	Other operating expenses

Designated hedge instruments € in millions

	2019								During the period 2019				
		Carrying amount											
	Nominal amount	Assets	Liabilities	Line item in statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognized in hedging reserve	Changes in the value of the hedging instrument recognized in cost of hedging reserve	Hedge ineffectiveness recognized in profit or loss	Line item in income statement which includes hedge ineffectiveness	Amount from hedging reserve transferred to inventory	Amount from cost of hedging reserve transferred to inventory	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in income statement affected by the reclassification
Foreign exchange contracts – sales	4,606	21	(70)	Other financial assets/ liabilities	59	(126)	–	Cost of sales	–	–	(160)	54	Cost of sales
Foreign exchange contracts – inventory purchases	4,960	40	(32)	Other financial assets/ liabilities	42	(30)	–	Cost of sales	105	117	–	–	Cost of sales
Foreign exchange contracts – net foreign investments	503	–	(2)	Other financial assets/ liabilities	44	–	–	Financial result	–	–	–	–	Financial result
Total return swap – Long-Term Incentive Plans	167	88	–	Other financial assets/ liabilities	85	–	–	Financial result	–	–	61	–	Other operating expenses

Due to the coronavirus pandemic, a material amount of initial planned exposure for purchases and sales in foreign currencies ceased to exist, which led to certain over-hedge positions. In accordance with IFRS 9, hedge accounting was immediately discontinued for hedging instruments that were no longer covered by a purchase or sales transaction, and, at the time the over-hedged status was determined, the fair value was transferred from the hedging reserve to the income statement.

In 2020, a profit of € 29 million was reclassified into the income statement.

In addition, hedging instruments not designated as hedge accounting in accordance with IFRS 9 were canceled to minimize the economic risk.

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

Changes of reserves by risk category € in millions

	Hedging reserve	Cost of hedging reserve
Balance at January 1, 2020	**(195)**	**(6)**
Cash flow hedges		
Changes in fair value:		
Foreign currency risk – sales	90	40
Foreign currency risk – inventory purchases	(209)	39
Foreign currency risk – net foreign investment	19	–
Amount no longer recognized in OCI:		
Foreign currency risk	10	(150)
Contracts during the year	(17)	48
Amount included in the cost of non-financial items:		
Foreign currency risk – inventory purchases	–	–
Tax on movements of reserves during the year	**67**	**5**
Equity hedges		
Changes in fair value:	(127)	–
Amount reclassified to profit or loss	112	–
Balance at December 31, 2020	**(250)**	**(26)**

In order to determine the fair values of its derivatives that are not publicly traded, adidas uses generally accepted quantitative financial models based on market conditions prevailing at the balance sheet date.

Changes of reserves by risk category € in millions

	Hedging reserve	Cost of hedging reserve
Balance at January 1, 2019	**(20)**	**(11)**
Cash flow hedges		
Changes in fair value:		
Foreign currency risk – sales	(158)	32
Foreign currency risk – inventory purchases	(33)	99
Foreign currency risk – net foreign investment	(44)	–
Amount reclassified to profit or loss:		
Foreign currency risk	54	(172)
Contracts during the year	(18)	46
Amount included in the cost of non-financial items:		
Foreign currency risk – inventory purchases	–	–
Tax on movements on reserves during the year	**44**	**3**
Equity hedges		
Changes in fair value:	85	–
Amount reclassified to profit or loss	(61)	–
Balance at December 31, 2019	**(150)**	**(3)**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

All figures related to the 2020 and 2019 financial years in the 'Notes to the consolidated income statement' refer to the company's continuing operations unless otherwise stated.

031 OTHER OPERATING INCOME

Other operating income consists of the following:

Other operating income € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Income from release of accrued liabilities and other provisions	18	9
Gains from disposal of fixed assets	3	5
Sundry income	21	42
Other operating income	**42**	**56**

Sundry income mainly relates to income from sublicensees and reimbursements of indirect taxes.

032 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 € 130 million in 2020 (2019: € 152 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 € 66 million in 2020 (2019: € 34 million). Income from government grants related to the coronavirus pandemic amounted to € 29 million in 2020.

Further information on expenses by nature is provided in these Notes. ▸ SEE NOTE 33

033 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, 2020	Year ending Dec. 31, 2019
Cost of materials	**9,945**	**11,296**
Depreciation and amortization	**1,245**	**1,162**
Thereof: included within the cost of sales	45	31
Thereof: included within personnel expenses	12	11
Impairment losses	**125**	**24**
Reversals of impairment losses	**(6)**	**(8)**
Wages and salaries	2,147	2,382
Social security contributions	217	228
Pension expenses	119	109
Personnel expenses	**2,483**	**2,720**
Expense relating to short-term leases	**19**	**38**
Expense relating to leases of low-value assets	**1**	**1**
Expense relating to variable lease payments	**133**	**140**

Further information on expenses by function is provided in these Notes. ▸ SEE NOTE 32

034 FINANCIAL INCOME/FINANCIAL EXPENSES

Financial result consists of the following:

Financial income € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Interest income from financial instruments measured at amortized cost	23	50
Interest income from financial instruments at fair value through profit or loss	–	0
Interest income from non-financial assets	2	0
Net foreign exchange gains	–	–
Other	4	14
Financial income	**29**	**64**

Financial expenses € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Interest expense on financial instruments measured at amortized cost	164	160
Thereof: interest expense on lease liabilities	90	101
Interest expense on financial instruments at fair value through profit or loss	–	0
Interest expense on other provisions and non-financial liabilities	–	0
Net foreign exchange losses	37	5
Other	3	1
Financial expenses	**204**	**166**

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'. This position includes transaction costs of € 9 million that were incurred as part of the revolving syndicated loan with the participation of Germany's state-owned development bank KfW which were recognized in the income statement in 2020 due to the early redemption.

Interest expense on other provisions, and non-financial liabilities in particular, include effects from the 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 NOTE 06 ▶ SEE NOTE 15 ▶ SEE NOTE 18 ▶ SEE NOTE 30

035 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, 2019.

For translation into the presentation currency (euro), all amounts were translated at the closing rate at December 31, 2020. The net assets in the subsidiary's local financial statements were adjusted for changes in the price level.

The price index at December 31, 2020 was 5,125.55 (2019: 3,767.12).

036 INCOME TAXES

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2020 and 2019, 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:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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, 2020	Dec. 31, 2019
Deferred tax assets	1,233	1,093
Deferred tax liabilities	(241)	(280)
Deferred tax assets, net	**992**	**813**

The movement of deferred taxes is as follows:

Movement of deferred taxes € in millions

	2020	2019
Deferred tax assets, net as at January 1	**813**	**410**
Deferred tax income	176	355
Change in consolidated companies[1]	–	(2)
Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income[2]	7	18
Change in deferred taxes attributable to the change in the effective portion of the fair value of qualifying hedging instruments recorded in other comprehensive income[3]	24	27
Currency translation differences	(28)	5
Deferred tax assets, net as at December 31	**992**	**813**

1 See Note 04.
2 See Note 25.
3 See Note 30.

Gross company deferred tax assets and liabilities after valuation allowances, but before appropriate offsettings, are attributable to the items detailed in the table below:

Deferred taxes € in millions

	Dec. 31, 2020	Dec. 31, 2019
Non-current assets	512	462
Current assets	345	292
Liabilities and provisions	863	1,018
Accumulated tax loss carry-forwards	102	80
Deferred tax assets	**1,822**	**1,852**
Non-current assets	735	888
Current assets	75	69
Liabilities and provisions	20	82
Deferred tax liabilities	**830**	**1,039**
Deferred tax assets, net	**992**	**813**

Deferred tax assets are recognized only to the extent that the realization of the related benefit is probable. For the assessment of probability, in addition to past performance and the respective prospects for the foreseeable future, appropriate tax structuring measures are also taken into consideration.

Deferred tax assets for which the realization of the related tax benefits is not probable decreased from € 488 million to € 386 million for the year ending December 31, 2020. These amounts mainly relate to tax losses carried forward and unused 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, 2020	Year ending Dec. 31, 2019
Current tax expenses	336	996
Deferred tax income	(190)	(355)
Income tax expenses	**146**	**640**

The deferred tax income includes tax income of € 140 million in total (2019: € 388 million) related to the origination and reversal of temporary differences.

The company's applicable tax rate is 27.4% (2019: 27.4%), being the applicable income tax rate of adidas AG.

The company's effective tax rate differs from the applicable tax rate of 27.4% as follows:

Tax rate reconciliation

	Year ending Dec. 31, 2020		Year ending Dec. 31, 2019	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	158	27.4	700	27.4
Tax rate differentials	(27)	(4.7)	(119)	(4.6)
Non-deductible expenses	12	2.0	26	1.0
Losses for which benefits were not recognizable and changes in valuation allowances	(52)	(9.0)	(53)	(2.1)
Changes in tax rates	15	2.6	3	0.1
Other, net	3	0.5	1	0.0
Withholding tax expenses	38	6.5	83	3.2
Income tax expenses	**146**	**25.4**	**640**	**25.0**

In 2020, the effective tax rate was 25.4%. The effective tax rate in 2019 was 25.0%.

The line item 'Non-deductible expenses' includes tax expense/benefits relating to tax-free income, movements in provisions for uncertain tax positions, and tax expense relating to prior periods. In 2020, the tax benefit relating to prior periods is € 64 million (2019: expense of € 134 million).

For 2020, 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 (€ 60 million), and an increase in the valuation allowance in Argentina and Lebanon (€ 7 million). For 2019, this line item mainly related to changes in valuation allowances for the US, Canada, and Argentina.

For 2020, 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 € 6 million, mainly relating to the US. (2019: € 26 million).

For 2020, the line item 'Changes in tax rates' mainly reflects the reversal of the previously enacted tax rate reduction in the UK and the tax rate decrease in France. For 2019, this line item mainly reflected tax rate reductions in India and Greece.

037 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.

Earnings per share

	Continuing operations		Discontinued operations		Total	
	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Net income from continuing operations (€ in millions)	429	1,918	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	11	2	–	–	–	–
Net income attributable to shareholders (€ in millions)	**419**	**1,917**	**13**	**59**	**432**	**1,976**
Weighted average number of shares	195,155,924	197,606,107	195,155,924	197,606,107	195,155,924	197,606,107
Basic earnings per share (€)	**2.15**	**9.70**	**0.06**	**0.30**	**2.21**	**10.00**
Net income attributable to shareholders (€ in millions)	419	1,917	13	59	432	1,976
Interest expense on convertible bond, net of taxes (€ in millions)	–	–	–	–	–	–
Net income used to determine diluted earnings per share (€ in millions)	**419**	**1,917**	**13**	**59**	**432**	**1,976**
Weighted average number of shares	195,155,924	197,606,107	195,155,924	197,606,107	195,155,924	197,606,107
Weighted assumed conversion of the convertible bond	–	–	–	–	–	–
Dilutive effect of share-based payments	5,805	6,426	5,805	6,426	5,805	6,426
Weighted average number of shares for diluted earnings per share	**195,161,729**	**197,612,533**	**195,161,729**	**197,612,533**	**195,161,729**	**197,612,533**
Diluted earnings per share (€)	**2.15**	**9.70**	**0.06**	**0.30**	**2.21**	**10.00**

ADDITIONAL INFORMATION

038 SEGMENTAL INFORMATION

adidas operates predominantly in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products.

As at December 31, 2020, 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, adidas North America, Reebok North America, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets, adidas Golf, Runtastic and Other centrally managed businesses.

The operating segments adidas North America and Reebok North America have been aggregated to the 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 include 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 represent 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, without considering headquarter costs and central expenditure for marketing.

Segmental assets include accounts receivable as well as inventories. Only these items are reported to the chief operating decision maker on a regular basis. Depreciation, amortization, impairment losses (except for goodwill) and reversals of impairment losses as well as capital expenditure for tangible and intangible assets are part of the segmental reporting, even though segmental assets do not contain tangible and intangible assets. Depreciation and amortization as well as impairment losses and reversals of impairment losses not directly attributable to a segment or a group of segments are presented under line items 'HQ' and 'Consolidation' in the reconciliations.

Segmental liabilities only contain accounts payable from operating activities as there are no other liability items reported regularly to the chief operating decision maker.

Interest income and interest expenses as well as income taxes are not allocated to the reportable segments and are not reported separately to the chief operating decision maker.

Segmental information I € in millions

	Net sales (third parties)[1]		Thereof: adidas brand[1]		Thereof: Reebok brand[1]		Segmental operating profit[1]		Segmental assets[2]		Segmental liabilities[2]	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Europe	5,320	6,071	4,925	5,599	395	471	947	1,408	1,596	1,671	137	128
North America	4,762	5,313	4,365	4,828	397	485	606	715	1,532	1,692	99	101
Asia-Pacific	6,546	8,032	6,298	7,736	249	296	1,617	2,703	1,901	1,735	338	340
Russia/CIS	584	658	448	490	135	168	162	167	198	215	9	5
Latin America	1,158	1,660	1,033	1,490	125	170	95	295	500	656	71	111
Emerging Markets	998	1,302	892	1,146	106	156	185	367	418	480	35	55
Reportable segments	**19,368**	**23,035**	**17,961**	**21,288**	**1,407**	**1,747**	**3,612**	**5,655**	**6,145**	**6,449**	**689**	**740**
Other Businesses	476	605	134	217	2	1	44	68	189	191	6	15
Total	**19,844**	**23,640**	**18,095**	**21,505**	**1,409**	**1,748**	**3,656**	**5,723**	**6,334**	**6,640**	**695**	**755**

1 Year ending December 31.
2 At December 31.

Segmental information II € in millions

	Capital expenditure[1]		Depreciation and amortization[1]		Impairment losses and reversals of impairment losses[1]	
	2020	2019	2020	2019	2020	2019
Europe	30	83	155	161	31	3
North America	35	62	133	129	18	6
Asia-Pacific	127	172	363	329	20	5
Russia/CIS	6	17	65	77	–	(0)
Latin America	7	35	55	53	3	(0)
Emerging Markets	15	22	63	60	5	1
Reportable segments	**220**	**391**	**834**	**809**	**77**	**14**
Other Businesses	5	4	11	14	3	6
Total	**225**	**395**	**845**	**824**	**80**	**20**

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, 2020	Year ending Dec. 31, 2019
Reportable segments	19,368	23,035
Other Businesses	476	605
Total	**19,844**	**23,640**

Operating profit € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Operating profit for reportable segments	3,612	5,655
Operating profit for Other Businesses	44	68
Segmental operating profit	**3,656**	**5,723**
HQ	(1,909)	(1,997)
Central expenditure for marketing	(878)	(925)
Consolidation	(119)	(141)
Operating profit	**750**	**2,660**
Financial income	29	64
Financial expenses	(204)	(166)
Income before taxes	**575**	**2,558**

Capital expenditure € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Reportable segments	221	391
Other Businesses	5	4
HQ	217	316
Total	**443**	**711**

Depreciation and amortization € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Reportable segments	834	809
Other Businesses	11	14
HQ	400	338
Total	**1,245**	**1,162**

Impairment losses and reversals of impairment losses € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Reportable segments	77	14
Other Businesses	3	6
HQ	(1)	2
Consolidation	40	(7)
Total	**119**	**15**

Assets € in millions

	Dec. 31, 2020	Dec. 31, 2019
Accounts receivable and inventories of reportable segments	6,145	6,449
Accounts receivable and inventories of Other Businesses	189	191
Segmental assets	**6,334**	**6,640**
Non-segmental accounts receivable and inventories	16	70
Current financial assets	4,696	3,055
Other current assets	1,108	1,169
Non-current assets	8,899	9,746
Total	**21,053**	**20,680**

Liabilities € in millions

	Dec. 31, 2020	Dec. 31, 2019
Accounts payable of reportable segments	689	740
Accounts payable of Other Businesses	6	15
Segmental liabilities	**695**	**755**
Non-segmental accounts payable	1,695	1,947
Current financial liabilities	1,695	1,012
Other current liabilities	4,741	5,040
Non-current liabilities	5,535	4,868
Total	**14,362**	**13,622**

Product information

Net sales (third parties) € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Footwear	11,128	13,521
Apparel	7,687	8,963
Hardware	1,028	1,156
Total	**19,844**	**23,640**

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, 2020	Year ending Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Europe	5,492	6,321	2,951	3,244
North America	4,920	5,501	1,507	1,601
Asia-Pacific	6,686	8,192	1,770	1,917
Russia/CIS	584	658	285	505
Latin America	1,160	1,662	126	183
Emerging Markets	1,002	1,306	261	385
Total	**19,844**	**23,640**	**6,899**	**7,836**

Geographical information by country € in millions

	Net sales (third parties) – continuing operations		Non-current assets	
	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Germany, Europe	1,238	1,298	1,329	1,431
China, Asia-Pacific	4,428	5,278	1,004	1,175
USA, North America	4,577	5,089	1,410	1,475

039 ADDITIONAL CASH FLOW INFORMATION

In 2020, net cash used in operating activities compared to the prior year results was primarily due to a decrease in income before taxes and a decrease in operating working capital requirements which was partly offset by a decrease in income taxes paid.

The decrease in net cash used in investing activities in 2020 mainly results from a decrease in spending on property, plant, and equipment such as investments in the furnishing and fitting of adidas' own-retail stores, in new office buildings and IT systems and from proceeds from sale of short-term financial assets.

Net cash generated from financing activities mainly related to the issuance of three new eurobonds and the proceeds from short-term borrowings including the short-term borrowing of the syndicated loan from the KfW bank. In comparison to prior year the not paid out dividends to shareholders of adidas AG and the stopping of the repurchase of adidas AG shares leads to a higher net cash generated from financing activities compared to net cash used in the prior year. In contrast are the repayments of lease liabilities and the repayment of the pay back for the syndicated loan from the KfW bank.

Net cash (used in)/generated from discontinued operations € in millions

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019
Net cash used in operating activities	(3)	(9)
Net cash generated from investing activities	–	–
Net cash generated from financing activities	–	–
Net cash used in discontinued operations	**(3)**	**(9)**

In 2020, the following changes in financial liabilities impacted the net cash used in financing activities:

Impact of change in financial liabilities on net cash used in financing activities € in millions

			Non-cash effects				
	Jan. 1, 2020	Net (payments) / proceeds in the period	IFRS 16 lease obligations	Fair value adjustments	Other	Effect of exchange rates	Dec. 31, 2020
Short-term borrowings	43	46	–	–	618	(20)	686
Long-term borrowings	1,595	1,500	–	–	(613)	–	2,482
Lease liabilities	3,133	(701)	507	–	(39)	(178)	2,722
Total	**4,771**	**845**	**507**	**–**	**(34)**	**(198)**	**5,890**

040 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, 2020	Dec. 31, 2019
Within 1 year	1,202	1,236
Between 1 and 5 years	3,321	3,671
After 5 years	1,425	1,901
Total	**5,948**	**6,808**

Commitments with respect to promotion and advertising contracts maturing after five years have remaining terms of up to eleven years from December 31, 2020.

Compared to December 31, 2019, no new major signings or prolongations for promotion and advertising contracts occurred, hence the decrease for the commitments mainly reflects the yearly amortization.

adidas has other financial commitments for leasing and other rental obligations which mature as follows:

Financial commitments for other contracts € in millions

	Dec. 31, 2020	Dec. 31, 2019
Within 1 year	73	83
Between 1 and 5 years	207	161
After 5 years	42	74
Total	**323**	**318**

The contracts regarding these leases with expiration dates of between one and twelve years partly include renewal options and escalation clauses.

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, 2020	Dec. 31, 2019
Within 1 year	235	242
Between 1 and 5 years	293	190
After 5 years	–	6
Total	**528**	**439**

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. 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. ▸ SEE NOTE 20

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 (€ 104 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.

041 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 ► 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.

042 OTHER INFORMATION

Employees

The average numbers of employees are as follows:

Employees

	Year ending Dec. 31, 2020	Year ending Dec. 31, 2019[1]
Own retail	35,422	35,123
Sales	3,652	3,834
Logistics	8,343	7,246
Marketing	6,147	6,156
Central administration	5,310	5,764
Production	564	646
Research and development	983	1,031
Information technology	1,470	1,523
Total	**61,891**	**61,322**

[1] The figures for 2019 have been adjusted due to a change in the calculation logic.

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 2020, the expenses for the professional audit service fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft amounted to € 1.8 million (2019: € 1.9 million) thereof related to the prior year € 0.3 million (2019: € 0.2 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 (2019: € 0.1 million), € 0.2 million (2019: € 0.8 million) and € 0.1 million (2019: € 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.

Other confirmation services consist of audits which are either required by law or contractually agreed, such as the European Market Infrastructure Regulation (EMIR) audits according to § 20 WpHG, audits according to the German Packaging Law (Verpackungsgesetz – VerpackG), the issuance of comfort letters and other contractually agreed-upon confirmation services.

The tax consultancy services include support services for transfer pricing.

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 (2019: € 2.2 million). In addition, the members of the Supervisory Board received attendance fees of € 0.03 million (2019: € 0.2 million).

Members of the Supervisory Board were not granted any loans or advance payments in 2020.

Executive Board
In 2020, the overall compensation of the members of the Executive Board totaled € 8.3 million (2019: € 19.0 million), € 6.8 million thereof relates to short-term benefits (2019: € 9.8 million) and € 1.5 million to share-based payment (2019: € 9.2 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board) totaled € 3.3 million in 2020 (2019: € 2.6 million).

In 2020, payments including pension payments to former members of the Executive Board and their survivors amount in total to € 4.4 million (2019: € 4.1 million). In 2020, € 6.3 million (2019: € 10.5 million) benefits after termination of the employment relationship were granted.

Pension obligations relating to former members of the Executive Board and their survivors amount in total to € 98.3 million (2019: € 92.5 million).

Current members of the Executive Board were not granted any loans or advance payments in 2020.

Further information on disclosures according to § 314 section 1 no. 6a HGB is provided in this Annual Report. ► SEE COMPENSATION REPORT

Companies opting for exemption under § 264 (3) HGB

The subsidiary adidas CDC Imobilieninvest GmbH, Herzogenaurach, is opting for exemption under § 264 (3) HGB.

043 INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)
In December 2020, 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.

044 EVENTS AFTER THE BALANCE SHEET DATE

In order to be able to successfully execute our new strategy 'Own the Game' for the period until 2025, adidas has changed its organizational structure. Since January 1, 2021, adidas manages Greater China as a separate market and integrated Russia/CIS and Emerging Markets into the European market. The markets North America and Latin America remain unchanged. Due to a change in the composition of the operating segments and associated cash-generating units respectively, adidas performed a reallocation of the carrying amounts of goodwill and an impairment test of the goodwill as of January 1, 2021. In this context, there was no need for impairment.

As part of the development of its new five-year strategy, adidas has concluded its assessment of strategic alternatives for Reebok. As a result of this review in February 2021, the company has decided to begin a process aimed at divesting Reebok. Accordingly, adidas is going to report the Reebok business as discontinued operations from the first quarter 2021 onward.

Immediately before the reclassification to discontinued operations, an impairment test according to IAS 36 was conducted and no impairment or write-up was required. On the initial classification as discontinued operations, the measurement at fair value also did not lead to an impairment.

The following table indicates the impact on the major line items in the consolidated income statement for the year 2020 under the assumption that the Reebok business activities had been represented as discontinued operations on January 1, 2020.

Impact on the major line items in the consolidated income statement € in millions

	adidas group	Reebok	adidas group excluding Reebok
Net Sales	19,844	1,409	18,435
EMEA	6,944	636	6,308
North America	4,916	397	4,519
China	4,428	86	4,342
Asia-Pacific	2,245	162	2,083
Latin America	1,160	125	1,035
Gross Margin	49.7%	44.8%	50.0%
Operating Margin	3.8%	0.4%	4.0%
Net income from continued operations	429	(32)	461

No further company-specific subsequent events are known which might have a material influence on the assets, liabilities, financial position, and profit or loss of the company.

Date of preparation

The Executive Board of adidas AG prepared and approved the consolidated financial statements for submission to the Supervisory Board on February 22, 2021. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorization for issue.

Herzogenaurach, February 22, 2021

The Executive Board of adidas AG

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

ROLAND AUSCHEL
GLOBAL SALES

BRIAN GREVY
GLOBAL BRANDS

HARM OHLMEYER
CHIEF FINANCIAL OFFICER

AMANDA RAJKUMAR
GLOBAL HUMAN RESOURCES

MARTIN SHANKLAND
GLOBAL OPERATIONS

SHAREHOLDINGS

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2020

	Company and domicile		Share in capital held by[1]	in %
	Germany			
1	adidas Insurance & Risk Consultants GmbH 2	Herzogenaurach (Germany)	directly	100
2	adidas Beteiligungsgesellschaft mbH 2	Herzogenaurach (Germany)	directly	100
3	adidas CDC Immobilieninvest GmbH	Herzogenaurach (Germany)	12	100
4	adidas Verwaltungsgesellschaft mbH	Herzogenaurach (Germany)	68	100
	Europe (incl. Middle East and Africa)			
5	adidas sport gmbh	Lucerne (Switzerland)	directly	100
6	adidas Austria GmbH	Klagenfurt (Austria)	directly	95.89
			5	4.11
7	runtastic GmbH	Pasching (Austria)	9	100
8	adidas France S.a.r.l.	Strasbourg (France)	directly	100
9	adidas International B.V.	Amsterdam (Netherlands)	directly	93.97
			8	6.03
10	adidas International Trading AG	Lucerne (Switzerland)	9	100
11	adidas International Marketing B.V.	Amsterdam (Netherlands)	9	100
12	adidas International Property Holding B.V.	Amsterdam (Netherlands)	77	100
13	adidas Infrastructure Holding B.V.	Amsterdam (Netherlands)	9	100
14	adidas Benelux B.V.	Amsterdam (Netherlands)	directly	100
15	adidas Ventures B.V.	Amsterdam (Netherlands)	9	100
16	adidas (UK) Limited	Stockport (Great Britain)	9	100
17	Reebok International Limited	London (Great Britain)	68	100
18	Trafford Park DC Limited	London (Great Britain)	13	100
19	Reebok Pensions Management Limited	London (Great Britain)	17	100
20	Reebok Europe Holdings	London (Great Britain)	17	100
21	Luta Limited	London (Great Britain)	17	100
22	adidas (Ireland) Limited	Dublin (Ireland)	9	100
23	adidas International Re DAC	Dublin (Ireland)	9	100
24	Five Ten Europe NV	Lasne (Belgium)	70	99.95
			directly	0.05
25	adidas España S.A.U.	Zaragoza (Spain)	2	100
26	adidas Finance Spain S.A.U.	Zaragoza (Spain)	68	100
27	adidas Italy S.p.A.	Monza (Italy)	9	100
28	adidas Portugal – Artigos de Desporto, S.A.	Lisbon (Portugal)	9	100
29	adidas Business Services Lda.	Morea de Maia (Portugal)	9	98
			directly	2
30	adidas Norge AS	Oslo (Norway)	directly	100
31	adidas Sverige AB	Solna (Sweden)	directly	100
32	adidas Finance Sverige AB	Solna (Sweden)	68	100
33	adidas Suomi Oy	Helsinki (Finland)	9	100
34	adidas Danmark A/S	Copenhagen (Denmark)	9	100
35	adidas CR s.r.o.	Prague (Czech Republic)	directly	100
36	adidas Budapest Kft.	Budapest (Hungary)	directly	100
37	adidas Bulgaria EAD	Sofia (Bulgaria)	directly	100
38	LLC 'adidas, Ltd.'	Moscow (Russia)	directly	100
39	adidas Poland Sp. z o.o.	Warsaw (Poland)	directly	100
40	adidas Finance Poland S.A.	Warsaw (Poland)	68	100
41	adidas Romania S.R.L.	Bucharest (Romania)	9	100
42	adidas Baltics SIA	Riga (Latvia)	9	100
43	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	directly	100

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2020

	Company and domicile		Share in capital held by[1]	in %
44	adidas Trgovina d.o.o.	Ljubljana (Slovenia)	directly	100
45	SC 'adidas-Ukraine'	Kiev (Ukraine)	directly	100
46	adidas LLP	Almaty (Republic of Kazakhstan)	directly	100
47	adidas Serbia d.o.o.	Belgrade (Serbia)	9	100
48	adidas Croatia d.o.o.	Zagreb (Croatia)	9	100
49	adidas Hellas A.E.	Athens (Greece)	directly	100
50	adidas (Cyprus) Limited	Nicosia (Cyprus)	directly	100
51	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	9	100
52	adidas Emerging Markets L.L.C	Dubai (United Arab Emirates)	indirectly	51
			8	49
53	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	9	100
54	adidas Levant Limited	Dubai (United Arab Emirates)	53	100
55	adidas Levant Limited – Jordan	Amman (Jordan)	54	100
56	adidas Imports & Exports Ltd.	Cairo (Egypt)	57	99.98
			9	0.02
57	adidas Sporting Goods Ltd.	Cairo (Egypt)	9	90
			directly	10
58	adidas Egypt Ltd.	Cairo (Egypt)	directly	99.13
			8	0.87
59	adidas Israel Ltd.	Holon (Israel)	9	85
60	adidas Morocco LLC	Casablanca (Morocco)	directly	100
61	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	directly	100
	North America			
62	adidas North America, Inc.	Portland, Oregon (USA)	9	100
63	adidas America, Inc.	Portland, Oregon (USA)	62	100
64	adidas International, Inc.	Portland, Oregon (USA)	62	100
65	adidas Team, Inc.	Des Moines, Iowa (USA)	62	100
66	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	68	100
67	Reebok Securities Holdings LLC	Wilmington, Delaware (USA)	68	100
68	Reebok International Ltd.	Boston, Massachusetts (USA)	62	100
69	adidas Indy, LLC	Wilmington, Delaware (USA)	68	99
			67	1
70	Stone Age Equipment, Inc.	Redlands, California (USA)	63	100
71	Spartanburg DC, Inc.	Spartanburg, South Carolina (USA)	63	100
72	adidas Canada Limited	Woodbridge, Ontario (Canada)	9	100
	Asia			
73	adidas Sourcing Limited	Hong Kong (China)	10	100
74	adidas Hong Kong Limited	Hong Kong (China)	2	100
75	Reebok Trading (Far East) Limited	Hong Kong (China)	68	100
76	adidas (Suzhou) Co. Ltd.	Suzhou (China)	2	100
77	adidas Sports (China) Co. Ltd.	Suzhou (China)	2	100
78	adidas (China) Ltd.	Shanghai (China)	9	100
79	adidas Sports Goods (Shanghai) Co., Ltd	Shanghai (China)	78	100
80	Runtastic Software Technology (Shanghai) Co., Ltd.	Shanghai (China)	9	100
81	Zhuhai adidas Technical Services Limited	Zhuhai (China)	73	100
82	adidas Logistics (Tianjin) Co., Ltd.	Tianjin (China)	13	100
83	adidas Business Services (Dalian) Limited	Dalian (China)	9	100
84	adidas Japan K.K.	Tokyo (Japan)	9	100
85	adidas Korea LLC.	Seoul (Korea)	directly	100
86	adidas Korea Technical Services Limited	Busan (Korea)	73	100
87	adidas India Private Limited	New Delhi (India)	directly	10.67
			9	89.33

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2020

	Company and domicile		Share in capital held by[1]	in %
88	adidas India Marketing Private Limited	New Delhi (India)	87	98.62
			9	1
			directly	0.37
89	adidas Technical Services Private Limited	New Delhi (India)	73	100
90	Reebok India Company	New Delhi (India)	100	93.15
91	PT adidas Indonesia	Jakarta (Indonesia)	9	99.67
			directly	0.33
92	adidas (Malaysia) Sdn. Bhd.	Petaling Jaya (Malaysia)	directly	60
			9	40
93	adidas Philippines Inc.	Tagiug City (Philippines)	directly	100
94	adidas Singapore Pte. Ltd.	Singapore (Singapore)	directly	100
95	adidas Taiwan Limited	Taipei (Taiwan)	9	100
96	adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	directly	100
97	adidas Australia Pty Limited	Mulgrave (Australia)	9	100
98	adidas New Zealand Limited	Auckland (New Zealand)	directly	100
99	adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	9	100
100	Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	68	99.07
			66	0.93
	Latin America			
101	adidas Argentina S.A.	Buenos Aires (Argentina)	9	76.96
			2	23.04
102	Reebok Argentina S.A.	Buenos Aires (Argentina)	directly	96.25
			9	3.75
103	adidas do Brasil Ltda.	São Paulo (Brazil)	2	100
104	adidas Franchise Brasil Servicos Ltda.	São Paulo (Brazil)	103	99.99
			directly	0.01
105	Reebok Produtos Esportivos Brasil Ltda.	São Paulo (Brazil)	9	100
106	adidas Chile Limitada	Santiago de Chile (Chile)	directly	99
			1	1
107	adidas Colombia Ltda.	Bogotá (Colombia)	directly	100
108	adidas Perú S.A.C.	Lima (Peru)	directly	99.21
			106	0.79
109	adidas de Mexico, S.A. de C.V.	Mexico City (Mexico)	directly	100
110	adidas Industrial, S.A. de C.V.	Mexico City (Mexico)	directly	100
111	Reebok de Mexico, S.A. de C.V.	Mexico City (Mexico)	directly	100
112	adidas Latin America, S.A.	Panama City (Panama)	directly	100
113	Concept Sport, S.A.	Panama City (Panama)	9	100
114	3 Stripes S.A.	Montevideo (Uruguay)	directly	100
115	Tafibal S.A.	Montevideo (Uruguay)	directly	100
116	Raelit S.A.	Montevideo (Uruguay)	directly	100
117	adidas Sourcing Honduras, S.A.	San Pedro Sula (Honduras)	68	99.6
			66	0.4
118	adidas Corporation de Venezuela, S.A.	Caracas (Venezuela)	directly	100
119	adisport Corporation	San Juan (Puerto Rico)	9	100
120	adidas Sourcing El Salvador, S.A. de C.V.	Antiguo Cuscatlán (El Salvador)	9	99.95
			directly	0.05

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report, which has been combined with the Management Report of adidas AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Herzogenaurach, February 22, 2021

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

ROLAND AUSCHEL
GLOBAL SALES

BRIAN GREVY
GLOBAL BRANDS

HARM OHLMEYER
CHIEF FINANCIAL OFFICER

AMANDA RAJKUMAR
GLOBAL HUMAN RESOURCES

MARTIN SHANKLAND
GLOBAL OPERATIONS

REPRODUCTION OF THE INDEPENDENT AUDITOR'S REPORT

Based on the results of our audit, we have issued the following unqualified audit opinion:

Independent Auditor's Report

To adidas AG, Herzogenaurach

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of adidas AG, Herzogenaurach, and its subsidiaries (hereinafter 'adidas' or the 'Group'), which comprise the consolidated statement of financial position as of December 31, 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report ('group management report') of adidas AG, Herzogenaurach, for the financial year from January 1 to December 31, 2020. In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the 'Other Information' section of our auditor's report.

The group management report contains cross-references that are not required by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the 'Other Information' section of the auditor's report. The group management report contains cross-references that are not required by law and which are marked as unaudited. Our audit opinion does not extend to the cross-references and the information to which the cross-references refer.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of the Reebok brand

For the accounting policies used and the disclosures on the judgments applied by the Executive Board and sources of estimation uncertainties please refer to Note 2 and for the disclosures on the measurement of the Reebok brand please refer to Note 14 in the notes to the consolidated financial statements.

The financial statement risk

The Reebok brand was recognized as of December 31, 2020, in the amount of € 733 million.

The Reebok brand is to be tested for impairment at least once a year. To this end, the brand is allocated as a 'corporate asset' pursuant to IAS 36 to the cash-generating Reebok business units at the level of the markets and the value in use of these cash-generating units is compared with the carrying amount of these units. The valuation model used to determine the value in use is complex; the result of this valuation is heavily dependent on the estimate of future net cash flows (taking into account future revenue growth, profit margins, exchange rates and long-term growth rates) and the discount factor used, and is thus subject to considerable uncertainty.

There is the risk for the financial statements that any existing impairment of the Reebok brand as of the reporting date was not identified or that a required reversal of an impairment loss on the brand was not carried out.

Our audit approach

With the involvement of our valuation experts, we assessed the appropriateness of the key assumptions and calculation methods of the Company, among other things. For this purpose, we discussed the expected business and earnings development at the level of the cash-generating Reebok business units to which the brand as corporate asset is allocated and the assumed long-term growth rates with those responsible for planning. Furthermore, we carried out comparisons with other internally available forecasts, e.g. the budget planning for a period of five years prepared by the Executive Board. In addition, we evaluated the consistency of the growth rates used in the budget planning using external market assessments.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analyzing deviations. Since even minor changes to the discount rate can have a material effect on the results of impairment testing, we compared the assumptions and data underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take forecast uncertainty into account, we examined the impact of potential changes in the discount rate, earnings performance and long-term growth rate on the value in use (sensitivity analysis) by calculating alternative scenarios and comparing these with the values stated by the Company. In addition, we verified the plausibility of the Company's calculations with alternative valuation considerations and data.

Our observations

The calculation method used for impairment testing of the Reebok brand is appropriate and in line with the accounting policies to be applied. The assumptions and data used by the Executive Board are balanced overall.

Accurate recording and assessment of the covid-19-induced changes to leases in accordance with IFRS 16

For the accounting policies used, please refer to Note 2 and to the disclosures on the accounting of leases in Notes 1, 12, 21 and 39 in the notes to consolidated financial statements.

The financial statement risk

As of December 31, 2020, right-of-use assets of € 2,430 million and lease liabilities of € 2,722 million are recognized in the consolidated financial statements of adidas AG. Depreciation of right-of-use assets amounted to € 684 million in financial year 2020. Interest expenses totaled € 90 million.

Due to the impact of the covid-19 pandemic in 2020 and the resulting temporary closure of stores that are the subject of leases, adidas concluded changes to leases with numerous lessors, particularly in Q2 2020, which included changes to lease terms, changes to payment dates and/or the granting of subsidies by the lessor.

These agreements are treated by adidas as lease modifications within the meaning of IFRS 16 and thus trigger a remeasurement of the lease liability and by extension the right-of-use asset using the incremental borrowing rate of adidas, which is to be applied to the property in question at the date of the lease modification.

Due to the large number and various types of lease modifications, the Company has set up group-wide processes and controls to ensure the modified contract data are recorded properly and in compliance with the relevant standards.

There is the risk for the consolidated financial statements that the lease liabilities and right-of-use assets are not properly recorded and measured due to the lease modifications.

Our audit approach

In a first step, we obtained an understanding of the process for recording lease modifications with the adidas Group and assessed the accounting instruction for presenting lease modifications in accordance of IFRS 16.

We assessed the setup and appropriateness of the controls implemented within the adidas Group to ensure the proper determination and recording of the relevant data for measuring the lease liabilities and right-of-use assets in the case of lease modifications. Relevant data are the lease term, the amount and dates of the lease payments and the relevant incremental borrowing rate of adidas for the property in question as well as the subsidies granted by the lessors. Where IT systems were used to determine and collect the relevant data, we tested the effectiveness of the rules and procedures of the underlying accounting-related IT systems, with the involvement of our IT experts.

With the involvement of our valuation experts, we compared the assumptions and data underlying the incremental borrowing rates with our own assumptions and publicly available data. We also assessed the calculation model for the interest rate in terms of appropriateness.

Using a standard report (RECESH) in SAP RE/FX, we were presented with an overview of all lease modifications in financial year 2020. We checked the completeness and accuracy of this SAP report with the help of our IT specialists.

Furthermore, for certain lease modifications that were selected as part of a representative sample or on the basis of risk, we checked whether, based on the inspection of the selected leases, the classification as a 'lease modification' by the local adidas companies is appropriate and the relevant data for measuring the lease liability and the corresponding right-of-use asset were correctly determined and recorded.

With the help of our IT specialists, we satisfied ourselves that the lease modifications are properly measured in SAP RE/FX.

Our observations

The approach for the balance sheet presentation of lease modifications in accordance with IFRS 16 is appropriate and is in line with the accounting policies.

Other Information

The Executive Board or the Supervisory Board is responsible for the other information. The other information comprises the following components of the management report, whose content was not audited:

- the components of the integrated combined non-financial statement, which are marked as unaudited, and
- the corporate governance statement with the corporate governance report.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement letter, we conducted a separate assurance engagement of the combined non-financial statement. Please refer to our assurance report dated February 24, 2021, for information on the nature, scope and findings of this assurance engagement.

Responsibilities of the Executive Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Executive Board is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Executive Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of a group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.

- Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the Executive Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant etchical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Assurance Report in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

We have performed an assurance engagement in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the electronic reproduction of the consolidated financial statements and the group management report (hereinafter the 'ESEF documents') contained in the file that can be downloaded by the issuer from the electronic client portal with access protection 'adidasAG-2020-12-31 (2).zip' (SHA256-hash value: 713a5cf0ade234ea77e9721a54d87c60db39fafb63a67cce7965af67680629fd) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ('ESEF format'). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1, 2020, to December 31, 2020, contained in the 'Report on the Audit of the Consolidated Financial Statements and of the Group Management Report' above.

We conducted our assessment of the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's Executive Board is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's Executive Board is responsible for the internal controls it considers necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The Company's Executive Board is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited group management report.

- Evaluate whether tagging the ESEF documents with Inline XBRL technology (iXBRL) provides an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to article 10 of the EU Audit Regulation

We were elected as group auditor at the Annual General Meeting on August 11, 2020. We were engaged by the Supervisory Board on August 11, 2020. We have been the group auditor of adidas AG without interruption since financial year 1995.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Haiko Schmidt.

Munich, February 25, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Andrejewski	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR REGARDING THE COMBINED NON-FINANCIAL STATEMENT [19]

To the Supervisory Board of adidas AG, Herzogenaurach

We have performed an independent limited assurance engagement on the non-financial statement of adidas AG (further 'Company' or 'adidas') according to § 315b of the German Commercial Code (HGB), that is combined with the non-financial statement of the parent company in accordance with § 289b HGB, (further 'combined non-financial statement') for the period from January 1 to December 31, 2020.

As described in the section 'Working conditions in our supply chain' in the Report, 921 social compliance and environmental audits at suppliers were performed by inhouse technical staff as well as external third-party monitors commissioned by adidas business entities and licensees. The reasonableness and accuracy of the conclusions from the performed audit work were not part of our limited assurance engagement.

Management's responsibility

The legal representatives of the Company are responsible for the preparation of the combined non-financial statement in accordance with §§ 315b, 315c in conjunction with 289b to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the combined non-financial statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the legal representatives are responsible for the internal controls they deem necessary for the preparation of the combined non-financial statement that is free of – intended or unintended – material misstatements.

Practioner's responsibility

It is our responsibility to express a conclusion on the combined non-financial statement based on our work performed within a limited assurance engagement.

We conducted our work in the form of a limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by IAASB. Accordingly, we have to plan and perform the assurance engagement in such a way that we obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the combined non-financial statement of the Company for the period from January 1 to December 31, 2020 has not been prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. As the assurance procedures performed in a limited assurance engagement are less comprehensive than in a reasonable assurance engagement, the level of assurance obtained is substantially lower. The choice of assurance procedures is subject to the auditor's own judgement.

19 Our engagement applied to the German version of the combined non-financial statement 2020. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Within the scope of our engagement we performed, amongst others, the following procedures:

- Inquiries of group-level personnel who are responsible for the materiality analysis in order to understand the processes for determining material topics and respective reporting boundaries for adidas AG
- A risk analysis, including media research, to identify relevant information on adidas AG's sustainability performance in the reporting period
- Reviewing the suitability of internally developed Reporting Criteria
- Evaluation of the design and the implementation of systems and processes for the collection, processing and monitoring of disclosures, including data consolidation, on environmental, employee and social matters, respect for human rights, and anti-corruption and bribery matters
- Inquiries of group-level personnel who are responsible for determining disclosures on concepts, due diligence processes, results and risks, performing internal control functions and consolidating disclosures
- Inspection of selected internal and external documents
- Analytical procedures for the evaluation of data and of the trends of quantitative disclosures as reported at group level by all sites
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data based on a sample of the sites in Tianjin, China and Spartanburg, United States

In our opinion, we obtained sufficient and appropriate evidence for reaching a conclusion for the assurance engagement.

Independence and quality assurance on the part of the auditing firm

In performing this engagement, we applied the legal provisions and professional pronouncements regarding independence and quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial statement of adidas AG for the period from January 1 to December 31, 2020, has not been prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

Restriction of use/general engagement terms

This assurance report is issued for purposes of the Supervisory Board of adidas AG, Herzogenaurach only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of adidas AG, Herzogenaurach, and professional liability as descriped above was governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms notice of the provisions contained therein including the limitation of our liability as stipulated in No. 9 and accepts the validity of the General Engagement Terms with respect to us.

Munich, February 24, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Hell ppa. Auer