CALLING ALL CREATORS

adidas

2016

ADIDAS
ANNUAL REPORT

TARGETS – RESULTS – OUTLOOK

TARGETS 2016 [1, 2]	RESULTS 2016 [2]	OUTLOOK 2017
CURRENCY-NEUTRAL SALES DEVELOPMENT: **INCREASE AT A RATE BETWEEN 10% AND 12%**	CURRENCY-NEUTRAL SALES DEVELOPMENT: **INCREASE OF 18%** Group sales of **€ 19.291 BILLION**	CURRENCY-NEUTRAL SALES DEVELOPMENT: **INCREASE AT A RATE BETWEEN 11% AND 13%**
Gross margin **47.3% – 47.8%**	Gross margin **48.6%**	Gross margin **INCREASE TO A LEVEL OF UP TO 49.1%**
Operating margin **AT LEAST STABLE** versus prior year level (6.5%)	Operating margin **7.7%**	Operating margin **INCREASE TO A LEVEL BETWEEN 8.3% AND 8.5%**
Average operating working capital (in % of net sales) **AROUND PRIOR YEAR LEVEL**	Average operating working capital (in % of net sales) decreases 0.3pp to **20.2%**	Average operating working capital (in % of net sales) **MODEST INCREASE**
Capital expenditure **AROUND € 750 MILLION**	Capital expenditure **€ 651 MILLION**	Capital expenditure **AROUND € 1.1 BILLION**
Gross borrowings **MODERATE DECLINE**	Gross borrowings decrease 12% to **€ 1.618 BILLION**	Gross borrowings **MODERATE DECLINE**
Net borrowings/EBITDA ratio **TO BE MAINTAINED BELOW 2**	Net borrowings/EBITDA ratio **0.1**	Net borrowings/EBITDA ratio **TO BE MAINTAINED BELOW 2**
Net income from continuing operations **INCREASE AT A RATE BETWEEN 10% AND 12%** to around € 800 million	Net income from continuing operations **INCREASES 41%** to 1.019 billion	Net income from continuing operations **INCREASE AT A RATE BETWEEN 18% AND 20%** to a level between € 1.200 billion and € 1.225 billion
Shareholder value **FURTHER INCREASE**	adidas AG share price **INCREASES 67%** Dividend per share **INCREASE OF 25% TO € 2.00** [3]	Shareholder value **FURTHER INCREASE**

1 As published on March 3, 2016; the outlook was updated several times over the course of the year.
2 Figures reflect continuing operations as a result of the divestiture of the Rockport business.
3 Subject to Annual General Meeting approval.

FINANCIAL HIGHLIGHTS 2016

FINANCIAL HIGHLIGHTS 2016 (IFRS)

	2016	2015	Change
Operating Highlights (€ in millions)			
Net sales [1]	19,291	16,915	14.0%
EBITDA [1]	1,883	1,475	27.7%
Operating profit [1, 3]	1,491	1,094	36.3%
Net income from continuing operations [1, 3]	1,019	720	41.5%
Net income attributable to shareholders [2, 3]	1,017	668	52.2%
Key Ratios			
Gross margin [1]	48.6%	48.3%	0.3pp
Operating expenses in % of net sales [1]	42.8%	43.1%	(0.3pp)
Operating margin [1, 3]	7.7%	6.5%	1.3pp
Effective tax rate [1, 3]	29.5%	32.9%	(3.4pp)
Net income attributable to shareholders in % of net sales [2, 3]	5.3%	4.0%	1.3pp
Average operating working capital in % of net sales [1]	20.2%	20.5%	(0.3pp)
Equity ratio	42.6%	42.5%	0.2pp
Net borrowings/EBITDA [1]	0.1	0.3	
Financial leverage	1.6%	8.1%	(6.5pp)
Return on equity [2]	15.7%	11.2%	4.5pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	15,176	13,343	13.7%
Inventories	3,763	3,113	20.9%
Receivables and other current assets	3,607	3,003	20.1%
Working capital	2,121	2,133	(0.6%)
Net borrowings	103	460	(77.6%)
Shareholders' equity	6,472	5,666	14.2%
Capital expenditure	651	513	26.9%
Net cash generated from operating activities [2]	1,348	1,090	23.7%
Per Share of Common Stock (€)			
Basic earnings [2, 3]	5.08	3.32	53.3%
Diluted earnings [2, 3]	4.99	3.32	50.6%
Net cash generated from operating activities [2]	6.73	5.41	24.5%
Dividend	2.00 [4]	1.60	25.0%
Share price at year-end	150.15	89.91	67.0%
Other (at year-end)			
Number of employees [1]	60,617	55,555	9.1%
Number of shares outstanding	201,489,310	200,197,417	0.6%
Average number of shares	200,188,276	201,536,418	(0.7%)

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.
2 Includes continuing and discontinued operations.
3 2015 excluding goodwill impairment of € 34 million.
4 Subject to Annual General Meeting approval.

OUR **CORE BELIEF**

» THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES. «

OUR **MISSION**

ADIDAS

TO BE THE BEST SPORTS COMPANY IN THE WORLD.

ADIDAS BRAND

TO BE THE BEST SPORTS BRAND IN THE WORLD.

REEBOK BRAND

TO BE THE BEST FITNESS BRAND IN THE WORLD.

We are calling all creators. They are our creative capital, the source of our inspiration. The game changers, the difference makers, the shapers of tomorrow. True athletes at heart, who set the pace, always first to break new ground and rewrite the rules as we know them. Their drive and courage invigorates our brands and helps us create unique experiences.

We need creators in order to continually push boundaries, to re-invent, to make something out of nothing.

We need them to Create the New.

That's why we invite all Creators, whether inside or outside our company, to come in and work with us. We give them spaces where their ideas can spark and where collaborative exchange is encouraged. Empowering this creative force is the essence of our Open Source approach. It will take us an essential step further towards making our brands the most relevant and desirable for all consumers.

ALL CREATORS

ADIDAS ANNUAL REPORT 2016

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

PUBLICATIONS FOR THE 2016 FINANCIAL YEAR

MAGAZINE

ANNUAL REPORT

SUSTAINABILITY REPORT
(available from mid-April onwards)

Printed versions of our Annual Report with condensed consolidated financial statements (excluding the Notes) as well as our Magazine can be ordered online. ↘ www.adidas-group.com/en/investors/financial-reports

TO OUR SHAREHOLDERS

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OPERATIONAL AND SPORTING HIGHLIGHTS Q1 2016

JANUARY

Leo Messi underlines his status in football with a record fifth Ballon d'Or. The award is the greatest acknowledgement of individual success in football.

adidas and Stella McCartney announce the continuation of their long-term collaboration. The iconic designer will continue to create cutting-edge designs alongside the adidas brand until 2020.

Reebok launches Reebok Classic Leather, a shoe created in collaboration with US rapper and songwriter Kendrick Lamar. The shoe represents Kendrick's powerful vision of unity and sold out within 30 minutes.

adidas Football releases the world's first high-performance laceless boot: ACE 16+ PURECONTROL. Only a short period of time after its launch, this disruptive football boot, which is worn by international football stars such as Mesut Özil and Ivan Rakitić, was sold out in almost every channel.

The Supervisory Board of adidas AG resolves upon the successor for the long-standing adidas AG CEO Herbert Hainer. Effective August 1, 2016, Kasper Rorsted is appointed as ordinary member of the Executive Board and effective October 1, 2016 as CEO of adidas AG.

Reebok is awarded the ISPO Communication Award 2016 in the multi-channel category for its 'Be More Human' campaign.

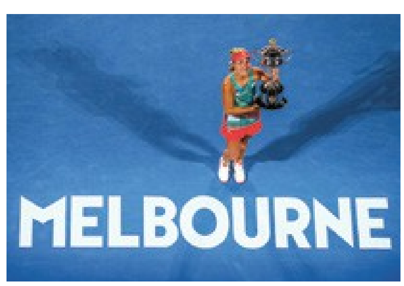
adidas is listed in fifth place among the Global 100 Most Sustainable Corporations in the World (Global 100 Index) and is recognised as the industry leader. It is the third consecutive year that adidas is included in the top ten of the Global 100 Index, compiled annually by Corporate Knights.

adidas Originals launches its 'Future' campaign. With its unique point of view on creating the future by re-inventing the past, adidas Originals is inspiring a new generation not to follow but to challenge the status quo.

Following the success of M1, TaylorMade-adidas Golf unveils its M2 drivers, fairways and rescue clubs to complete the M family. Similar to M1, the M2 product line meets the challenge of delivering more performance to players of all skill levels with the utilisation of multi-material construction.

adidas launches PureBOOST X, a running shoe created exclusively for women by women. PureBOOST X features a new floating arch, a stretch mesh upper and a lock-down lacing system that provide a personalised fit for every woman's foot.

Playing in her first Grand Slam final, adidas brand ambassador Angelique Kerber wins the 2016 Australian Open in Melbourne.



FEBRUARY

adidas continues its Sport 16 brand campaign with 'I'm here to create', a series of videos showing the personal creator stories of famous female athletes such as WNBA All-Star Candace Parker, tennis icon Caroline Wozniacki and fitness artist Nicole Winhoffer.

The adidas brand and Wanderlust, producer of the largest yoga lifestyle events in the world, announce a US-focused, multi-year partnership.

Reebok launches ZPump Fusion 2.0, a running shoe that conforms to the shape of the athlete's foot to give a custom fit. The seamless compression sleeve upper and the tyre-inspired ZRated outsole provide comfort and control.

MARCH

adidas Football announces a long-term partnership with Juventus Turin midfielder Paul Pogba, one of the world's most in-demand footballers. Continuing on his extraordinary journey from the streets to superstar status, Pogba has already won three Italian league titles and three domestic cup trophies.

adidas Originals launches further colourways of its successful footwear franchise NMD. The franchise, for which consumers were queuing in front of stores, was sold out immediately, with more than 400,000 pairs sold within just one day.

Together with YouTubers Amanda Steele and Marcus Butler, adidas neo presents its new sneaker innovation Cloudfoam. The Cloudfoam sneakers with a lightweight midsole and a thick sockliner provide a classic silhouette plus comfort.

OPERATIONAL AND SPORTING HIGHLIGHTS Q2 2016

APRIL

— adidas opens its first Brand Centre in Hong Kong. With a retail area of nearly 6,500 square feet, it is the largest sports brand speciality store in the city's Central district.

MAY

— Reebok launches '25,915 Days', a striking campaign reminding people that they have, on average, 25,915 days to live. With this campaign, Reebok repeats its fitness mantra and motivates fitness enthusiasts to live up to their fullest potential.

— adidas Originals launches its official Snapchat channel, taking an Open Source approach and allowing influencers to showcase and personify the brand.

— Shortly before the kick-off of the UEFA EURO 2016, the adidas brand unveils the Mercury Pack, a cutting-edge range of boots inspired by the trophies that players around the world strive to win.

— For the second time, Sergio García wins the AT&T Byron Nelson in Irving/Texas, USA. García wins playing a full TaylorMade bag including an M2 driver, M1 fairway woods and PSi irons.

— Reebok launches 'Hunt Greatness', a campaign and platform inspired by American football star J. J. Watt that encourages people to pursue a better version of themselves, every day, through fitness.

— adidas Originals relaunches its iconic Gazelle. With this silhouette that was first introduced in the 1960s, adidas Originals continues defining a contemporary street look for the future.

JUNE

— The adidas brand and Zalando, one of Europe's biggest online retailers, launch a new pilot to meet the needs of today's consumer faster than ever. Consumers in Berlin are able to place orders for adidas products on Zalando's app and get the delivery on the same day.

— In the USA, adidas Running launches AlphaBOUNCE, a running shoe that offers an adaptive fit and feel for runners and versatile athletes. Men's pairs were sold out within less than twelve hours.

— adidas announces that its football business is expected to reach new record sales of € 2.5 billion in 2016.

— The adidas brand announces its contract extension with the German Football Association (DFB) until 2022.

— The NBA's most sought-after draft prospects Brandon Ingram, Jaylen Brown, Jamal Murray, Dragan Bender and Kris Dunn choose to join adidas Basketball.

— adidas Running introduces UltraBOOST Uncaged. The shoe was inspired by fans and combines the performance and innovation of the original UltraBOOST with the unique flair of the adidas brand's creative fan base.

— Reebok and three-time Defensive Player of the Year J. J. Watt announce the release of the JJ I, the ultimate training shoe which was developed in close collaboration with the American football star.

— Together with other partners, Reebok hosts the 2016 International Day of Yoga in India's biggest cities, reaching more than 25,000 participants.

— adidas establishes a new strategic partnership with Chinese real estate and sports business giant Wanda Group. In future, adidas will sponsor two of Wanda's IRONMAN events and will help to further develop football and basketball in China.

— The adidas brand announces the cementing of its long-term relationship with creative pioneer Kanye West in the launch of adidas + KANYE WEST.

— As the second-youngest player ever, TaylorMade-adidas Golf staffer Rich Berberian wins the 49th PGA Professional Championship in Verona/New York, USA.

OPERATIONAL AND SPORTING HIGHLIGHTS Q3 2016

JULY

—— Reebok launches its new CrossFit training shoe Nano 6.0. It offers athletes strength and comfort to overcome every obstacle in the CrossFit box and beyond.

—— Reebok and Vogue Fitness launch the first women's-only CrossFit facility in Abu Dhabi.

AUGUST

—— Kasper Rorsted joins adidas as member of the Executive Board. Following a two-month induction period with Herbert Hainer, Kasper Rorsted becomes CEO on October 1, 2016.

—— The adidas brand presents the Creator Studio, a digital platform giving football fans the chance to design the third jersey for some of the world's biggest football clubs such as FC Bayern or Manchester United. The kits with the most likes will be entered into a top 100 gallery per club.

—— adidas announces the opening of SPEEDFACTORY in the Atlanta area in late 2017. This state-of-the-art facility will focus on running footwear and targets production of 50,000 pairs in 2017. In the mid term, adidas aims to produce one million pairs of shoes for running and other categories in its SPEEDFACTORY facilities.

—— adidas Originals opens the doors to its new flagship store on Spring Street in New York City. The store celebrates the New York street culture and will serve as a hub for sneakerheads and streetwear enthusiasts.

—— CCM launches the 'CCM Skills App'. The app allows users to train virtually alongside NHL Player Lance Pitlick, in a series of fun and challenging drills intended to help improve players' technique on the ice.

—— The adidas brand announces the launch of its adidas Athletics range, designed to deliver a fresh take on traditional pre- and post-match outwear. The first highlight product of this range is the adidas Z.N.E. Hoodie.

SEPTEMBER

—— adidas AG is announced as the newest member of the EURO STOXX 50 Index, Europe's leading blue-chip index. For adidas, this is a big milestone as the EURO STOXX 50 is a representation of the so-called 'supersector leaders' in the Eurozone.

—— The adidas brand and the United States Tennis Association announce a new partnership to support American tennis on multiple levels by impacting the future of American tennis through a number of initiatives and programmes.

—— adidas launches the next chapter of Sport 16 with the brand campaign video 'Sport Needs Creators'. The video debuted on air with the start of the NFL season and is a call to athletes everywhere who think and act beyond the norm of sport.

—— adidas is confirmed as a member in the Dow Jones Sustainability Indices (DJSI) World and Europe, the most recognised global sustainability benchmark. As one of few companies worldwide, adidas has remained in this index for 17 consecutive years.

—— adidas Originals and Alexander Wang confirm their partnership during New York Fashion Week. The Alexander Wang x adidas Originals collection consists of 84 pieces that celebrate the athleisure style in an unprecedented way.

—— adidas Football and the Irish Football Association announce a four-year contract extension. adidas will continue to supply kit and training gear to Northern Ireland teams until at least 2020.

—— At the adidas Runbase in Berlin, adidas launches the Futurecraft M.F.G. (Made for Germany), the first shoe created at the industry-changing adidas SPEEDFACTORY that is now available to consumers in limited quantities.

—— adidas Originals x Pharrell Williams presents adidas Originals Hu, a collection of apparel and shoes that celebrates cultural diversity around the globe.

—— After more than 15 years as adidas CEO, Herbert Hainer retires from office and hands over to his successor, Kasper Rorsted.

OPERATIONAL AND SPORTING HIGHLIGHTS Q4 2016

OCTOBER

Gigi Hadid, style icon, fitness advocate and trendsetter, joins Reebok's female community as the newest face of the brand's #PerfectNever movement, a call to action that asks women around the world to celebrate the beauty of imperfection and champions Reebok's message of self-betterment.

adidas Basketball and James Harden reimagine the signature shoe game with the debut of Harden Vol. 1. The collection represents the first chapter of the collaborative partnership that began in October 2015 with the goal of co-creating footwear and apparel.

Kristaps Porzingis of the New York Knicks joins the adidas Basketball family. While the young superstar is entering just his second year in the NBA, with his one-of-a-kind game and personality, he has already made significant waves.

The adidas brand launches Glitch exclusively in London. Glitch is a revolutionary product concept that speaks to the creative footballer and those who crave a boot with a flexible design. The two-piece interchangeable construction, made of an inner shoe and outer skin, is designed to suit the modern game with a focus on adaptability.

NOVEMBER

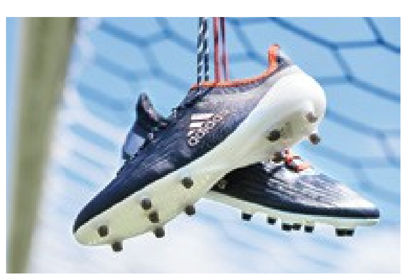
adidas and Parley for the Oceans unveil the first football products with the launch of the adidas x Parley Real Madrid and Bayern Munich home jerseys, made from Parley Ocean Plastic.

In a game-changing move for a more eco-innovative future, the adidas brand unveils the UltraBOOST Uncaged Parley, the first mass-produced running shoe created using Parley Ocean Plastic. The limited edition of 7,000 pairs was sold out within 24 hours.

adidas Running is presented with the esteemed Runner's World International Best Update Award for its adizero adios 3.0 shoe, the latest iteration of the record-breaking adizero adios.

adidas unveils the world's first performance shoe made using Biosteel fibre – a replication of natural silk – at the Biofabricate Conference in New York: the Futurecraft Biofabric.

adidas Football launches the first versions of its Ace and X boots created explicitly for female players around the world. These boots have been engineered to specifically fit the female foot by featuring a totally unique combination of shape, design and traction.



DECEMBER

adidas opens 'adidas NYC', its largest brand flagship store worldwide. Set at the intersection of 5th Avenue and 46th Street in New York City, 'adidas NYC' heralds a new era in how consumers experience creativity and sport in stores. Inspired by high school stadiums, the store features the new stadium retail concept. The store has a tunnel entrance, stands for live-game viewing on big screens, locker rooms instead of dressing rooms and track and field areas where consumers can test and experience products.

adidas by Stella McCartney announces its collaboration with world-leading female Formula 1 development driver Carmen Jordá. A rising name in her sport, with a fast-paced and dynamic lifestyle that inspires women around the world, Carmen joins the likes of Karlie Kloss, Caroline Wozniacki and Garbiñe Muguruza in bringing to life the adidas by Stella McCartney brand ethos.

adidas opens a new pop-up store called 'Knit for You' in the Bikini Berlin shopping mall for a temporary three-month trial period. It aims to test localised and personalised consumer experiences in stores. adidas invites consumers to design their very own Knit for You Merino wool sweater that will be knitted in the store within a few hours. The Knit for You store is the first milestone of the Storefactory research project, supported by BMWi German Federal Ministry for Economic Affairs and Energy.

LETTER FROM THE CEO

KASPER RORSTED

DEAR SHAREHOLDERS,

2016 marked the first full year of 'Creating the New'. The strong results we recorded are proof positive that the company's strategy is paying off. Focusing on our strategic choices Speed, Cities and Open Source already makes us much more impactful in the marketplace compared to two years ago. Our new operating model – Brand Leadership – ensures a high level of commonality worldwide when it comes to the appearance of our brands. In combination with our consumer-obsessed mindset, it is helping us to increase the desirability of our brands and products around the globe. Going forward, we will build on Creating the New and accelerate our strategic priorities within the plan. Thus we will ensure that we continue our momentum in 2017 and achieve significant top- and bottom-line improvements in the period until 2020.

Last year, our products resonated extremely well with consumers across the globe. Several of our key footwear franchises such as the UltraBOOST, NMD or Yeezy took top spots in all sneaker rankings and caused long queues in front of stores. adidas was named 'The most relevant brand' in the recent Highsnobiety Crowns, one of the most prestigious annual awards in our industry. As a result, we have been gaining market share in those categories – Running, Football, Training, Originals and neo – and markets – North America, Greater China and Western Europe – that we have identified as strategic growth drivers.

All of this drove a strong financial performance:

- We achieved record sales of € 19.3 billion, up 18% currency-neutral, representing our highest organic growth rate in almost twenty years.
- The adidas brand has been experiencing unparalleled brand heat, with currency-neutral revenues increasing a strong 22%. This growth was driven by key performance and lifestyle categories in the brand's major markets, almost all of which grew at strong double-digit rates.
- Despite severe headwinds from negative currency effects, the gross margin climbed 30 basis points to 48.6%.
- The operating margin improved 130 basis points to 7.7%, supported by the increase in gross margin, operating expense leverage as well as an extraordinary gain related to the early termination of the Chelsea F.C. contract.
- Driven by the operational improvements, our net income from continuing operations grew 41% to a new record level of more than € 1 billion.

Our strategy Creating the New is based on the fundamental belief that through sport we have the power to change lives. And we do this every day as a company: by empowering people to live an active life, by teaching life skills through sport and by creating sustainable products. As a result, we continue to be a leader in our industry in the area of sustainability. This is reflected in our continued inclusion in some of the most recognised sustainability indices. One example is our membership in one of the most important global sustainability benchmarks, the Dow Jones Sustainability Indices, where we have been listed for 17 consecutive years.

Our focus on sustainability also excites our employees and is a major reason why young people from all over the world would like to work for us. Our company culture built around creativity, confidence and collaboration is an integral part of Creating the New and will help us to attract and retain the right talent. However, we can still do a lot better in managing their careers. This is why a structured executive and talent development programme is one of the strategic focus areas my Board colleagues and I are working on to accelerate Creating the New. In fact, we have already started to do so by establishing an executive leadership group. The main responsibilities of this group consisting of 18 leaders across different functions and geographies will be to detail out and oversee the cross-functional execution of our strategic agenda, to accelerate strategic projects and to develop our future bench of leaders. Other initiatives in this area include a new talent management programme with a focus on developing female leaders, as well as a new equity-based long-term incentive programme to align the objectives of our senior leaders with the interests of our shareholders.

Another important area to accelerate Creating the New will be to actively manage the portfolio of brands, categories and countries within our company to ensure all parts of our business contribute to our overall success. 2016 already saw important decisions in this regard with the divestiture of Mitchell & Ness as well as the decision to exit the golf hardware market and therefore to sell the TaylorMade, Adams Golf and Ashworth brands. Now we have decided to also actively seek a buyer for our CCM Hockey business. While the brand is well known for its high-end ice hockey equipment, the focus of our company will increasingly be on operating a brand portfolio that builds on our strength in the athletic footwear and apparel market. This will allow us to reduce complexity and pursue our target consumer more aggressively with the adidas and Reebok brands.

While the adidas brand is enjoying strong momentum, Reebok has been growing slower than the competition in recent years, especially in the US. The brand's profitability is significantly below the company's average. Therefore, we have developed a plan as to how we want to unlock the brand's full potential. We will execute against this plan to make the brand stronger, accelerate top-line growth and increase profitability.

North America remains a strategic priority for our company. We will expand our adidas brand business and build a sustainable position for Reebok in the fitness market. We have every reason to be proud about the progress adidas has been making in the US last year. In 2016, we grew our adidas brand business by more than 30%, due to double-digit increases in both our performance as well as our lifestyle categories. However, despite these promising developments we still cannot be satisfied with our overall position in this market. We remain heavily under-indexed in the largest market in our industry. Therefore, we will continue to invest into our team, our infrastructure and our business in the US to accelerate our growth, improve the quality of our sales and increase profitability. Together with Western Europe and Greater China, North America will be the biggest contributor to our sustainable business success globally.

A strategic topic that will transform our company over the next years is digital. Digital touches our company at every point along the value stream – how we design, develop, manufacture and sell our products. Already today, adidas.com and Reebok.com are our largest and fastest-growing shops and we will further accelerate our investments in this area to create competitive advantages through digital. Growing our digital capabilities will ultimately also help us do a better job on margin enhancement.

While our top-line growth over the last years has been strong, we have to acknowledge that we have not been as good in translating this growth into scale and, ultimately, profitability gains. To fulfil our mission to be the best sports company in the world, we need to ensure we excel in both top-line growth and margin expansion. We have therefore identified efficiency drivers that will enhance profitability in the years to come.

All of these activities taken together will help us to accelerate the top- and bottom-line growth and grow even faster than we initially outlined with our strategic business plan Creating the New. Building on our strong results in 2016, we will continue our momentum in 2017 and achieve significant top- and bottom-line improvements in the years to come. We are now targeting currency-neutral sales growth in the range of 10% to 12% on average per year between 2015 and 2020 and EPS growth of 20% to 22% per annum on average during this period. These are ambitious, yet realistic long-term objectives. I am looking forward to updating you regularly on the progress we are making.

Yours sincerely,

KASPER RORSTED

EXECUTIVE BOARD

ROLAND AUSCHEL
GLOBAL SALES

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

ERIC LIEDTKE
GLOBAL BRANDS

OUR EXECUTIVE BOARD IN THE MAKERLAB, NEWLY OPENED AT THE ADIDAS HEADQUARTERS IN HERZOGENAURACH, GERMANY, IN 2016.

ROBIN J. STALKER
CHIEF FINANCIAL OFFICER

GLENN BENNETT
GLOBAL OPERATIONS

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

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FOR MORE INFORMATION ON THE ADIDAS AG EXECUTIVE BOARD:
WWW.ADIDAS-GROUP.COM/EXECUTIVE-BOARD

KASPER RORSTED

CHIEF EXECUTIVE OFFICER[1]

Kasper Rorsted was born in Aarhus, Denmark, in 1962. After studying Business Economics at the International Business School in Copenhagen, he completed an Executive Programme at Harvard Business School. Kasper Rorsted then gained valuable experience within the IT sector through various management positions at Oracle, Compaq and Hewlett Packard. In 2005, Kasper Rorsted joined consumer goods manufacturer Henkel as Executive Vice President Human Resources, Purchasing, Information Technologies and Infrastructure Services. Three years after joining Henkel, he was appointed Chief Executive Officer. In August 2016, Kasper Rorsted joined adidas. After two months as a Board member, he took over as Chief Executive Officer of the sporting goods manufacturer in October 2016. Kasper Rorsted is married, has four children and lives near Munich.

Kasper Rorsted is also:

- Member of the Supervisory Board, Anheuser-Busch InBev SA, Leuven, Belgium[2]
- Member of the Supervisory Board, Bertelsmann SE & Co. KGaA, Gütersloh, Germany
- Member of the Supervisory Board, Danfoss A/S, Nordborg, Denmark

1 Member of the Executive Board since August 1, 2016, Chief Executive Officer since October 1, 2016.
2 Until October 10, 2016.

HERBERT HAINER

CHIEF EXECUTIVE OFFICER AND MEMBER OF THE EXECUTIVE BOARD UNTIL SEPTEMBER 30, 2016

Herbert Hainer is also:

- Deputy Chairman of the Supervisory Board, FC Bayern München AG, Munich, Germany
- Member of the Supervisory Board, Allianz Deutschland AG, Munich, Germany
- Member of the Supervisory Board, Deutsche Lufthansa AG, Cologne, Germany

ROLAND AUSCHEL

GLOBAL SALES

Roland Auschel was born in Bad Waldsee, Germany, in 1963. After obtaining his Bachelor's degree in European Business Studies in Germany and the UK as well as an MBA in the United States, he joined the adidas team as a Strategic Planner in 1989. During his career with the company, he has held many senior management positions, including Business Unit Manager, Key Account Manager Europe and Head of Region Europe, Middle East and Africa. In 2009, he became Chief Sales Officer Multichannel Markets. In 2013, Roland Auschel was appointed to the Executive Board where he assumed responsibility for Global Sales. He is married, has two children and lives in Erlangen, Germany.

GLENN BENNETT
GLOBAL OPERATIONS

Glenn Bennett was born in New Hampshire, USA, in 1963. With a degree in Computer Science, he began his professional career with Reebok International Ltd. in 1983, where he worked in various operations and product functions, of which the latest was Director of Footwear Development. In 1993, Glenn Bennett joined adidas AG and began working as the Head of Footwear Development. He was subsequently promoted to Senior Vice President of Footwear Operations and, in 1997, appointed to the Executive Board where his responsibilities were expanded to include Footwear, Apparel and Accessories & Gear Development, Global Sourcing, Supply Chain Management and, most recently, IT. Glenn Bennett is married, has one daughter and lives in Hingham, Massachusetts, USA.

ERIC LIEDTKE
GLOBAL BRANDS

Eric Liedtke, a US citizen, holds a Bachelor of Arts degree in Journalism from the University of Wisconsin-Madison. He joined adidas in 1994 as Global Line Manager for Cross Training in Portland/Oregon. During his 20-year career with adidas, he has held senior management positions of increasing responsibility at adidas America, including Director of Footwear Marketing and Vice President Brand Marketing. In 2006, Eric Liedtke moved to the corporate headquarters in Herzogenaurach, Germany, to become Senior Vice President Global Brand Marketing. From 2011, he held the position of SVP adidas Sport Performance, responsible for all adidas brand sports categories globally. Eric Liedtke has been Executive Board member since March 2014, responsible for Global Brands (the adidas and Reebok brands). In addition to his Executive Board position, he is a passionate member of the Steering Committee of Parley for the Oceans. Eric Liedtke lives in Erlangen, Germany.

ROBIN J. STALKER
CHIEF FINANCIAL OFFICER

Robin J. Stalker was born in Palmerston North, New Zealand, in 1958. In 1982, following his degree in Business Studies, he began his professional career and qualified as a Chartered Accountant. He worked for Arthur Young in New Zealand and London and subsequently held financial and controlling positions in the entertainment industry, including United International Pictures and Warner Bros. International, and also worked as an independent consultant. Robin J. Stalker joined adidas AG in 1996. Since February 2000, he has been Chief Financial Officer of adidas AG and was appointed to the Executive Board, responsible for Finance, in 2001. In 2005, he assumed additional responsibility as Labour Director. Robin J. Stalker is married and lives near Herzogenaurach, Germany.

Robin J. Stalker is also:

— Member of the Supervisory Board, Schaeffler AG, Herzogenaurach, Germany

SUPERVISORY BOARD

IGOR LANDAU

CHAIRMAN

residing in Lugano, Switzerland

Pensioner, Member of the Board of Directors, Sanofi-Aventis S.A., Paris, France[1]

- Member of the Board of Directors, Sanofi-Aventis S.A., Paris, France[1]

SABINE BAUER *

DEPUTY CHAIRWOMAN

residing in Erlangen, Germany

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

Chairwoman of the Central Works Council, adidas AG

Chairwoman of the European Works Council, adidas AG

IAN GALLIENNE[2]

residing in Gerpinnes, Belgium

Co-Chief Executive Officer, Groupe Bruxelles Lambert, Brussels, Belgium

- Member of the Board of Directors, Pernod Ricard SA, Paris, France
- Member of the Board of Directors, SGS SA, Geneva, Switzerland
- Member of the Board of Directors, Umicore SA, Brussels, Belgium
- Member of the Board of Directors, Erbe SA, Loverval, Belgium

Mandates within the Groupe Bruxelles Lambert:

- Member of the Board of Directors, Imerys SA, Paris, France
- Member of the Board of Directors, Sienna Capital S.à r.l., Strassen, Luxembourg
- Member of the Board of Directors, GBL Verwaltung SA, Strassen, Luxembourg

DIETER HAUENSTEIN *

residing in Herzogenaurach, Germany

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

DR. STEFAN JENTZSCH

residing in London, Great Britain

Corporate Finance Consultant/Partner, Perella Weinberg Partners UK LLP, London, Great Britain

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

HERBERT KAUFFMANN

residing in Stuttgart, Germany

Independent Management Consultant, Stuttgart, Germany

- Chairman of the Supervisory Board, Uniscon universal identity control GmbH, Munich, Germany[3]
- Member of the Supervisory Board, DEUTZ AG, Cologne, Germany

WILLI SCHWERDTLE

DEPUTY CHAIRMAN

residing in Munich, Germany

Independent Management Consultant as well as Partner, WP Force Solutions GmbH, Bad Homburg v. d. Höhe, Germany

- Member of the Supervisory Board, Eckes AG, Nieder-Olm, Germany
- Chairman of the Supervisory Board, Windeln.de AG, Munich, Germany

DR. WOLFGANG JÄGER *

residing in Bochum, Germany

Managing Director in charge of Public Relations and Scholarships, Hans-Böckler-Stiftung, Düsseldorf, Germany

KATJA KRAUS

residing in Hamburg, Germany

Author/Managing Partner, Jung von Matt/sports GmbH, Hamburg, Germany

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BIOGRAPHICAL INFORMATION ON OUR SUPERVISORY BOARD MEMBERS IS AVAILABLE ONLINE.
WWW.ADIDAS-GROUP.COM/SUPERVISORY-BOARD

KATHRIN MENGES

residing in Neuss, Germany

Executive Vice President Human Resources and Infrastructure Services, Henkel AG & Co. KGaA, Düsseldorf, Germany

Mandates within the Henkel Group

- Member of the Supervisory Board, Henkel Central Eastern Europe GmbH, Vienna, Austria
- Member of the Supervisory Board, Henkel Nederland B.V., Nieuwegein, The Netherlands
- Member of the Board of Directors, Henkel Norden AB, Stockholm, Sweden
- Member of the Board of Directors, Henkel Norden Oy, Vantaa, Finland

ROLAND NOSKO *

residing in Wolnzach, Germany

Trade Union Official, IG BCE, Headquarter Nuremberg, Nuremberg, Germany

- Deputy Chairman of the Supervisory Board, CeramTec GmbH, Plochingen, Germany

HEIDI THALER-VEH *

residing in Uffenheim, Germany

Member of the Central Works Council, adidas AG

HANS RUPRECHT *

residing in Herzogenaurach, Germany

Vice President Customer Service Central Europe West, adidas AG

KURT WITTMANN *[4]

residing in Markt Bibart, Germany

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

First Deputy Chairman of the Works Council Herzogenaurach, adidas AG[5]

UDO MÜLLER *[4]

residing in Herzogenaurach, Germany

Director Future, adidas AG

NASSEF SAWIRIS[2]

residing in London, Great Britain

Chief Executive Officer, OCI N.V., Amsterdam, The Netherlands

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

Mandates within the OCI N.V. Group:

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

Employee representative, court-appointed with effect from June 24, 2016 and until October 6, 2016:

ROSWITHA HERMANN

Chairwoman of the Works Council Herzogenaurach, adidas AG

MICHAEL STORL

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

STANDING COMMITTEES

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

* Employee representative.
1 Until May 4, 2015.
2 Since June 15, 2016.
3 Until January 12, 2016.
4 Since October 6, 2016.
5 Since November 15, 2016; formerly full-time member of the Works Council Herzogenaurach, adidas AG.

SUPERVISORY BOARD REPORT

IGOR LANDAU
CHAIRMAN OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

We look back on an extremely successful financial year 2016. Thanks to strong brands and partnerships in the world of sport as well as a consistent focus on our consumers' needs, which is reflected in attractive products and inspiring marketing campaigns, the company was able to achieve a significant increase in sales and earnings. In this respect, the earning targets set at the beginning of the year were clearly exceeded. The high level of desirability currently experienced by our core brands adidas and Reebok around the globe has contributed significantly to this. These successful developments are the result of numerous measures which have been implemented in the context of the strategic business plan 'Creating the New', which was introduced in 2015. Double-digit growth rates in nearly all regions – also, and above all, in the priority market North America – and in all key categories show that the company's success is based on a broad range of success factors. The sale of the Mitchell & Ness brand and the plan to sell the golf brands TaylorMade, Adams Golf and Ashworth were two major strategic decisions which were made last year and which will allow the company to focus even more strongly on the core competencies in the areas of footwear and apparel in the future. Furthermore, with Kasper Rorsted taking over as Chief Executive Officer, adidas made sure that the transition at the helm of the company was as smooth as possible. Therefore, the company is extremely well positioned to continue growing profitably this year and in the years to come.

SUPERVISION AND ADVICE IN DIALOGUE WITH THE EXECUTIVE BOARD

In the year under review, we performed all of our tasks laid down by law, the Articles of Association and the Rules of Procedure carefully and conscientiously. We regularly advised the Executive Board on the management of the company and diligently and continuously supervised its management activities. We assured ourselves of the legality, expediency and regularity of the management activities and found that there were no objections to be raised.

The Executive Board involved us directly and in a timely and comprehensible manner in all of the company's fundamental decisions. After in-depth consultation and examination of the detailed information submitted to us by the Executive Board, we approved individual transactions where required by law.

The Executive Board informed us extensively and in a timely manner through written and oral reports. This information covered all relevant aspects of the company's business strategy, business planning, including finance, investment and personnel planning, the course of business and the company's financial position and profitability. We were also kept up to date on matters relating to the risk situation, risk management and compliance as well as all major decisions and business transactions.

The Executive Board always explained immediately and in a detailed manner any deviations in business performance from the established plans, and the Supervisory Board as a whole discussed these matters in depth.

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

In the year under review, we held five regular meetings of the entire Supervisory Board as well as one extraordinary meeting by way of a conference call. The attendance rate of the members in the Supervisory Board meetings was 97% in the year under review. All committee meetings, with the exception of one Audit Committee meeting from which one member was excused, were always fully attended. The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft (hereinafter referred to as 'KPMG'), attended all regular meetings of the Supervisory Board, insofar as no Executive Board matters were dealt with. KPMG also attended all meetings of the Audit Committee.

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

TOPICS FOR THE ENTIRE SUPERVISORY BOARD

Our consultations and examinations focused on the following topics:

SITUATION AND BUSINESS DEVELOPMENT

The development of sales and earnings, the employment situation as well as the financial position of the company and the business development of the company's individual business areas and markets were presented to us in detail by the Executive Board at the Supervisory Board meeting following the close of the respective quarter and were discussed regularly. Further topics which were always discussed were the possible impact of global economic developments as well as the development of our individual brands and markets.

In February 2016, the Supervisory Board dealt with retail profitability. At the Supervisory Board meetings in May and August, the Supervisory Board addressed the topic 'Digital Brand Commerce'. In this context, a report was given on the initiation of the next 'digital transformation' stage. Digital transformation is of major importance for adidas as consumers communicate and share information on various different digital platforms – from social media to apps – and increasingly only via mobile devices, with e-commerce and digital communication being closely interwoven. In August 2016, the Executive Board also informed us about the current status of target achievement in the context of the long-term strategic business plan 'Creating the New' for the period until 2020.

Against the background of the planned relocation from Canton to Boston in the USA, at the November 2016 meeting of the Supervisory Board, the Executive Board explained the corresponding new developments and measures taken at Reebok USA.

TRANSACTIONS REQUIRING SUPERVISORY BOARD APPROVAL

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

The topic of our February meeting was, after thorough discussion, the resolution on the 2016 Budget and Investment Plan presented by the Executive Board. In March, we resolved upon the resolutions to be proposed to the 2016 Annual General Meeting, including the proposal regarding the appropriation of retained earnings for the 2015 financial year.

At the meetings in February and May, the Executive Board presented to us the new Employee Stock Purchase Plan and we approved the Plan Rules. At our March meeting, the Executive Board informed us about the current status of the strategic review regarding a possible sale of parts of the golf segment. At our meetings in May, August and November, the Executive Board updated us about the respective current status of the negotiations regarding the planned sale of the golf brands TaylorMade, Adams Golf and Ashworth.

COMPOSITION OF THE EXECUTIVE BOARD

Following in-depth discussions about the resolution proposal prepared by the General Committee on the appointment of Kasper Rorsted as successor to the long-standing Chief Executive Officer Herbert Hainer, we resolved at our extraordinary meeting in January 2016 to appoint Kasper Rorsted as full member of the Executive Board with effect from August 1, 2016 and as Chief Executive Officer with effect from October 1, 2016, and to conclude his Executive

Board service contract. As Kasper Rorsted was already available to assume his new position from summer 2016, Herbert Hainer had agreed to relinquish his Executive Board mandate effective September 30, 2016. At our May meeting, we discussed in detail the termination agreement to be concluded with Herbert Hainer and subsequently approved it.

In March 2016, we resolved to renew Eric Liedtke's mandate as member of the Executive Board prematurely and to extend his Executive Board service contract. With this personnel decision, we acknowledged his outstanding performance and ensure continuity on the Executive Board.

EXECUTIVE BOARD COMPENSATION

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

Each year at our February meeting of the entire Supervisory Board, the main subject is Executive Board compensation. At this meeting, following an in-depth review of the performance of the individual Executive Board members and their respective achievement of the targets set in the 2015 Performance Bonus Plan, we resolved upon the bonuses to be paid to the Executive Board members based on the 2015 Performance Bonus Plan. Furthermore, we also discussed in detail the criteria and key targets for the 2016 Performance Bonus Plan and the individual bonus target amounts and resolved upon them for each Executive Board member.

In line with the German Corporate Governance Code (hereinafter referred to as the 'Code'), in the year under review we commissioned an external, independent compensation expert to review the structure of the Executive Board compensation and the individual compensation levels of the Executive Board members. The review found that the compensation meets the requirements of the German Stock Corporation Act (Aktiengesetz – AktG) and of the Code. However, current compensation levels could be oriented even more towards market standards. At our meetings in February and November, we considered in detail the results of the review of the compensation levels and structure. We agreed with the compensation expert's assessment.

CHANGES ON THE SUPERVISORY BOARD

In the year under review, the Annual General Meeting resolved on May 12, 2016 in accordance with a proposal put forward by the Executive Board and the Supervisory Board to increase the number of Supervisory Board members from twelve to sixteen. Two of the four additional Supervisory Board members were to be elected by the Annual General Meeting and two were to be elected by the employees.

As further shareholder representatives on the Supervisory Board, the Annual General Meeting on May 12, 2016 elected Ian Gallienne and Nassef Sawiris. As additional employee representatives, Roswitha Hermann and Michael Storl were appointed by court with effect from June 24, 2016 upon request of adidas AG's Central Works Council. Their term of office ended with the announcement of the election result of the employees supplementary election on October 6, 2016. In this supplementary election, Udo Müller and Kurt Wittmann were elected as employee representatives.

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

The term of office of all Supervisory Board members, including the four members who were elected as new shareholder or employee representatives in the supplementary election, will expire as scheduled at the end of the Annual General Meeting in May 2019.

CORPORATE GOVERNANCE

The Supervisory Board regularly monitors the application and further development of the corporate governance regulations within the company, in particular the implementation of the regulations of the Code.

In March, an intra-year change was made to the Declaration of Compliance dated February 15, 2016, declaring another deviation from the Code. The updated 2016 Declaration of Compliance was made permanently available to our shareholders on our corporate website. The amendment had become necessary because for one of the two shareholder representative seats on adidas AG's Supervisory Board, which were newly created as part of the enlargement of the Supervisory Board (in this respect, see 'Changes on the Supervisory Board' above), the Supervisory Board had resolved to propose to the Annual General Meeting a candidate for election who holds more than three mandates on supervisory boards in group-external public listed companies or supervisory bodies of group-external companies with similar requirements.

At our meeting on February 13, 2017, we discussed in depth the current 2017 Declaration of Compliance and then resolved upon it and made it permanently available to our shareholders on our corporate website.

At our November meeting, after the conclusion of the election of the additional employee representatives on the Supervisory Board, the targets set by the Supervisory Board for its composition in February 2016 were discussed by the enlarged entire Supervisory Board and then confirmed.

In view of the EU Market Abuse Regulation, which came into force on July 3, 2016, we dealt with the respective new statutory regulations, in particular with the new regulations regarding 'managers' transactions' and 'insider rules', in May 2016.

The topic of the Supervisory Board meetings in August and November were the results of the efficiency examination of the Supervisory Board carried out on the basis of a comprehensive, company-specific questionnaire in the 2015 financial year. On the basis of the analysis of the efficiency examination, a corresponding catalogue of measures was prepared and its implementation was discussed.

In the year under review, no conflicts of interest arose in regard to the Executive Board members. There were also no conflicts of interest within the Supervisory Board. In order to avoid a potential conflict of interest, the Supervisory Board member involved in the subject matter described in the following neither participated in the respective discussions nor in the resolutions.

In December 2015, the Supervisory Board approved the conclusion of a three-year contract, effective January 1, 2016, with a company in which one Supervisory Board member is involved. The order volume to be confirmed annually by the Supervisory Board was approved by the Supervisory Board for the 2017 financial year at its meeting in November 2016.

Further information on corporate governance within the company can be found in the Corporate Governance Report.
see Corporate Governance Report including the Declaration on Corporate Governance, p. 27

EFFICIENT COMMITTEE WORK

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

The committees prepare resolutions and topics for the meetings of the entire Supervisory Board. Within the legally permissible framework and in appropriate cases, we have furthermore delegated the Supervisory Board's authority to pass certain resolutions to individual committees. With the exception of the Audit Committee, the Supervisory Board Chairman also chairs all the standing committees. The committee chairpersons inform the Supervisory Board about the content and results of the committee meetings at the subsequent meeting of the entire Supervisory Board.

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

— The **General Committee** held four meetings in the 2016 financial year. The main focus of the meetings was the preparation of the resolutions of the Supervisory Board as a whole, detailed individually above, in particular the resolution on the targets for the 2016 Performance Bonus, the target achievement of the 2015 Performance Bonus and the determination of the Executive Board compensation and the review of its appropriateness.

— The **Audit Committee** held five meetings in the year under review. The Chief Financial Officer and the auditor were present at all meetings and reported to the committee members in detail.

  In addition to the supervision of the accounting process, the committee's work also focused on the comprehensive review of the first quarter report, the first half year report and the report on the first nine months together with the Chief Financial Officer and the auditor before the respective dates of publication, also the preliminary examination of the annual financial statements and the consolidated financial statements for 2015, including the combined Management Report of adidas AG and the Group, as well as the Executive Board's proposal regarding the appropriation of retained earnings. Following an in-depth review of the audit reports with the auditor, the committee decided to recommend that the Supervisory Board approve the 2015 annual financial statements and consolidated financial statements. In addition, after obtaining the auditor's declaration of independence and after conclusion of a disclosure agreement, the Audit Committee prepared the Supervisory Board's proposal to the Annual General Meeting concerning the selection of the auditor of the annual financial statements and the consolidated financial statements for the 2016 financial year and for the quarterly financial statements and interim management reports for the 2016 financial year and the first quarter of the 2017 financial year. Following extensive discussion by the committee, the priority topics for the audit of the 2016 annual financial statements and consolidated financial statements were determined and the audit assignment was granted. In this regard, the implications of the EU Auditor Reform were also discussed and permitted non-audit services and a fee cap for non-audit services were resolved upon.

  Furthermore, the Audit Committee dealt intensively with the monitoring of the effectiveness of the risk management system, the compliance management system, the internal control system and the internal audit system. Moreover, the committee addressed the findings of Internal Audit and the audit plan.

  Furthermore, at every meeting of the Audit Committee, the Chief Compliance Officer gave regular reports.

— The **Finance and Investment Committee** held two meetings in the year under review, one of which was held by way of a conference call.

  At its April meeting, the committee dealt with the sale of the Mitchell & Ness brand and approved its divestiture to a newly founded company which is majority-owned by Juggernaut Capital Partners. Against the background of the share buyback programme initiated in autumn 2014, the committee discussed the commencement of a third tranche based on the authorisation granted by the Annual General Meeting in May 2016 and approved the proposal of the Executive Board to repurchase shares up to and including January 31, 2017.

— The **Nomination Committee** held one meeting in February 2016 by way of a conference call and, against the background of the planned increase in the number of Supervisory Board members (in this respect, see 'Changes on the Supervisory Board' above), prepared the resolution on two additional shareholder representatives' candidates for election to the Supervisory Board which was to be proposed to the Annual General Meeting.

— The **Mediation Committee**, established in accordance with the German Co-Determination Act (Mitbestimmungsgesetz — MitbestG), did not have to be convened in 2016.

EXAMINATION OF THE 2016 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG audited the 2016 consolidated financial statements prepared by the Executive Board in accordance with § 315a German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2016 annual financial statements of adidas AG, prepared in accordance with HGB requirements, and the combined Management Report of adidas AG and the Group. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed by the Executive Board to all Supervisory Board members in a timely manner. We examined the documents in depth, with a particular focus on legality and regularity, in the presence of the auditor at the Audit Committee meeting held on March 3, 2017 and at the Supervisory Board's March 7, 2017 financial statements meeting, during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported the material results of the audit with a focus on the priority topics of the year under review as agreed with the Audit Committee and was available for questions and the provision of additional information. The auditor did not report any significant weaknesses with respect to the internal control and risk management system relating to the accounting process. We also discussed in depth with the Executive Board the proposal concerning the appropriation of retained earnings, which provides for a dividend of € 2.00 per dividend-entitled share and adopted this increase to € 2.00 compared with the previous year under consideration of the company's good financial situation and future prospects as well as the expectations of our shareholders. Based on our own examinations of the annual and consolidated financial statements, we came to the conclusion that there are no objections to be raised. At our financial statements meeting, therefore, following the recommendation of the Audit Committee, we approved the audit results and the financial statements prepared by the Executive Board. The annual financial statements of adidas AG were thus approved.

EXPRESSION OF THANKS

On behalf of the entire Supervisory Board, I wish to thank the members of the Executive Board, including Kasper Rorsted, who has been a Board member since August 1, 2016 and Chief Executive Officer since October 1, and all adidas employees around the world for their tremendous personal dedication and their ongoing commitment, as well as the employee representatives for their good collaboration.

Moreover, we would like to thank Herbert Hainer, who resigned from the Executive Board at his own request at the end of September, for his tremendous contribution to the company's great success over the past three decades. During his 15-year term of service as Chief Executive Officer, thanks to his outstanding leadership and expertise, sales increased more than three-fold, the number of employees four-fold, profits five-fold and the company's value rose from € 3 billion to € 30 billion. What is more, with Herbert Hainer at the helm, adidas became the most sustainable company in Europe and one of the most attractive employers in the world. We would like to express our gratitude and respect for these outstanding achievements.

For the Supervisory Board

IGOR LANDAU
Chairman of the Supervisory Board

March 2017

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

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

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

The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG on February 15, 2016 and made an intra-year change on March 3, 2016. For the period from the publication of the last complete Declaration of Compliance, the following Declaration refers to the German Corporate Governance Code (hereinafter referred to as the 'Code') as amended on May 5, 2015, which was published in the Federal Gazette on June 12, 2015.

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

Definition of the target level of provision (section 4.2.3 subsection 3)
For Executive Board members of adidas AG initially appointed on or after October 1, 2013 and for Executive Board members to be appointed in future, there are defined contribution pension plans which, due to their structure, do not aim to reach a defined target level of provision. In the view of the Supervisory Board, this structure leads to a higher degree of control and future planning capability with regard to the company's expenses for pension plans.

Specification of a regular limit of length of membership for Supervisory Board members (section 5.4.1 subsection 2 sentence 1)
In accordance with section 5.4.1 subsection 2 sentence 1 of the Code, the Supervisory Board has specified concrete objectives for its composition. However, it has not specified a regular limit of length of membership for Supervisory Board members. The Supervisory Board is of the opinion that an extended length of membership of individual Supervisory Board members may, in the individual case, be in the interest of the company and of those entitled to elect members to the Supervisory Board, which would not be taken into consideration if there was a general limit.

Maximum number of non-group mandates held by members of the Supervisory Board (section 5.4.5 subsection 1 sentence 2)
One member of the Supervisory Board, Ian Gallienne, holds more than three mandates in supervisory bodies of non-group companies with similar requirements. Ian Gallienne is Co-Chief Executive Officer of Groupe Bruxelles Lambert (GBL). GBL is a holding company and, in its capacity as a professional investor represented by, inter alia, its Co-Chief Executive Officer, regularly holds mandates in supervisory bodies of its portfolio companies. All companies in which Ian Gallienne holds mandates in supervisory bodies are portfolio or group companies of GBL and these mandates thus have to be attributed to his main occupation as Co-Chief Executive Officer. Therefore, we are of the opinion that, as regards its intent and purpose, the recommendation of section 5.4.5 subsection 1 sentence 2 is not applicable to Ian Gallienne. However, as a precaution, we declare a deviation based on the good reasons set out above. Moreover, the Supervisory Board has assured itself that Ian Gallienne has sufficient time to perform his Supervisory Board mandate at adidas AG.

Herzogenaurach, February 13, 2017

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

The aforementioned Declaration of Compliance dated February 13, 2017 has been published on and can be downloaded from our website.
↘ www.adidas-group.com/s/corporate-governance

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

SUGGESTIONS OF THE GERMAN CORPORATE GOVERNANCE CODE FULFILLED

In addition to the recommendations, the Code contains a number of suggestions for good and responsible corporate governance, compliance with which is not required to be disclosed separately by law. adidas is fully compliant with all suggestions of the Code.

DUAL BOARD SYSTEM

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

COMPOSITION AND WORKING METHODS OF THE EXECUTIVE BOARD

The composition of our Executive Board, which consists of five members, reflects the international character of our company. No member of the Executive Board has accepted more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of non-group companies with similar requirements. see Executive Board, p. 16 The Executive Board is responsible for independently managing the company, determining the company's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. Further, it defines business targets, company policy and the organisation of the company. Additionally, the Executive Board ensures appropriate risk management and risk controlling as well as compliance with statutory regulations and internal guidelines. It is bound to the company's interest and obligated to strive for a sustainable increase in company value.

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

At the Supervisory Board meetings, the Executive Board reports in writing and orally on the agenda items and resolution proposals and answers all questions from the individual Supervisory Board members. The CEO and the CFO maintain regular contact and consult with the Chairman of the Supervisory Board and the Audit Committee Chairman on key aspects of strategy, planning and business development as well as on questions of risk management and compliance within the company.

COMPOSITION AND WORKING METHODS OF THE SUPERVISORY BOARD

Our Supervisory Board consists of 16 members. It comprises eight shareholder representatives and eight employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). see Supervisory Board, p. 18 The shareholder representatives are elected by the shareholders at the Annual General Meeting, and the employee representatives by the employees. The last periodic election took place in 2014. In the 2016 financial year, supplementary elections of the Supervisory Board took place. The term of office of the current members of the Supervisory Board expires at the end of the 2019 Annual General Meeting.

At its meeting in November 2016, due to the supplementary election of the Supervisory Board in the 2016 financial year, the Supervisory Board confirmed the following objectives for its composition, which were last resolved upon in February 2016 in accordance with the recommendations of the Code:

- The composition of the Supervisory Board including members with international background shall be maintained to the current extent. Diversity in terms of expertise and experience on the grounds of origin, education or professional activity shall continue to be taken into account in the future.
- The number of women on the Supervisory Board, namely four, but no less than the number stipulated by law, shall be maintained. Furthermore, one woman shall be a member of the Nomination Committee.
- As in the past, all members of the Supervisory Board shall be independent. This presupposes that all employee representatives also in principle meet the independence criteria as defined by the Code. Substantial, not merely temporary conflicts of interest shall be avoided.
- The members of the Supervisory Board shall dispose of sufficient time for performing their mandate.
- The age limit of, in general, 72 years at the time of election shall be taken into account.

In accordance with the reasons stated in the Declaration of Compliance, we do not follow the recommendation to specify a regular limit of length of membership for Supervisory Board members.

The Supervisory Board's proposal with regard to shareholder representative candidates for the supplementary election was prepared by the Nomination Committee. For its recommendations, the Nomination Committee took into consideration the statutory requirements, the requirements of the Code and the Rules of Procedure of the Supervisory Board as well as the objectives and criteria determined by the Supervisory Board for its own composition.

Together, the members of the Supervisory Board have the knowledge, skills and professional expertise required to properly perform their tasks. All of them are familiar with the sector in which the company operates. As they furthermore have extensive knowledge of various professional fields and many years of international experience, they bring a broad spectrum of expertise and experience to the performance of the Supervisory Board's function. The number of female Supervisory Board members currently amounts to four. Assuming all of the employee representatives in principle meet the independence criteria for Supervisory Board members as defined by the Code, in the Supervisory Board's assessment, all of its members are independent. The members of our Supervisory Board do not exercise directorships or similar positions or advisory tasks for key competitors of the company. Further, they do not have business or personal relations with adidas AG, its Executive Board and Supervisory Board or a controlling shareholder which may cause a substantial and not merely temporary conflict of interest. The age limit of, in general, 72 years at the time of election was taken into account in the selection process. The composition of the Supervisory Board consequently fully complies with the specified set of objectives.

The basis for every Supervisory Board function is the personal qualification of the Supervisory Board members. Therefore, additional important criteria will also be considered when nominating candidates for election. Personality, integrity and sufficient diversity in terms of expert and industry knowledge as well as particular experience, e.g. in the fields of accounting or annual auditing, will continue to be taken into account as at present. Also, the best interests of the company play a decisive role when nominating candidates for election. ↘ www.adidas-group.com/s/supervisory-board

FURTHER INFORMATION ON CORPORATE GOVERNANCE

More information on topics covered in this report can be found on our website ↘ www.adidas-group.com/s/corporate-governance including:

- Articles of Association
- Rules of Procedure of the Executive Board
- Rules of Procedure of the Supervisory Board
- Rules of Procedure of the Audit Committee
- Supervisory Board Committees (composition and tasks)
- CVs of Executive Board members and Supervisory Board members

The Supervisory Board supervises and advises the Executive Board in questions relating to the management of the company. The Executive Board regularly, expeditiously and comprehensively reports on business development and planning as well as on the risk situation including compliance and coordinates the strategy of the company and its implementation with the Supervisory Board. The Supervisory Board examines and approves the annual financial statements of adidas AG and the adidas Group, taking into consideration the auditor's reports, and resolves upon the proposal of the Executive Board on the appropriation of retained earnings. Additionally, it resolves upon the resolution proposals to be presented to the Annual General Meeting. Certain business transactions and measures of the Executive Board with fundamental significance are subject to prior approval by the Supervisory Board or by a Supervisory Board committee.

The Supervisory Board is also responsible for the appointment and dismissal of members of the Executive Board. When appointing members of the Executive Board, the Supervisory Board pays attention to the best possible composition of the Executive Board. Inter alia, experience, industry knowledge and personal expert qualifications play an important role in this regard. The Supervisory Board further determines the Executive Board compensation system, examines it regularly and decides on the individual overall compensation of each Executive Board member. To this end, the relation between Executive Board compensation and that of senior management and employees overall is taken into account, also in terms of its development over time. Further information on Executive Board compensation is compiled in the Compensation Report. see Compensation Report, p. 32

In order to increase the efficiency of its work and to deal with complex topics, the Supervisory Board has formed six permanent expert committees from within its members, which, inter alia, prepare its resolutions and, in certain cases, pass resolutions on its behalf. These committees are the Steering Committee, the General Committee, the Audit Committee, the Finance and Investment Committee, the Mediation Committee in accordance with § 27 section 3 MitbestG and the Nomination Committee. The chairmen of the committees report to the entire Supervisory Board on the results of the committee work on a regular basis. The composition of the committees can be found in our overview of the Supervisory Board. Further information on the committees' tasks is available on our website. see Supervisory Board, p. 18 ↘ www.adidas-group.com/s/supervisory-board-committees

Apart from the tasks and responsibilities, the Rules of Procedure of the Supervisory Board and of the Audit Committee also set out the individual requirements expected of the members and the procedure for meetings and passing resolutions. These Rules of Procedure are available on our website. The Supervisory Board Report provides information on the activities of the Supervisory Board and its committees in the year under review. see Supervisory Board Report, p. 21

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

Every two years, the Supervisory Board and the Audit Committee examine the efficiency of their work by means of questionnaires and individual interviews. As a result, suggestions for even better cooperation can be made. The last efficiency examinations were conducted in 2015.

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

When filling leadership positions in the company, the Executive Board takes diversity into consideration and especially aims for an appropriate consideration of women. The Supervisory Board is also convinced that an increase in the number of women in leadership positions within adidas is necessary to ensure that, in the future, an increased number of female candidates are available for Executive Board positions. The Supervisory Board thus supports the diversity and inclusion initiatives of the company, particularly concerning the promotion of women in leadership positions. see Our People, p. 72

Pursuant to the 'Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector' the following targets have been determined for adidas AG:

- On August 5, 2015, the Supervisory Board of adidas AG resolved to appoint a woman to the Executive Board of adidas AG by June 30, 2017 at the latest.
- On July 2, 2015, the Executive Board of adidas AG resolved to increase the female representation on the first management level below the Executive Board of adidas AG to 18% by June 30, 2017. The female representation on the second management level below the Executive Board is to be increased to 30% within the same implementation period.
- With regard to the quota of women and men on the Supervisory Board, the Supervisory Board complies with the statutory minimum quota pursuant to § 96 section 2 sentences 1, 3 and 4 AktG. Both the shareholder representatives and the employee representatives resolved in accordance with § 96 section 2 sentence 3 AktG that the minimum quota of 30% women and 30% men on the Supervisory Board shall be fulfilled separately for the shareholder representatives and the employee representatives.

AVOIDING CONFLICTS OF INTEREST

The members of the Executive Board and Supervisory Board are obligated to disclose any conflicts of interest to the Supervisory Board without any delay. Substantial transactions between the company and members of the Executive Board or persons in a close relation with them require Supervisory Board approval. Contracts between the company and members of the Supervisory Board also require Supervisory Board approval. The Supervisory Board reports any conflicts of interest, as well as the handling thereof, to the Annual General Meeting. In the year under review, neither the members of the Executive Board nor the members of the Supervisory Board faced conflicts of interest, with the exception of the matter outlined in the Supervisory Board Report. see Supervisory Board Report, p. 21

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

At the end of the 2016 financial year, individual ownership of shares in the company or related financial instruments held by members of the Executive Board and the Supervisory Board was below 1% of the shares issued by adidas AG. The same applies for the total number of shares held by all members of the Executive Board and the Supervisory Board.

An overview of the managers' transactions notified to adidas AG by persons discharging managerial responsibilities pursuant to § 15a German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and Article 19 of the Market Abuse Regulation is published on our website. www.adidas-group.com/s/managers-transactions

RELEVANT MANAGEMENT PRACTICES

Our business activities are oriented towards the legal systems in the various countries and markets in which we operate. This implies a high level of social and environmental responsibility. Further information on company-specific practices which are applied in addition to statutory requirements, such as our Code of Conduct, on compliance with working and social standards, environmental responsibility, chemical management and our social commitment is available in this Annual Report and on our website. see Sustainability, p. 78 http://www.adidas-group.com/en/sustainability/managing-sustainability/general-approach/

COMPLIANCE AND RISK MANAGEMENT

Compliance with laws, internal and external provisions and responsible risk management are part of corporate governance at adidas. Our compliance management system is organisationally linked to the company's risk and opportunity management system. As part of our global 'Fair Play Concept', the compliance management system establishes the organisational framework for company-wide awareness of our internal rules and guidelines and for the legally compliant conduct of our business. It underscores our strong commitment to ethical and fair behaviour in our own organisation and also sets the parameters for how we deal with others. The risk and opportunity management system ensures risk-aware, opportunity-oriented and informed actions in a dynamic business environment in order to guarantee the competitiveness and sustainable success of adidas. see Risk and Opportunity Report, p. 118

TRANSPARENCY AND PROTECTION OF SHAREHOLDERS' INTERESTS

It is our goal to inform all institutional investors, private shareholders, financial analysts, business partners, employees and the interested public about the company's situation, at the same time and to an equal extent, through regular, transparent and up-to-date communication. We publish all essential information, such as press releases, ad hoc announcements and voting rights notifications as well as all presentations from roadshows and conferences, all financial reports and the financial calendar on our website. With our comprehensive Investor Relations activities, we maintain close and continuous contact with our current and potential shareholders. www.adidas-group.com/investors see Our Share, p. 41

In addition, we also provide all documents and information on our Annual General Meeting on our website. The shareholders of adidas AG exercise their shareholders' rights at the Annual General Meeting. Each share grants one vote. Our shareholders are involved in all fundamental decisions at the Annual General Meeting through their participation rights. It is our intention to support our shareholders in exercising their voting rights at the Annual General Meeting. At our next Annual General Meeting, taking place on May 11, 2017 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service. Shareholders have the possibility, inter alia, to electronically register for the Annual General Meeting through our shareholder portal or to participate in voting by granting powers of representation and voting instructions online to the proxies appointed by the company. Further, all shareholders can follow the Annual General Meeting in full length live on the company's website, subject to technical availability of the website.

ACCOUNTING AND ANNUAL AUDIT

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

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2016 annual financial statements and annual consolidated financial statements by the Annual General Meeting. The Supervisory Board had previously assured itself of the auditor's independence. see Auditor's Report, p. 209

FURTHER INFORMATION ON THE PRINCIPLES OF OUR MANAGEMENT

More information on topics covered in this report can be found on our website at www.adidas-group.com including:

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

COMPENSATION REPORT

The Compensation Report is a component of the combined Management Report and outlines the principles of the compensation system for the members of the Executive Board and Supervisory Board as well as the level and structure of the compensation in accordance with the legal requirements and the recommendations of the German Corporate Governance Code (the 'Code') as amended on May 5, 2015. For adidas, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board is an essential element of good corporate governance.

COMPENSATION OF THE EXECUTIVE BOARD MEMBERS

COMPENSATION SYSTEM

Following preparation by the Supervisory Board's General Committee, the compensation system for our Executive Board and the total compensation of each member of the Executive Board is determined and regularly reviewed by the entire Supervisory Board. The compensation and personnel topics dealt with by the Supervisory Board and General Committee for the year under review are described in the Supervisory Board Report. see Supervisory Board Report, p. 21

The compensation system is geared towards creating an incentive for successful, sustainably value-oriented corporate development and management. Against this background, more than 50% of the variable target compensation component is based upon multi-year performance criteria. The variable compensation components are designed in such a way that the incentive to achieve the long-term targets decisive for the multi-year variable target compensation component is higher than the incentive to achieve the targets decisive for being granted the one-year variable compensation component. Corresponding contractual provisions ensure that this weighting can be maintained in the future. In terms of the appropriateness of the Executive Board compensation, when determining the compensation, the Supervisory Board takes into consideration factors such as the size and the global orientation, the economic situation, the success and outlook of the company, as well as the common level of the compensation in comparison with peer companies and with the compensation structure applicable for other areas of the company. To this end, the relation between the Executive Board compensation and that of senior management and employees overall is taken into account, both in total and in terms of its development over time, with the relevant groups of persons having been determined by the Supervisory Board. In addition, when determining the compensation, the tasks and contribution of each Executive Board member to the company's success, their individual performance as well as the overall performance of the Executive Board are taken into consideration. The compensation system aims to appropriately remunerate exceptional performance, while diminishing variable compensation when targets are not met. Thus, in the Supervisory Board's opinion, an appropriate level of compensation, which is reviewed annually by the Supervisory Board and adjusted if required, can be ensured.

In case of 100% target achievement, the total compensation (without other benefits and pension payments) is made up of around one-third fixed compensation and around two-thirds performance-related compensation components. In addition, there are various pension commitments. Moreover, at its equitable discretion, the Supervisory Board may grant a special bonus in case of extraordinary performance by an Executive Board member which is not related to performance criteria that were already decisive for granting the Performance Bonus or the LTIP Bonus. Such special bonus is limited to a maximum of 100% of the annual fixed salary of the calendar year for which the special bonus is granted.

The compensation system for the members of the Executive Board which has been applicable since the 2015 financial year was adopted by the shareholders at the Annual General Meeting on May 7, 2015. It consists of the following components:

Non-performance-related components

Fixed compensation

The fixed compensation consists of the annual fixed salary, which is based, inter alia, on the tasks and responsibilities of the individual Executive Board member. It is paid in twelve equal monthly instalments and generally remains unchanged during the term of the service contract.

Other benefits

The other benefits primarily consist of paying for, or providing the monetary value of, non-cash benefits and of other benefits such as contributions to insurance schemes normal for the market, assumption of relocation costs, the provision of a company car or the use of the internal driver service. The total amount of these other benefits is capped at 5% of the total compensation comprising the fixed salary and a (possible) Performance Bonus granted in the respective financial year.

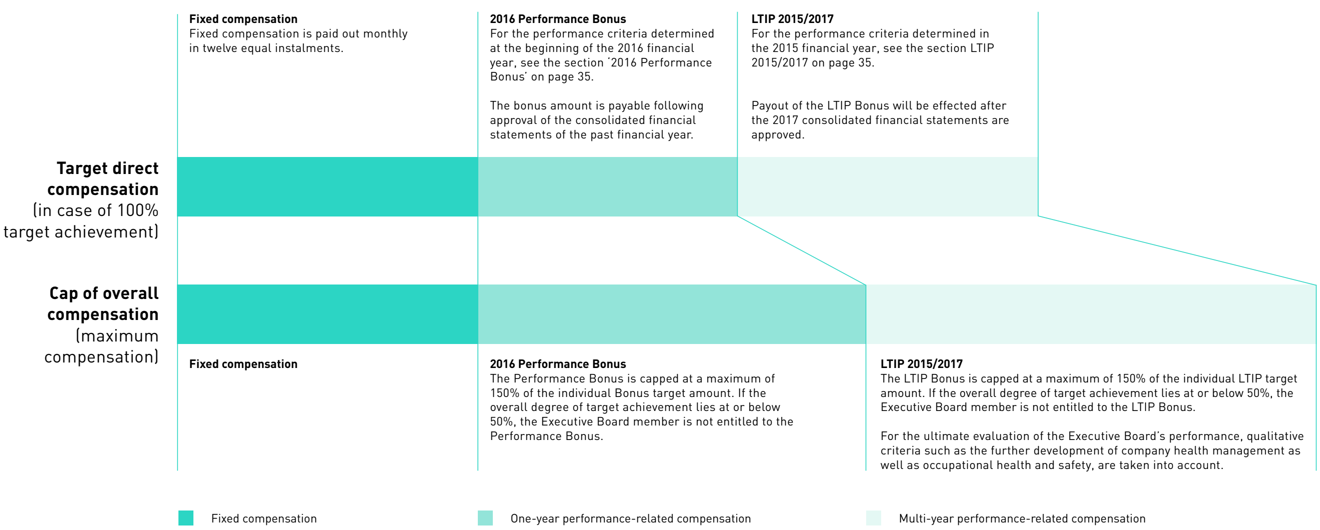
Performance-related components

Performance Bonus

As the annual variable component, the Performance Bonus serves as compensation for the Executive Board's performance in the past financial year in line with the short-term development of the company.

At the beginning of the financial year, the Supervisory Board establishes the differently weighted performance criteria with their respective clear targets, and determines the individual amount of the

01 COMPENSATION OF THE EXECUTIVE BOARD MEMBERS



Performance Bonus target amount for each member of the Executive Board, based on a target achievement of 100% (Bonus target amount). The target values of the individual performance criteria include threshold values; if the target achievement of this performance criterion is below these threshold values, it is valued at zero. This means that if targets are clearly not achieved a Performance Bonus may not be paid at all.

At the end of the financial year, the precise target achievement of each Executive Board member, which is based on a comparison of the predefined target values with the values achieved in the year under review, is examined. The sum of these degrees of target achievement constitutes the factor by which the Bonus target amount is multiplied. The result is the individual amount of the Performance Bonus to be paid (bonus amount). Moreover, when determining the bonus amount, all other sustainable performance by the Executive Board can be taken into account in an appropriate manner. The bonus amount is capped at a maximum of 150% of the individual Bonus target amount. If the overall degree of target achievement lies at or below 50%, the Executive Board member is not entitled to the Performance Bonus.

If an Executive Board member takes or leaves office during a financial year, the Performance Bonus is generally calculated pro rata temporis based on the degree of target achievement determined at the end of the financial year. In certain cases defined in the Terms & Conditions of the Performance Bonus, entitlement to the payout of a Performance Bonus is generally forfeited, unless the Supervisory Board determines otherwise at its equitable discretion.

The bonus amount is payable following approval of the consolidated financial statements of the past financial year.

Long-Term Incentive Plan (LTIP Bonus)

Based on the Long-Term Incentive Plan 2015/2017 (LTIP 2015/2017) measured over a three-year period, the LTIP Bonus serves – in line with sustainability-oriented development of the company – as compensation for the long-term performance of the Executive Board. On this basis, at the beginning of the 2015 financial year, the Supervisory Board defined the performance criteria oriented towards sustainable growth of the company and also defined the individual amount of the LTIP Bonus target amount for each Executive Board member, based on a target achievement of 100% (LTIP target amount).

At the end of the 2017 financial year, the precise target achievement of each Executive Board member, which is based on a comparison of the predefined target values with the values achieved at the end of the three-year period covering the years 2015 to 2017, will be examined. The sum of these degrees of target achievement constitutes the factor by which the LTIP target amount is multiplied. The result is the individual amount of the LTIP Bonus to be paid (bonus amount). Payout of the LTIP Bonus will be effected after the 2017 consolidated financial statements are approved.

The LTIP Bonus is capped at a maximum of 150% of the individual LTIP target amount. If the overall degree of target achievement lies at or below 50%, the Executive Board member is not entitled to the LTIP Bonus. If an Executive Board member takes or leaves office during the term of the LTIP 2015/2017 (Performance Period), the LTIP Bonus is generally calculated on a pro rata basis. In certain cases defined in the Terms & Conditions of the LTIP 2015/2017, entitlement to the payout of an LTIP Bonus is generally forfeited, unless the Supervisory Board determines otherwise at its equitable discretion.

Pension commitments

The pension entitlement of the Executive Board members Herbert Hainer, Glenn Bennett and Robin J. Stalker, who were appointed before September 30, 2013 and who were active members in the 2016 financial year, will be covered by the defined benefit pension plans granted to them. The Executive Board members Kasper Rorsted, Roland Auschel and Eric Liedtke, who were appointed after September 30, 2013, were granted defined contribution pension plans. The defined benefit pension plans granted to the Executive Board members Roland Auschel and Eric Liedtke for the period from their appointment until December 31, 2014 were converted into defined contribution pension plans with effect from January 1, 2015. In future, Executive Board members appointed by the Supervisory Board will also be granted defined contribution pension plans.

Defined benefit pension plans

Starting from a base amount totalling 10%[1] of the respective pensionable income granted in the pension plan, a module of two or three percentage points[2] of the pensionable income is created for each Executive Board member for each full year of tenure as an Executive Board member.

As its targeted level of provision, the Supervisory Board has determined for the Executive Board members a pension entitlement amounting to a maximum of 50%[3] of an Executive Board member's pensionable income. The amount of pensionable income currently equals the individual fixed annual salary indicated in the table 'Benefits granted'.

The pension benefits comprise retirement pensions to be received upon reaching the age of 65 as well as disability and survivors' benefits.

In the event that an Executive Board member leaves the company prior to reaching retirement age, the non-forfeiture of the pension entitlement will be in line with legal provisions. The pension entitlement is not, as legally envisaged, reduced pro rata temporis, i.e. it amounts to at least the base amount of the pension commitment made to the Executive Board member, plus the pension modules accumulated annually during the term of office.

Following the pension-triggering event, ongoing pensions are adjusted in line with the development of state pensions.

Defined contribution pension plans

The defined contribution pension plans, each in the form of a direct commitment, basically have the same structure as the existing 'adidas Management Pension Plan' for managers.

As part of the pension commitments, an amount equalling a percentage determined by the Supervisory Board, which is related to the individual annual fixed salary, is credited to the virtual pension account of the individual Executive Board member each year. The Supervisory Board annually resolves on this percentage, which most recently was set at 50%. When making its decision, the Supervisory Board takes into account the targeted individual pension level and the resulting annual and long-term expenses for the company. The pension assets existing at the beginning of the respective calendar year shall yield a fixed interest rate of 3% p.a., however for no longer than until the pension benefits initially become due. As a rule, interest shall be credited as at the close of December 31 in each calendar year, and on the due date in the year in which the pension benefit is first due. Entitlement to the pension benefits becomes vested immediately.

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

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

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

Insolvency insurance for the pension commitments granted to the Executive Board members as of October 1, 2013 is ensured by the integration of the pension plans in the existing trust model, the Contractual Trust Arrangement (CTA).

1 Deviating provision for Glenn Bennett: instead of his initial appointment date (effective March 6, 1997), January 1, 2000 is used for the calculation of his pension entitlements with a base amount of 20% of pensionable income; initial appointment of Herbert Hainer: effective March 6, 1997; initial appointment of Robin J. Stalker: effective January 30, 2001.
2 Increase of the annual pension components of Glenn Bennett and Robin J. Stalker to three percentage points of the pensionable income effective March 6, 2015.
3 For Herbert Hainer, the targeted level of provision is 40%.

adidas Management Pension Plan

Executive Board members[4] who belonged to the group of senior executives of adidas AG prior to their Executive Board appointments will at the time of their retirement receive additional payments from the 'adidas Management Pension Plan'. Until their appointment as Executive Board members, adidas AG had contributed pension components under these supplementary provisions which were introduced for all of these senior executives of the company in 1989.

Commitments to Executive Board members upon premature termination of tenure

Executive Board service contracts are usually agreed with a contractual term of three years. This term will be shortened accordingly if the Executive Board member reaches the age of 65 prior to expiration.

In case of premature termination of tenure in the absence of good cause, the Executive Board service contracts cap potential compensatory payments at a maximum of twice the total annual compensation, not exceeding payment claims for the remaining period of the service contract (Severance Payment Cap). In this context, the total annual compensation means the Executive Board member's total compensation paid for the last full financial year prior to departure from the Executive Board. In calculating the total compensation, a multi-year variable compensation component and the service costs will only be taken into consideration with the proportion attributable to the last full financial year prior to departure. When determining the total compensation, a possible follow-up bonus[5] is not included, but the expected total compensation for the current financial year is considered, taking into account the outlined provisions.

If the service contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap.

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

Commitments to Executive Board members upon regular termination of tenure

Unless otherwise agreed, upon regular termination of the service contract, i.e. in case of non-renewal of the service contract or termination upon reaching the age of 65, the departing Executive Board member is entitled to receive not only his annual fixed salary on a pro rata basis up to the date on which he leaves office, but also a potential pro-rated Performance Bonus and a potential pro-rated LTIP Bonus as well as, under certain circumstances, a follow-up bonus[5]. The follow-up bonus is payable in two tranches, 12 and 24 months following the end of the contract. There is no entitlement to a follow-up bonus if the service contract expires after release from service with continued compensation or if it is terminated for good cause.

EXECUTIVE BOARD COMPENSATION 2016

2016 Performance Bonus

At the beginning of the 2016 financial year, the Supervisory Board determined an increase

- in net income from continuing operations,
- in net sales of the adidas and Reebok brands in the US (currency-neutral),
- in net sales in the adidas Running category 'Footwear & Apparel' (global, currency-neutral), and
- in the popularity of the adidas brand as measured by the Net Promoter Score (global)

as success parameters with different weightings for the Performance Bonus. Based on the targets actually achieved, this results in a degree of target achievement of 150% of the individual Bonus target amount for the year under review. This percentage simultaneously constitutes the cap for the payout of the 2016 Performance Bonus.

LTIP 2015/2017

From the LTIP 2015/2017, for which the Supervisory Board determined as Performance criteria for the 2015 financial year the

- achievement of a defined net income from continuing operations,
- increase in the presence on the US market measured/assessed by the increase in market shares of adidas footwear and an improvement of the brand's popularity,
- increase in the adidas share price over three years and relative outperformance of the adidas share compared to the DAX-30 price index,
- increase in profitability of the retail segment,
- improvement of sustainability measured/assessed by the improvement of employee satisfaction and an increase in the percentage of female representation in management positions within the company

no payout was made given the three-year performance period, but will be made at the end of the 2017 financial year depending on the degree of target achievement. For the ultimate evaluation of the Executive Board's performance, qualitative criteria such as the further development of company health management as well as occupational health and safety are also taken into account.

4 Herbert Hainer, Roland Auschel, Eric Liedtke and Robin J. Stalker.
5 This bonus amounts to 75% for Roland Auschel, Glenn Bennett and Eric Liedtke, 100% for Robin J. Stalker, and 125% for Herbert Hainer and is based on the Performance Bonus granted to the respective Executive Board member for the last full financial year.

Commitments to Executive Board members in connection with termination of tenure

In connection with Herbert Hainer's termination of tenure by mutual consent on September 30, 2016, it was agreed that the contractual commitments on the part of the company will continue to be granted until expiry of his service contract on March 31, 2017. For this period, Herbert Hainer receives the following compensation: fixed compensation in the amount of € 800,000 and other benefits in the amount of € 14,165. His past service costs for this period amount to € 207,295. In accordance with the termination agreement, Herbert Hainer will receive a Performance Bonus in the amount of € 2,032,500 for the 2016 financial year. For the 2017 financial year, however, he will not receive a Performance Bonus. In addition, he will receive two thirds of the LTIP Bonus which the Supervisory Board may decide to grant in February 2018. For the LTIP Bonus amount, reserves in the amount of € 4,655,112 have been set up. At the end of April 2018 and at the end of April 2019, he will be paid out 75% and 50%, i.e. € 1,524,375 and € 1,016,250, of the Performance Bonus granted to him for the 2016 financial year as a follow-up bonus. In accordance with the stipulation in his service contract, he will be paid monthly compensation in the amount of € 66,667 gross for the post-contractual competition prohibition for a period of 24 months. This corresponds to 50% of the last fixed monthly salary. The reserves set up for compensation for post-contractual competition prohibition amount to € 1,600,000. Furthermore, Herbert Hainer is entitled to keep his supervisory board mandate at FC Bayern München AG until the end of his term of office. The claims to pension payments deriving from the adidas Management Pension Plan and the pension commitment dated March 6, 1997, as amended on August 6, 2014, remain unaffected and will be paid out in accordance with the contractual regulations.

Pension commitments

The service costs for the pension commitments granted to the Executive Board members in the 2016 financial year and the cash values of the vested rights are set out individually:

Overall compensation for 2016 in accordance with the Code

Based on the Supervisory Board's determination outlined above, the overall compensation of the Executive Board for the 2016 financial year amounts to € 16.086 million (2015: € 9.177 million). Due to the high Performance Bonus paid for the successful financial year and the appointment of Kasper Rorsted as member of the Executive Board and successor to Herbert Hainer from August 1, 2016, the total compensation for the year under review is higher than the total compensation for the 2015 financial year.

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

Benefits granted in accordance with the Code

In the following table, the benefits granted for the 2015 and 2016 financial years are disclosed including other benefits and service costs, and also including the maximum and minimum achievable compensation.

In accordance with the requirements of the Code, the Performance Bonus is disclosed with the amount granted in case of 100% target achievement. Pursuant to the recommendations of the Code, the LTIP Bonus resulting from the LTIP 2015/2017 measured over a three-year period is to be indicated with the pro rata temporis target amount of an 'average probability scenario' at the time of granting, whereas adidas AG takes the 100% target amount as a basis.

02 **PENSION COMMITMENTS IN 2016 FINANCIAL YEAR** IN €

	Service costs		Accumulated pension obligation for the pension commitments excluding deferred compensation	
Executive Board members incumbent as at December 31, 2016	**FY 2015**	**FY 2016**	**FY 2015**	**FY 2016**
Kasper Rorsted [1]	n.a.	587,372	n.a.	611,250
Roland Auschel	361,000	360,846	738,627	1,129,796
Glenn Bennett	251,162	260,911	5,778,313	6,994,391
Eric Liedtke	336,000	359,588	724,482	1,192,719
Robin J. Stalker	379,868	346,914	5,051,190	6,060,004
Total	**1,328,030**	**1,915,631**	**12,292,612**	**15,988,160**
Executive Board members incumbent until September 30, 2016				
Herbert Hainer [2]	428,648	2,837,209	11,983,870	n.a.
Total	**428,648**	**2,837,209**	**11,983,870**	**n.a.**

1 Member of the Executive Board as of August 1, 2016 and Chief Executive Officer as of October 1, 2016.
2 Chief Executive Officer and member of the Executive Board until September 30, 2016. The service costs 2016 for Herbert Hainer also comprise the contractually agreed follow-up bonus in the amount of € 2,540,625 due to his departure with effect from the end of September 30, 2016 as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.

03 BENEFITS GRANTED IN €

	Kasper Rorsted Executive Board member, Chief Executive Officer since August 1, 2016 and October 1, 2016				Roland Auschel Executive Board member, Global Sales			
	2015	2016	2016 (min.)	2016 (max.)	2015	2016	2016 (min.)	2016 (max.)
Fixed compensation	n.a.	833,333	833,333	833,333	550,000	650,000	650,000	650,000
Other benefits	n.a.	18,800	18,800	18,800	17,742	17,943	17,943	17,943
Total	**n.a.**	**852,133**	**852,133**	**852,133**	**567,742**	**667,943**	**667,943**	**667,943**
One-year variable compensation [1]	n.a.	625,000	0	937,500	412,000	557,000	0	835,500
Multi-year variable compensation	**n.a.**	**833,333**	**0**	**1,250,000**	**616,667**	**616,667**	**0**	**925,000**
LTIP 2015/2017 [2]	n.a.	833,333	0	1,250,000	616,667	616,667	0	925,000
Total	**n.a.**	**2,310,466**	**852,133**	**3,039,633**	**1,596,408**	**1,841,609**	**667,943**	**2,428,443**
Service costs [3, 4]	n.a.	587,372	587,372	587,372	361,000	360,846	360,846	360,846
Overall compensation	**n.a.**	**2,897,838**	**1,439,505**	**3,627,005**	**1,957,408**	**2,202,455**	**1,028,789**	**2,789,289**

	Glenn Bennett Executive Board member, Global Operations				Eric Liedtke Executive Board member, Global Brands			
	2015 [5]	2016 [6]	2016 (min.)	2016 (max.)	2015	2016	2016 (min.)	2016 (max.)
Fixed compensation	680,560	721,474	721,474	721,474	516,667	650,000	650,000	650,000
Other benefits	30,993	34,435	34,435	34,435	15,656	13,396	13,396	13,396
Total	**711,553**	**755,909**	**755,909**	**755,909**	**532,322**	**663,396**	**663,396**	**663,396**
One-year variable compensation [1]	662,132	686,602	0	1,029,903	412,000	557,000	0	835,500
Multi-year variable compensation	**901,101**	**903,665**	**0**	**1,355,497**	**616,667**	**616,667**	**0**	**925,000**
LTIP 2015/2017 [2]	901,101	903,665	0	1,355,497	616,667	616,667	0	925,000
Total	**2,274,786**	**2,346,176**	**755,909**	**3,141,310**	**1,560,989**	**1,837,062**	**663,396**	**2,423,896**
Service costs [3, 4]	251,162	260,911	260,911	260,911	336,000	359,588	359,588	359,588
Overall compensation	**2,525,948**	**2,607,087**	**1,016,820**	**3,402,221**	**1,896,989**	**2,196,650**	**1,022,984**	**2,783,484**

	Robin J. Stalker Chief Financial Officer				Herbert Hainer Chief Executive Officer until September 30, 2016			
	2015	2016	2016 (min.)	2016 (max.)	2015	2016 [7]	2016 (min.)	2016 (max.)
Fixed compensation	654,603	665,500	665,500	665,500	1,582,258	1,200,000	1,200,000	1,200,000
Other benefits	19,817	20,018	20,018	20,018	34,987	26,917	26,917	26,917
Total	**674,421**	**685,518**	**685,518**	**685,518**	**1,617,245**	**1,226,917**	**1,226,917**	**1,226,917**
One-year variable compensation [1]	520,000	540,000	0	810,000	1,311,270	1,355,000	0	2,032,500
Multi-year variable compensation	**741,800**	**741,800**	**0**	**1,112,700**	**1,694,000**	**1,694,000**	**0**	**2,541,000**
LTIP 2015/2017 [2]	741,800	741,800	0	1,112,700	1,694,000	1,694,000	0	2,541,000
Total	**1,936,221**	**1,967,318**	**685,518**	**2,608,218**	**4,622,515**	**4,275,917**	**1,226,917**	**5,800,417**
Service costs [3, 4]	379,868	346,914	346,914	346,914	428,648	2,837,209	2,837,209	2,837,209
Overall compensation	**2,316,089**	**2,314,232**	**1,032,432**	**2,955,132**	**5,051,163**	**7,113,126**	**4,064,126**	**8,637,626**

1 Contractually agreed Performance Bonus target amount 2016 for **Kasper Rorsted** due to his intra-year appointment to the Executive Board with effect from August 1, 2016.
2 Contractually agreed LTIP Bonus target amount 2015/2017 due to the appointment of **Kasper Rorsted** to the Executive Board (with effect from August 1, 2016) during the plan term. Contractually agreed LTIP Bonus target amount 2015/2017 due to termination of **Herbert Hainer's** Executive Board mandate (with effect from the end of September 30, 2016) during the plan term.
3 Service costs 2016 stated pro rata temporis due to intra-year termination of **Herbert Hainer's** Executive Board mandate with effect from the end of September 30, 2016.
4 The service costs 2016 for **Herbert Hainer** also comprise the contractually agreed follow-up bonus in the amount of € 2,540,625 due to his departure with effect from the end of September 30, 2016 as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.
5 Exchange rate 1.10690 $/€ (annual average rate 2016).
6 Exchange rate 1.11005 $/€ (annual average rate 2015).
7 Executive Board compensation stated pro rata temporis due to intra-year termination of **Herbert Hainer's** Executive Board mandate at the end of September 30, 2016. Herbert Hainer's service contract terminates with effect from March 31, 2017. The variable compensation components (Performance Bonus and LTI) granted for the 2016 financial year were already fully earned by Herbert Hainer during his term of office as Executive Board member. In addition to the overall compensation set out, Herbert Hainer received the following compensation for the period from October 1, 2016 to December 31, 2016: fixed compensation in the amount of € 400,000 and other benefits in the amount of € 7,083. This compensation and the service costs for the period from October 1, 2016 to December 31, 2016 in the amount of € 98,861 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board.

04 ALLOCATION IN €

	Kasper Rorsted Executive Board member, Chief Executive Officer since August 1, 2016 and October 1, 2016		Roland Auschel Executive Board member, Global Sales		Glenn Bennett Executive Board member, Global Operations	
	2015	2016	2015	2016	2015[1]	2016[2]
Fixed compensation	n.a.	833,333	550,000	650,000	680,560	721,474
Other benefits	n.a.	18,800	17,742	17,943	30,993	34,435
Total	**n.a.**	**852,133**	**567,742**	**667,943**	**711,553**	**755,909**
One-year variable compensation[3]	n.a.	937,500	412,000	835,500	662,132	1,029,903
Multi-year variable compensation	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
LTIP 2015/2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total[4]	**n.a.**	**1,789,633**	**979,742**	**1,503,443**	**1,373,685**	**1,785,813**
Service costs[5, 6]	n.a.	587,372	361,000	360,846	251,162	260,911
Overall compensation	**n.a.**	**2,377,005**	**1,340,742**	**1,864,289**	**1,624,847**	**2,046,724**

	Eric Liedtke Executive Board member, Global Brands		Robin J. Stalker Chief Financial Officer		Herbert Hainer Chief Executive Officer until September 30, 2016	
	2015	2016	2015	2016	2015	2016[7]
Fixed compensation	516,667	650,000	654,603	665,500	1,582,258	1,200,000
Other benefits	15,656	13,396	19,817	20,018	34,987	26,917
Total	**532,322**	**663,396**	**674,421**	**685,518**	**1,617,245**	**1,226,917**
One-year variable compensation[3]	412,000	835,500	520,000	810,000	1,311,270	2,032,500
Multi-year variable compensation	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
LTIP 2015/2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total[4]	**944,322**	**1,498,896**	**1,194,421**	**1,495,518**	**2,928,515**	**3,259,417**
Service costs[5, 6]	336,000	359,588	379,868	346,914	428,648	2,837,209
Overall compensation	**1,280,322**	**1,858,484**	**1,574,289**	**1,842,432**	**3,357,163**	**6,096,626**

1 Exchange rate 1.11005 $/€ (annual average rate 2015).
2 Exchange rate 1.10690 $/€ (annual average rate 2016).
3 Contractually agreed Performance Bonus target amount 2016 for **Kasper Rorsted** due to his intra-year appointment to the Executive Board with effect from August 1, 2016.
4 The compensation components set out above constitute both the overall compensation for the 2016 financial year and for the previous year, which have to be set out individually in accordance with German Commercial Law.
5 Service costs 2016 stated pro rata temporis due to intra-year termination of **Herbert Hainer's** mandate with effect from the end of September 30, 2016.
6 The service costs 2016 for **Herbert Hainer** also comprise the contractually agreed follow-up bonus in the amount of € 2,540,625 due to his departure with effect from the end of September 30, 2016 as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.
7 Executive Board compensation stated pro rata temporis due to intra-year termination of **Herbert Hainer's** Executive Board mandate at the end of September 30, 2016. Herbert Hainer's service contract terminates with effect from March 31, 2017. The variable compensation components (Performance Bonus and LTI) granted for the 2016 financial year were already fully earned by Herbert Hainer during his term of office as Executive Board member. In addition to the overall compensation set out, Herbert Hainer received the following compensation for the period from October 1, 2016 to December 31, 2016: fixed compensation in the amount of € 400,000 and other benefits in the amount of € 7,083. This compensation and the service costs for the period from October 1, 2016 to December 31, 2016 in the amount of € 98,861 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board.

Allocation in accordance with the Code

Pursuant to the recommendations of the Code, the fixed compensation, other benefits and the service costs as well as the Performance Bonus are to be disclosed as an allocation for the financial year in which the compensation was granted. As stipulated by the Code, the LTIP Bonus resulting from the LTIP 2015/2017 measured over a three-year period is disclosed in the year in which the plan ends, i.e. in the 2017 financial year and consequently not in the 2016 financial year (also not on a pro rata basis).

Overall payments to former members of the Executive Board and their surviving dependants

In the 2016 financial year, overall payments to former members of the Executive Board and their surviving dependants amounted to € 8.754 million (2015: € 3.524 million). The increase is attributable, in particular, to the fact that the compensation, the service costs for the period from October 1, 2016 to March 31, 2017 as well as the compensation for post-contractual competition prohibition and the follow-up bonus for the former Chief Executive Officer Herbert Hainer are included in the total amount. For details, see the section 'Commitments to Executive Board members in connection with termination of tenure'. see p. 36

Provisions for pension entitlements for the former members of the Executive Board who resigned on or before December 31, 2005 and their surviving dependants were created, amounting to € 45.821 million (2015: € 42.730 million) in total as at December 31, 2016. The increase is mainly attributable to a decline in the underlying interest rate from 2.5% to 1.8%.

There are pension commitments towards four former Executive Board members who resigned after December 31, 2005, which are covered by a pension fund or a pension fund in combination with a reinsured pension trust fund. From this, indirect obligations amounting to € 29.472 million (2015: € 12.644 million) arise for adidas AG, for which no accruals were established due to financing through the pension fund and pension trust fund. This increase is attributable, in particular, to the resignation of Herbert Hainer and the decline in the underlying interest rate.

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

Review of Executive Board compensation

In the 2016 financial year, the Supervisory Board had the Executive Board compensation system reviewed with regard to appropriateness by an independent external compensation expert. In doing so, the overall target annual compensation of the individual Executive Board members and the structure of the Executive Board compensation were examined in detail. This review found that while the compensation meets the requirements of the German Stock Corporation Act and the Code, it could be aligned even more closely with customary market levels.

Miscellaneous

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

COMPENSATION OF THE SUPERVISORY BOARD MEMBERS

COMPENSATION SYSTEM

In accordance with § 18 of adidas AG's Articles of Association, after the end of the respective financial year, the members of the Supervisory Board receive a fixed compensation amount for their function as well as compensation for the chairmanship of or membership in committees, in accordance with the Code. For meetings requiring personal attendance, an attendance fee amounting to € 750 is granted. Additional variable compensation is not granted to the Supervisory Board members. Supervisory Board members who have not been members of the Supervisory Board for the entire financial year receive a pro-rated amount of compensation.

For the 2016 financial year, each individual member of the Supervisory Board received € 50,000 as fixed annual compensation; three times this amount was paid to the Chairman of the Supervisory Board and twice this amount was paid to each Deputy Chairperson. Members of the General Committee and of the Finance and Investment Committee received additional compensation of € 25,000 and members of the Audit Committee received additional compensation of € 50,000. In addition to their fixed compensation, the Chairmen of the General Committee and of the Finance and Investment Committee received a compensation amount of € 50,000 each, and the Chairman of the Audit Committee received compensation of € 75,000. The compensation paid for a committee chairmanship also covers the membership in such committee. The members of the Steering Committee, the Mediation Committee, the Nomination Committee and committees which are established ad hoc do not receive additional compensation. If a Supervisory Board member is in more than one committee, the member only receives compensation for his/her task in the committee with the highest compensation.

04 COMPENSATION OF THE SUPERVISORY BOARD MEMBERS IN €

	2016 Fixed compensation	2016 Compensation committee work	2016 Attendance fees	2015 Fixed compensation	2015 Compensation committee work	2015 Attendance fees
Supervisory Board members incumbent as at December 31, 2016						
Igor Landau (Chairman of the Supervisory Board, Chairman of the General Committee, Chairman of the Finance and Investment Committee)	150,000	50,000	5,250	150,000	50,000	8,250
Sabine Bauer (Deputy Chairwoman of the Supervisory Board, Member of the General Committee, Member of the Finance and Investment Committee)	100,000	25,000	5,250	100,000	25,000	8,250
Willi Schwerdtle (Deputy Chairman of the Supervisory Board, Member of the General Committee)	100,000	25,000	5,250	100,000	25,000	7,500
Ian Gallienne [1]	27,322	n.a.	1,500	n.a.	n.a.	n.a.
Dieter Hauenstein	50,000	n.a.	3,750	50,000	n.a.	3,750
Roswitha Hermann [2]	14,208	n.a.	750	n.a.	n.a.	n.a.
Dr. Wolfgang Jäger (Member of the Audit Committee, Member of the Finance and Investment Committee)	50,000	50,000	6,750	50,000	50,000	7,500
Dr. Stefan Jentzsch (Member of the Audit Committee)	50,000	50,000	7,500	50,000	50,000	6,000
Herbert Kauffmann (Chairman of the Audit Committee, Member of the Finance and Investment Committee)	50,000	75,000	7,500	50,000	75,000	7,500
Katja Kraus	50,000	n.a.	3,000	50,000	n.a.	3,750
Kathrin Menges	50,000	n.a.	3,750	50,000	n.a.	2,250
Udo Müller [3]	11,885	n.a.	750	n.a.	n.a.	n.a.
Roland Nosko (Member of the General Committee)	50,000	25,000	5,250	50,000	25,000	7,500
Hans Ruprecht (Member of the Audit Committee)	50,000	50,000	7,500	50,000	50,000	7,500
Nassef Sawiris [1]	27,322	n.a.	1,500	n.a.	n.a.	n.a.
Michael Storl [2]	14,208	n.a.	750	n.a.	n.a.	n.a.
Heidi Thaler-Veh	50,000	n.a.	3,750	50,000	n.a.	3,000
Kurt Wittmann [3]	11,885	n.a.	750	n.a.	n.a.	n.a.
Total	**906,831**	**350,000**	**70,500**	**800,000**	**350,000**	**72,750**

1 Supervisory Board member with effect from June 15, 2016.
2 Supervisory Board member for the period from June 24, 2016 to October 6, 2016.
3 Supervisory Board member with effect from October 6, 2016.

Expenses

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

SUPERVISORY BOARD COMPENSATION 2016

Fixed compensation and attendance fees

The total compensation paid to the Supervisory Board in the 2016 financial year amounted to € 1.26 million (2015: € 1.15 million). In addition, attendance fees totalling € 70,500 (2015: € 72,750) were paid. The increase in the total compensation for the 2016 financial year compared to the 2015 financial year is attributable to the fact that the Annual General Meeting on May 12, 2016 approved the amendment of the Articles of Association regarding the enlargement of the Supervisory Board from 12 to 16 members. The term of office of the two new shareholder representatives commenced with effect from June 15, 2016. The term of office of the two employee representatives began with effect from June 24, 2016. see Supervisory Board Report, p. 21

Miscellaneous

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

OUR SHARE

Despite a weak start into the year, most international stock markets recovered during the second half of 2016 and ended the year on a positive note. While the DAX-30 and the EURO STOXX 50 increased by 7% and 1%, respectively, the MSCI World Textiles, Apparel & Luxury Goods Index declined 1%. The adidas AG share significantly outperformed international stock markets in 2016, driven by a strong financial performance as well as positive company-specific and sector-related newsflow. As a result, the adidas AG share reached a new all-time high during the course of the year and ended 2016 with an increase of 67% compared to the prior year, making it the top performer within the DAX-30 for the second consecutive year. As a result of the strong operational performance in 2016 as well as Management's confidence in the strength of the company's financial position and long-term growth aspirations, we intend to propose a dividend per share of € 2.00 at our 2017 Annual General Meeting.

INTERNATIONAL STOCK MARKETS SHOW MIXED PERFORMANCE IN 2016

International stock markets were characterised by a volatile performance throughout 2016, as reflected by a weak start into the year and a recovery during the second half. Disappointing economic data in China, the unexpected outcome of the EU referendum in the UK ('Brexit') as well as declining oil prices put pressure on global equity markets in the first and second quarter of the year. Accordingly, the DAX-30 declined 10% in the first half of 2016. However, stabilising economic data in China as well as recovering oil prices, improving economic indicators and the extension of the ECB's quantitative easing programme until the end of 2017 provided significant support for international stock markets in the second half of 2016. In addition, hopes that US President Donald Trump would pursue a pro-growth policy triggered another stock market rally towards the end of the year. The DAX-30 benefited from these developments, resulting in a 19% increase in the second half. In total, the DAX-30 showed an improvement of 7% for the full year. At the same time, the EURO STOXX 50 increased 1% in 2016. The Dow Jones was the strongest performer in 2016 with an increase of 13%, hitting a new all-time high of 19,975 on December 20, 2016. The MSCI World Textiles, Apparel & Luxury Goods Index, however, was not able to fully recover in the second half, leaving the index with a slight decline of 1% at the end of 2016. see Table 01

01 **HISTORICAL PERFORMANCE OF THE ADIDAS AG SHARE AND IMPORTANT INDICES AT YEAR-END 2016** IN %

	1 year	3 years	5 years	10 years
adidas AG	67	62	199	298
DAX-30	7	20	95	74
EURO STOXX 50	1	6	42	(20)
MSCI World Textiles, Apparel & Luxury Goods	(1)	(8)	45	91

Source: Bloomberg.

ADIDAS AG SHARE ONCE AGAIN BEST-PERFORMING STOCK IN THE DAX-30 INDEX

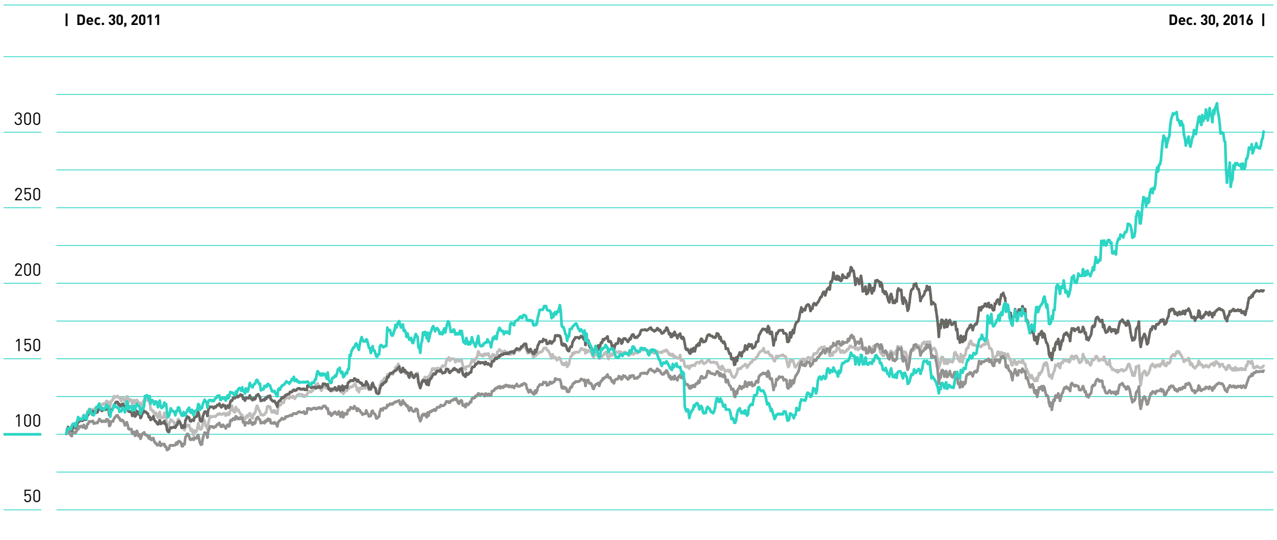
In 2016, the adidas AG share significantly outperformed international stock markets. In particular, the release of strong financial results, driven by the successful execution of the strategic business plan 'Creating the New', which resulted in subsequent increases in the company's full year 2016 outlook, strongly supported the positive trend of the adidas AG share during the course of 2016. In addition, positive company and sector-related newsflow, including the CEO succession, the addition of the adidas AG share to the EURO STOXX 50 as well as the company's third IR Tutorial Workshop, helped to build further trust in adidas and the company's ability to sustainably drive revenues and increase margins in the years to come. Consequently, the adidas AG share reached a new all-time high of € 159.50 on October 20, 2016. As a result of some profit-taking and strategic asset re-allocation executed by capital market participants towards the end of 2016, the adidas AG share closed the year at € 150.15. This translates into an increase of 67% compared to the end of December 2015, making the adidas AG share the top performer within the DAX-30 for the second consecutive year. see Table 02

LEVEL 1 ADR PERFORMS IN LINE WITH COMMON STOCK

Our Level 1 ADR closed 2016 at US $ 78.55, representing an increase of 62% versus the prior year level (2015: US $ 48.51). The less pronounced increase of the Level 1 ADR price compared to the ordinary share price was due to the appreciation of the US dollar versus the euro at the end of 2016 compared to year-end 2015. The number of Level 1 ADRs outstanding increased slightly to 8.8 million at year-end 2016 compared to 8.6 million at the end of 2015. The average daily trading volume increased to around 101,200 ADRs in 2016 (2015: around 92,100). Further information on our ADR Programme can be found on our website. www.adidas-group.com/adr

ADIDAS AG SHARE AT A GLANCE

02 FIVE-YEAR SHARE PRICE DEVELOPMENT[1]



1 Index: December 30, 2011 = 100.

adidas AG — DAX-30 — EURO STOXX 50 — MSCI World Textiles, Apparel & Luxury Goods Index

03 THE ADIDAS AG SHARE

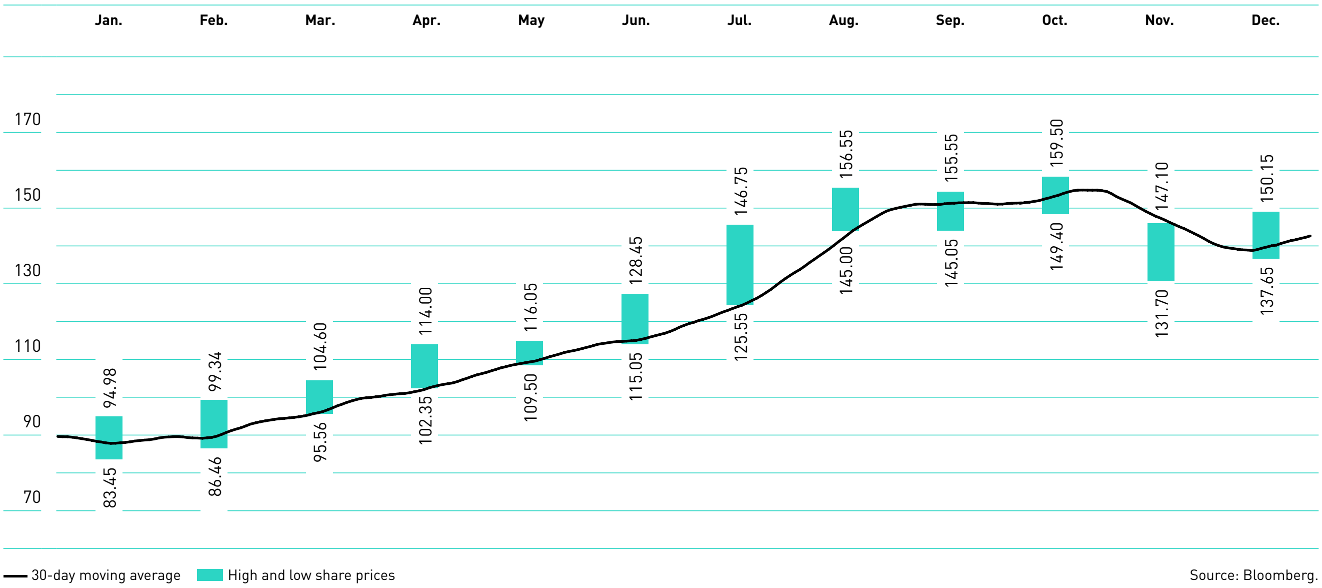
		2016	2015
Number of shares outstanding[1]	shares	201,489,310	200,197,417
Basic earnings per share	€	5.08	3.32[2]
Diluted earnings per share	€	4.99	3.32[2]
Cash generated from operating activities per share	€	6.73	5.41
Year-end price	€	150.15	89.91
Year high	€	159.50	93.41
Year low	€	83.45	54.61
Market capitalisation[3]	€ in millions	30,254	18,000
Dividend per share	€	2.00[4]	1.60
Dividend payout[3]	€ in millions	403	320
Dividend payout ratio[3]	%	39.6	47.9[2]
Dividend yield	%	1.3	1.8
Shareholders' equity per share[3]	€	32.12	28.30
Price-earnings ratio at year-end	%	30.1	27.1[2]
Average trading volume per trading day[5]	shares	892,646	1,199,167

Important indices

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

1 All shares carry full dividend rights.
2 Excluding goodwill impairment of € 34 million.
3 Based on number of shares outstanding at year-end.
4 Subject to Annual General Meeting approval.
5 Based on number of shares traded on all German stock exchanges.

04 **2016 ADIDAS AG HIGH AND LOW SHARE PRICES PER MONTH[1]** IN €



1 Based on daily Xetra closing prices.

ADIDAS AG SHARE MEMBER OF IMPORTANT INDICES

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index, which comprises our major competitors. In addition, as of September 16, 2016, the adidas AG share is a member of the EURO STOXX 50 Index, reflecting the strong increase of adidas AG's free-float market capitalisation in 2016. At December 31, 2016, our weighting in the DAX-30, which is calculated on the basis of free float market capitalisation and twelve-month share turnover, improved to 2.89% (2015: 2.15%). Our higher weighting compared to the prior year was due to the increase in market capitalisation of adidas AG, which more than offset the decrease in share turnover. Within the DAX-30, we ranked 14 on market capitalisation (2015: 17) and 12 on turnover (2015: 16) at year-end 2016. Our weighting in the EURO STOXX 50 Index, which is based on free-float market capitalisation, amounted to 1.31% on December 31, 2016. Additionally, in recognition of our social and environmental efforts, adidas AG is listed in several key sustainability indices. see Table 03

CONVERTIBLE BOND CLOSES THE YEAR AT € 183.40

In March 2012, adidas AG successfully issued a convertible bond, due on June 14, 2019, for an aggregate nominal amount of € 500 million. Proceeds from the offering have allowed the company to further optimise its debt structure. The bonds were priced with a 0.25% annual coupon and a conversion premium of 40% above the reference price of € 59.61, resulting in an initial conversion price of € 83.46 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted to € 81.57 per share. This adjustment became effective on May 13, 2016. The bonds are not callable by the issuer or putable by the bondholders until June 2017. In 2016, 2,947,127 shares were transferred following the exercise of conversion rights, all of which were serviced from treasury shares of the company. The remaining bonds were convertible into up to 3,182,525 million new or existing adidas AG shares. Consequently, as at December 31, 2016, 48% of the convertible bond was converted. The convertible bond closed the year at € 183.40, well above the prior year level of € 125.82. see Note 18, p. 166

DIVIDEND PROPOSAL OF € 2.00 PER SHARE

As a result of the strong operational performance in 2016, the company's robust financial position as well as Management's confidence in our long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 2.00 per dividend-entitled share to shareholders at the Annual General Meeting (AGM) on May 11, 2017. This represents an increase of 25% compared to the prior year dividend (2015: € 1.60). Subject to the meeting's approval, the dividend will be paid on May 16, 2017. The total payout of € 403 million (2015: € 320 million) reflects a payout ratio of 39.6% (2015: 47.9%, excluding goodwill impairment losses) of net income attributable to shareholders, which is within the target range of between 30% and 50% of net income attributable to shareholders as defined in our dividend policy. see Table 03

SHAREHOLDER RETURN PROGRAMME CONTINUED

On October 1, 2014, adidas AG announced a multi-year shareholder return programme of up to € 1.5 billion in total to be completed by December 31, 2017. The shareholder return programme is being executed primarily by buying back shares via the stock exchange under the authorisation given by the Annual General Meeting on May 8, 2014, and on May 12, 2016, for the period through to May 11, 2021. The authorisation covers the repurchase of up to 10% of the company's share capital on the stock exchange.

On November 7, 2016, adidas AG announced the commencement of the third tranche of the share buyback programme with an aggregate acquisition cost of up to € 300 million (excluding incidental purchasing costs). Within the third tranche up to and including January 31, 2017, adidas AG bought back 2,128,200 shares. This corresponds to a notional amount of € 2,128,200 in the nominal capital and consequently 1.02% of the company's nominal capital. The average purchase price per share for this third tranche was € 140.96.

The total number of shares bought back by adidas AG within the framework of the shareholder return programme since November 7, 2014, amounted to 11,146,969 shares as of January 31, 2017. This corresponds to a notional amount of € 11,146,969 in the nominal capital and consequently 5.33% of the company's nominal capital. As at January 31, 2017, adidas AG had successfully completed 60% of its multi-year shareholder return programme.

STRONG INTERNATIONAL INVESTOR BASE

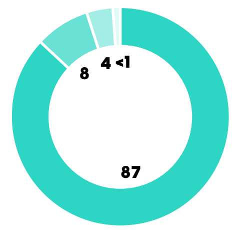
Based on our share register, we estimate that adidas AG currently has slightly more than 60,000 shareholders. In our latest ownership analysis conducted in January 2017, we identified almost 100% of our shares outstanding. Institutional investors represent the largest investor group, holding 87% of shares outstanding. Private investors and undisclosed holdings account for 8%. Current members of the Executive and Supervisory Boards hold less than 1% in total. Lastly, adidas AG currently holds 4% of the company's shares as treasury shares, reflecting shares purchased as part of our share buyback programme which were partly used for shares transferred following the exercise of conversion rights from the convertible bond. see Diagram 05

In terms of geographical distribution, the North American market currently accounts for 40% of institutional shareholdings, followed by the UK with 21%. Identified German institutional investors hold 8% of shares outstanding. Belgium and France account for 9% and 5%, respectively. 17% of institutional shareholders were identified in other regions of the world. see Diagram 06

VOTING RIGHTS NOTIFICATIONS PUBLISHED

All voting rights notifications received in 2016 and thereafter in accordance with §§ 21 et seq. of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) can be viewed on our corporate website. www.adidas-group.com/voting_rights_notifications Information on reportable shareholdings that currently exceed or fall below a certain threshold can also be found in the Notes section of this Annual Report. see Note 26, p. 173

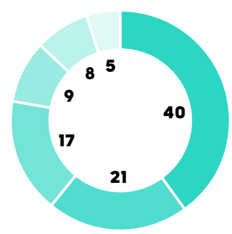
05 **SHAREHOLDER STRUCTURE** [1]



87% Institutional investors
8% Private investors and undisclosed holdings
4% Treasury shares
<1% Members of adidas AG Executive and Supervisory Boards

1 As of January 2017.

06 **SHAREHOLDER STRUCTURE BY REGION** [1, 2]



40% North America
21% United Kingdom
17% Rest of the world
9% Belgium
8% Germany
5% France

1 As of January 2017.
2 Reflects institutional investors only.

MANAGERS' TRANSACTIONS REPORTED ON CORPORATE WEBSITE

Managers' transactions involving adidas AG shares (ISIN DE000A1EWWW0) or related financial instruments, as defined by § 19 of the European Market Abuse Regulation (MAR), which came into force on July 3, 2016, conducted by members of our Executive or Supervisory Boards, by key executives or by any person in close relationship with these persons, are reported on our website. www.adidas-group.com/s/managers-transactions In 2016, adidas AG received five notifications concerning managers' transactions pursuant to § 19 MAR: Igor Landau, Chairman of the adidas AG Supervisory Board, purchased a total of 20,000 shares in five transactions on November 15, 2016.

ADIDAS AG SHARE RECEIVES STRONG ANALYST SUPPORT

Both the company and the adidas AG share continued to receive strong analyst support in 2016. Around 35 analysts from investment banks and brokerage firms regularly published research reports on adidas. The vast majority of analysts are confident about the medium- and long-term potential of the company. This is reflected in the recommendation split for our share as at December 31, 2016. 27% of analysts recommended investors to 'buy' our share (2015: 38%). 56% advised to 'hold' our share (2015: 48%) and 17% of the analysts recommended to 'sell' our share (2015: 14%).

SUCCESSFUL INVESTOR RELATIONS ACTIVITIES

adidas AG strives to maintain close contact to institutional and private shareholders as well as analysts. In 2016, Management and the Investor Relations team further intensified communication with financial market participants. In total, we spent 47 days on roadshows (2015: 44) and also spent 28 days presenting at 16 national and international conferences (2015: 19 days at 13 national and international conferences). Furthermore, 2016 saw the continuation of our 'Investor Relations Tutorial Workshops', as we hosted one of these workshops in Herzogenaurach, with more than 100 investors and analysts attending the event either on site or online. The purpose of these half-day events is to provide further insights into key strategic areas as well as topics with high relevance due to specific circumstances.

For the third time in four years, adidas was awarded a Red Dot Communication Design Award for its Annual Report, this time even with the prestigious 'Best of the Best' honours. In addition, we ranked first across all indices in the 'Best Annual Report' ranking of German business magazine 'Bilanz', which focuses on the quality of content and transparency in reporting amongst German corporations. Lastly, our 2015 Annual Report won a silver award in the 'Best of Content Marketing' competition, Europe's largest corporate publishing competition.

EXTENSIVE FINANCIAL INFORMATION AVAILABLE ONLINE

We offer extensive information around our share as well as the company's strategy and financial results on our corporate website. Our event calendar lists all conferences and roadshows we attend and provides all presentations for download. In addition to live webcasts of all major events such as the Annual General Meeting, Investor Days and our IR Tutorial Workshops, we also offer webcasts of our quarterly conference calls. ↘ www.adidas-group.com/investors

2 OUR COMPANY

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GROUP MANAGEMENT REPORT

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

CORPORATE STRATEGY

Everything we do is rooted in sport. Sport is central to every culture and society and is core to an individual's health and happiness. With sport playing an increasingly important role in people's lives, we operate in a highly attractive industry. Through our authentic sports brands, we push the boundaries of products, experiences and services to drive brand desire and capitalise on the growth opportunities in sport. The importance of sport, however, goes far beyond that: We believe that, through sport, we have the power to change lives. And we work every day to inspire and enable people to harness the power of sport in their lives.

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

It is our mission to be the best sports company in the world. Best means that we design, build and sell the best sports and fitness products in the world, with the best service and experience. Best is what our consumers, athletes, teams, partners and media will say about us. Once people are saying that we are the best, market share, leadership and profitability will follow.

To achieve our mission we focus on the following initiatives:

— **Authentic sports brands:** Our brands are driven to create and innovate through a common passion for sport and a sporting lifestyle. At the same time, the adidas and Reebok brands each have a unique identity and focus on their core competencies. This approach allows us to develop and create products, experiences and services tailored to the individual needs and desires of a broad spectrum of consumers, increasing our leverage in the marketplace.

— **Investments focused on highest-potential markets and channels:** As a company, we target strong market positions in all markets in which we compete. However, we have prioritised our investments based on those markets which offer the best medium- to long-term growth and profitability opportunities. In this respect, we have identified extensive growth opportunities in North America and Latin America and aim for dramatic market share gains. In addition, we place considerable emphasis on expanding our activities in Greater China and Western Europe to gain market leadership.

— **Creating a flexible supply chain:** Speed and agility are key to outpacing the competition, providing a constant flow of new and relevant products for our consumers and high service levels for our customers. We are committed to meeting the full range of consumer needs by providing game-changing technical innovations for sport, creating and driving trends in streetwear through our sports-inspired lifestyle products, while ensuring constant product availability in the correct size and colour to the highest quality standards. see Global Operations, p. 62

— **Innovation:** We will continue to challenge the boundaries of functionality, performance and design by leveraging our extensive R&D expertise within the company and also by defining Open Source as a key strategic choice. In addition, enhancing services for customers and consumers alike as well as implementing improved internal processes and systems are other areas where our organisation strives to innovate. see Research and Development, p. 67

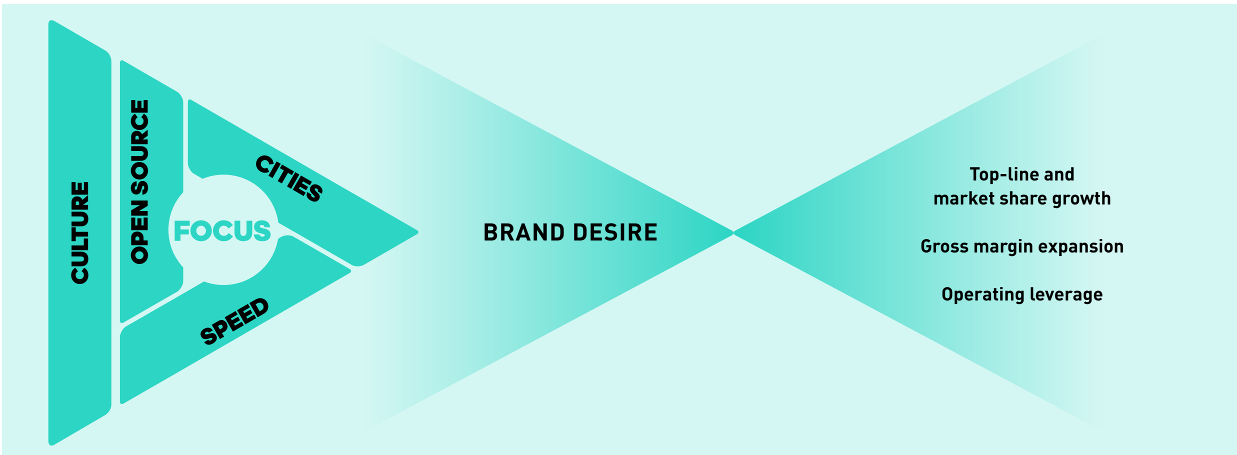
— **Focusing on sustainability:** We are committed to further striking the balance between shareholder interests and the needs and concerns of multiple other stakeholders, including our own employees, the people making our products and the environment. On our website, we provide detailed information on the steps we take to have a sustainable positive impact on society and the planet. see Sustainability, p. 78 www.adidas-group.com/s/sustainability-strategy

— **Creating long-term shareholder value:** Creating long-term value for our shareholders drives our overall decision-making process. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth and, ultimately, operating cash flow. We are committed to increasing returns to shareholders with above-industry-average share price performance and dividends. see Internal Management System, p. 86

STRATEGIC BUSINESS PLAN: CREATING THE NEW PUTS BRANDS FIRST

In March 2015, we presented our new strategic business plan until the year 2020 named 'Creating the New'. At the epicentre of Creating the New is our ambition to further accelerate growth by significantly increasing brand desirability. Creating the New therefore focuses on our brands as they connect and engage us with our consumers. Its consumer-centric approach is already driving significant improvements in the desirability of our brands and has increased our relevance with consumers around the globe. We are gaining market shares in those categories, cities and markets that we have identified as future growth drivers for our company.

01 **OUR STRATEGY FOR CREATING THE NEW**



STRATEGIC CHOICES

Our new strategic business plan is based on our unique corporate culture and built around the three strategic choices that will support us in intensifying our focus on our consumers and will drive brand desirability in the years to come: Speed, Cities and Open Source.

Culture

At adidas, we are convinced that a corporate culture of confidence, creativity and collaboration is key to enable us to create the new. This culture is defined and inspired by our People Strategy, as our people's performance, well-being and knowledge have a significant impact on brand desire, consumer satisfaction and, ultimately, our financial performance. We are proud of the strong level of diversity within our workforce, fostering different ideas, strengths, interests and cultural backgrounds, as this helps us to better fulfil the needs and multi-faceted demands of our consumers around the world. In the future, our People Strategy will include a stronger focus on developing our internal talents and increasing women's representation in leadership positions. see Our People, p. 72

Speed

Driving brand desirability begins with putting our consumers at the heart of everything we do and serving them in the best possible way. This involves ensuring that consumers always find fresh and desirable products where and when they want them and with an unrivalled brand experience. This, in turn, means to us being able to anticipate what consumers want and react accordingly in a timely manner. Speed is therefore a very critical and powerful lever for us and we have set ourselves the goal to become the first true fast sports company by 2020. see Global Operations, p. 62

Being fast will give us decisive competitive advantages. These include:

- **Improve product availability:** Enable constant product availability and ensure faster delivery of products.
- **Decrease risk:** Reduce the risk of overbuying and decrease end-season clean-up by creating more relevant product propositions.
- **Create additional net sales:** Capture higher demand with shorter lead-time production and avoid seasonal product successes going out of stock.
- **Generate more contribution:** Reduce markdowns on articles sold by increasing the share of volumes sold at full price.

Over the last years, we have built the foundation for Speed with adidas neo, in which a big proportion of the product range to date already runs on so-called 'Speed programmes'. In 2016, we continued to adapt the learnings from neo and built Speed capabilities across all other categories for a defined share of their business, in particular the adidas brand's key categories Running, Football, Training and Originals. In addition, from a market perspective, 2016 saw a further roll-out of Speed globally, with most markets currently able to participate in the Speed programmes.

We are using our industry-leading experience to re-shape our entire business model end-to-end, from range planning to product creation, sourcing, supply chain, go-to-market and sales. In this context, we base our Speed ambitions on three global and centralised initiatives that are deployed consistently across our markets and channels:

- **Never out of stock:** We standardise and strengthen our existing 'never-out-of-stock' business proposition by setting a global, permanent offer with longer life cycles and continuous reproduction and replenishment. This ensures our most iconic and desired products are permanently available to our consumers.
- **Planned responsiveness:** Based on sell-through data, which we receive and analyse at the beginning of the season, we can better read demand signals, re-order seasonal products on shorter lead times and deliver them within the season. By doing so, we are able to repeat seasonal product successes and fulfil higher consumer demand than initially forecasted.
- **In-season creation:** We plan ranges to be created later in the season in order to create or capture the latest trends in the industry. This, in turn, helps us to create unexpected newness and drive brand desire to new heights.

The combination of these three initiatives will transform our current set-up to a new speed-enabled end-to-end business model, with the goal of winning the consumer with constantly fresh and desirable products. see Research and Development, p. 67

Besides focusing on Speed in our current supply chain and production process, we also look into new, disruptive business models and technologies to make us faster. A prime example in this area is our Speedfactory project: using smart manufacturing instead of centralised production, it brings production to where the consumer is. It opens doors to the creation of products completely unique to the fit and functional needs of consumers, through a combination of the craft of shoemaking and cutting-edge technology. While the pilot Speedfactory was set up at the end of 2015 in partnership with industry experts to provide a testing ground for this model, 2016 saw the introduction of the first pairs of high-performance footwear to come out of the Speedfactory. Furthermore, in 2016, we announced the expansion of our Speedfactory production facilities in Ansbach, Germany, which will begin large-scale production in 2017. As a next step, we will open a new Speedfactory in Atlanta, USA, in 2017, to create products more quickly for and closer to the US consumer. see Global Operations, p. 62 see Research and Development, p. 67

Our 2020 targets for Speed: Today, around 15% of our sales are generated on Speed programmes. It is our ambition to increase the share of speed-enabled products to at least 50% of our net sales by 2020, with all key categories contributing to this development. As these initiatives will put us in a position to provide consumers with appealing and up-to-date products, we expect this part of our business to achieve a 20% higher share of full-price sales compared to the regular range.

Cities

Major metropolitan centres are playing an increasingly influential role in shaping global trends and consumers' perception, perspectives and decisions. By 2030, it is forecasted that around 60% of the global population will live in cities. Given this megatrend of urbanisation and the dominance of a few global mega cities in terms of economic strength, population size, presence of media and degree of sports participation as well as their influence on global cultural trends, adidas has defined Cities as one of its strategic choices. Creating the New therefore focuses on six global cities: London, Los Angeles, New York, Paris, Shanghai and Tokyo.

Starting in 2015, adidas began to disproportionately invest into these cities in the areas of marketing, retail experiences and organisational set-up. The primary goal is to connect with the most influential consumers and elevate the presence and impact of our brands on the most important global platforms. We will constantly evaluate our activities and, if necessary, expand our focus of Cities beyond the initial six named.

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

It is our goal to create an end-to-end ecosystem that connects consumer communities to relevant products, activation and retail experiences through the lens of the various sports categories:

- **Consumer communities:** We further developed our strong relationships with consumers who identify with key sports by cultivating sports communities and tribes directly through our own resources and in partnership with external groups. Together with the U.S. Soccer Foundation and the New York City Football Club, in 2016 adidas announced the launch of the New York City Soccer Initiative, a public-private partnership that will build and maintain 50 soccer fields in under-served neighbourhoods across the five districts over the next five years. Our efforts also include scaling successful models that were piloted in the past, such as the Paris Battle Runs, which helped us establish scalable running communities in France.

- **Products:** We continue to drive a multi-pronged strategy of product introductions, focused across all six cities, including global campaign launches and exclusive collections. We amplify the impact of our product introductions through higher marketing investments and stock allocations of key strategic products to these cities, in addition to pursuing more innovative distribution approaches. Key successes in 2016 included the release of limited editions such as the adidas UltraBOOST Uncaged Parley or the Alexander Wang x adidas Originals collection, which both were exclusively available in our six key cities.
- **Activation:** Based on our commitment to drive meaningful interactions and continuous engagement with our consumers, we adopt an 'always on' approach. In this context, our activation playbook highlights hyperlocal connections and a relentless delivery of value and inspiration to individuals and groups. Through our nine global newsrooms, which span across the entire world, we drive continuous dialogue with consumers while at the same time leveraging our global assets and local partners to create special moments for them. For example, in 2016, the launch of the new football boot concept 'Glitch' in London represented a new and revolutionary way to launch a concept digitally and in the most targeted way. Available through an app, Glitch is only accessible for an exclusive consumer subset that is invited to participate in the ecosystem by receiving an online code from one of the Glitch ambassadors or pro players who were seeded the boots in late summer.
- **Retail experiences:** The environments where consumers find and interact with our products are important focus areas for us. We are committed to providing premium retail experiences to our consumers with executions that connect, engage and inspire them. We view our own-retail stores as a valuable point of sale to excite consumers, by setting high standards for our brand presentations and experiences. In 2016, the opening of our first flagship store in New York and the remodelling of key concept stores such as in our key strategic cities Paris and London were important milestones to further elevate our most important own-retail destinations. We will apply the learnings from these initiatives across our entire global distribution, including our wholesale partner doors.

Our 2020 targets for Cities: Our Cities initiative is off to a strong start, as indicated by improvements in key performance indicators such as NPS and market share. Across all six cities, NPS grew in the course of 2016 with a relative outperformance versus our key competitors. In addition, revenues increased at a strong double-digit rate in most of the six cities, resulting in significant market share gains. We remain committed to achieving a leading position within these cities, by doubling revenues by the end of 2020 compared to 2015.

Open Source

Open Source is a collaboration-based innovation model that aims to build brand advocacy by opening the brands' doors to the creator and by inviting him in to help shape the future of sport and sports culture with us. Open Source is a mindset that is based on creativity, collaboration and confidence. It is about learning and sharing, about starting conversations between the brand, external experts and consumers and about giving them the chance to have an impact on what we do.

By defining Open Source as one of its strategic choices, adidas intends to:

- Provide access for externals to tools and resources we use to create (e.g. materials, factories, data, experts, athletes, social platforms and business models).
- Acquire and nurture creative capital, new insights, skills, competencies and specialised knowledge.
- Explore new territories to create unprecedented brand value for the consumer beyond mere transactional businesses.
- Strengthen the consumer's perception of our brands as leaders in sport, by providing consumers access to the progress of our projects and creation processes.

We have defined three strategic initiatives for Open Source:

- **Creative collaborations:** Creative collaborations are targeted on increasing our creative capital through new tools, new environments and new perspectives from outside creative thinkers. They are meant to give creativity a platform and provide the right tools for ideas to blossom. With the Brooklyn Creator Farm, a design space and creation hub, we offer young urban creative talent a platform and invite them in to fuel innovation in sport with their ideas, outside any regular seasonal product creation calendars. In addition, recognising the influence, success and global brand power that began almost two years ago with YEEZY for adidas Originals, we announced an unprecedented new alliance in 2016 with adidas + Kanye West, a YEEZY branded entity creating footwear, apparel and accessories for both genders across street and sport. The partnership – the most significant collaboration between a non-athlete and an athletic brand so far – aims at redefining the future of sport by uniting the technical, innovative expertise and capabilities of the adidas brand with the visionary imagination of Kanye West.
- **Athlete collaborations:** The strategic initiatives of athlete collaborations aim to build communities of athletes that help shape the future of their sport with us. The adidas brand has a far-reaching history in sport, working with top athletes, and will continue to further strengthen its network around male creator athletes. In recent years, the brand signed long-term partnerships with two of the world's most in-demand athletes – football icon Paul Pogba and basketball superstar James Harden – who are both recognised as two of the most creative athletes in world sport, on and off the pitch. In addition, we aim to further expand our roster of female influencers in the years to come. In this context,

in 2016, we announced collaborative partnerships with supermodel Karlie Kloss, who joined adidas by Stella McCartney as the face of its fall/winter 2016 campaign, as well as style icon and fitness advocate Gigi Hadid, who joined Reebok's community of inspiring women as the newest face of the brand's #PerfectNever movement. Lastly, to directly engage and interact with a broader consumer community, we continue to focus on our digital space (e.g. Runtastic) and physical space (e.g. Paris Battle Run) projects.

— **Partner collaborations:** The strategic initiatives in the area of partner collaborations intend to open up our knowledge of sport to collaborate with the best partners in other fields. By exchanging core competencies, we will create unique value for our brands and ultimately also for our consumers. The consumer touchpoints in this field include sport, entertainment experience, consumer specialists, manufacturing and sustainability as well as sports health and monitoring. Our partnership with Parley for the Oceans serves as a prime example. As a Founding Member of the organisation, our support goes far beyond financial aid to fund beach clean-ups. In 2016, this partnership took the stage at the Rio Olympic Games, had football teams FC Bayern Munich and Real Madrid play in jerseys made of Parley Ocean Plastic and unveiled the UltraBOOST Uncaged Parley, the first performance footwear made out of the equivalent of eleven recycled plastic bottles. The adidas brand is committed to making one million pairs of running shoes using Parley Ocean Plastic in 2017 and has restated its ultimate ambition to eliminate virgin plastic from its supply chain.

Our 2020 targets for Open Source: With Open Source, our 2020 goal is to embed external creative capital in our processes to extend our possibilities in creating the future of sport. In the initial phase of Open Source until 2017, we have identified two key targets. The first is to drive brand heat and advocacy by inviting consumers to become part of our creative culture. By the end of 2017, our goal is that 30% of shared content on our brands through social media and other channels is user-generated content. Our second target is to grow the number of users in our digital ecosystem to over 250 million. This will ensure we are at the pulse of the consumer journey at key moments and touchpoints in their lives. By using the insights we will generate from these sources, we will craft better products and services for our consumers, driving improvements in Net Promoter Score, sales, market share and profitability.

'CREATING THE NEW' ACCELERATION PLAN

At the beginning of 2017, based on the initial success of Creating the New, which is reflected in the strong financial performance in 2016, we implemented a number of initiatives to foster brand momentum and accelerate the overall growth path:

— **Active management of brand portfolio:** Going forward, the focus of our company will be even more on operating a limited brand portfolio with a clear focus on our core strength in the athletic footwear and apparel market. This will allow us to reduce complexity and pursue our target consumer more aggressively with both the adidas and the Reebok brand. In this context, in 2016 we announced our decision to exit the golf hardware market and therefore to sell the TaylorMade, Adams Golf and Ashworth brands. In addition, we have decided to also actively seek a buyer for our CCM Hockey business. [1]

— **Sustain momentum for the adidas brand in North America:** By authenticating the brand through sports, accelerating our existing initiatives and introducing new measures aimed at further elevating brand desirability amongst US consumers, we want to strongly improve our market position and significantly increase profitability in this all-important market.

— **Drive the digital transformation:** Improving our digital capabilities along the entire value chain will enable us to accelerate building direct relationships with the consumer and drive direct sales through our eCommerce platform.

— **Pull value levers across the organisation:** By leveraging our Brand Leadership model, increasing our marketing effectiveness and improving our overall operating efficiency, we aim to enhance profitability in the years to come.

FINANCIAL AMBITION UNTIL 2020

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

— **To achieve top-line growth significantly above industry average:** We aim to increase currency-neutral revenues annually between 2015 and 2020 at a rate between 10% and 12% on average.

— **To win significant market share across key categories and markets:** We have defined key categories within the adidas and Reebok brands that will spur our growth going forward. From a market perspective, we have defined clear roles for each of our markets, depending on macroeconomic trends, the competitive environment and our brand strength in the respective markets.

1 The company refrains from providing detailed strategic updates for its TaylorMade-adidas Golf and CCM Hockey businesses, due to its focus on the adidas and Reebok brands.

— **To improve our profitability sustainably:** We plan to substantially improve the company's profitability, growing our net income from continuing operations by an average of between 20% and 22% per year between 2015 and 2020, significantly faster than our targeted top-line growth.
— **To deliver on our commitment to increase shareholder returns:** Creating the New includes a strong commitment to generating increasing returns for our shareholders. Given our firm confidence in the strength of the company's financial position and future growth ambitions, we target a dividend payout ratio in a range between 30% and 50%.

OUR SALES AND DISTRIBUTION STRATEGY: FOCUS ON OMNI-CHANNEL

Our Global Sales function drives the commercial performance of the company by converting brand desire into profitable and sustainable business growth. It is our ambition to deliver the best shopping experience within the sporting goods industry across all consumer touchpoints.

ROLE OF OUR GLOBAL MARKETS

Our Global Sales strategy is crafted by a centralised integrated marketplace team which supports the flawless execution of our Global Brands strategies and drives operational excellence across our nine global markets. In a changing global landscape, our diverse market portfolio is an important asset in maximising the business, elevating our competitiveness and achieving our ambitions towards 2020. Clear roles have been defined for each of our markets:

Extend: In markets where we are currently the market leader, we plan to leverage and grow our market leadership. These are Russia/CIS, Japan and South Korea.

Lead: In markets where we are a strong player but not the number one yet, we aim for market leadership. These are Western Europe, Greater China as well as Emerging Markets.

Grow: In markets where we have identified extensive growth opportunities, we seek dramatic market share gains. These are: North America, Latin America and Southeast Asia/Pacific.

ROLE OF OUR CHANNELS

With more than 2,800 own-retail stores, more than 12,000 mono-branded franchise stores, over 120,000 wholesale doors and more than 50 own eCommerce sites, we have an unrivalled network of consumer touchpoints within our industry. By seamlessly integrating the channels within our market portfolio, we are uniquely positioned to pursue and succeed in strategies that not only deliver premium consumer experiences but also increase the productivity of our distribution footprint. As we replicate this model to capitalise on new consumer opportunities through own-retail destinations and wholesale managed spaces, we are able to create halo effects across all consumer touchpoints, resulting in further marketplace expansion.

In 2016, we advanced our Global Sales strategy with a number of initiatives focused on premium consumer experience, productivity of the sales platform and marketplace expansion.

1. Premium consumer experiences

In order to be 'omni-present' for the consumer and to capture the full sales potential by minimising occasions when consumer demand is not met, we continue to focus on the following omni-channel initiatives:
— 'Inventory Check' which allows online shoppers to view in-store product availability.
— 'Click & Collect' which allows consumers to purchase or reserve items for pick-up in a local store.
— 'Ship from Store' which allows us to service consumers faster than before by turning our stores into mini distribution centres that are closer to consumers.
— 'Buy Online, Return to Store' which not only provides consumers with a convenient way to return product purchases but also offers new buying opportunities.
— 'Marketplace & Partner Programme' which expands our online offering to a larger group of consumers across several channels.
— 'Endless Aisle' which provides in-store visitors with access to our full range of products through our eCommerce platform.

In 2016, we deployed a strategic mix of these capabilities in our own-retail operations in Western Europe, North America, Latin America and Russia/CIS. In this context, a major milestone was achieved in Western Europe, as we were able to integrate and expand our relationships with marketplaces and wholesale partners, including an innovative pilot programme in Berlin where our own-retail stores started to partner with a leading online retailer to deliver a premium, same-day shopping experience to our consumers. In addition, 2016 saw the successful introduction of 'Endless Aisle' to North America with the opening of our new adidas flagship store in

New York City. In 2017, we will continue to roll out our omni-channel initiatives across the various markets. For example, in North America, we will start to connect to selected wholesale partners in order to create a truly seamless experience for our consumers, independent of where they shop. In addition, 'Endless Aisle' and 'Click & Collect' will be rolled out across the North American market.

2. Productivity of sales platform

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

- **Premium presentation:** Our physical selling spaces are an important factor in driving Net Promoter Score (NPS) and full-price sell-through. We further evolved the brand experience through the launch and expansion of premium store concepts such as Stadium and Neighbourhood for the adidas brand as well as FitHub for the Reebok brand. Our own-retail environments are designed for scalability and we continue to expand these concepts and benefit from their impact across channels, including our wholesale and franchise partners.
- **Consumer service excellence:** In 2016, we further advanced our successful 'Connect-Engage-Inspire' service model, which was launched in 2015. The model helps us transform the culture and effectiveness of our own-retail teams, and consumers enjoy significantly elevated service levels which have proven commercially rewarding through higher conversion rates and increased average selling prices.
- **Personalised interaction:** Our commitment to deliver a premium shopping experience is reflected online through our digital brand flagship stores, adidas.com and reebok.com. E-commerce and digital communication are powerful tools for our brands to engage with consumers. In 2016, we combined all our digital activities in a new function, Digital Brand Commerce, to not only accelerate our e-commerce business but also expand our effectiveness in all forms of digital communication.
- **Insight-driven decision-making:** We continue to invest in our analytical capabilities and technical infrastructure to become faster and more insight-driven in decision-making. Leveraging data such as cross-channel product sell-through and consumer purchasing behaviours delivers actionable insights in areas such as assortment planning and product life cycle management.

3. Marketplace expansion

Our goal is to leverage and scale the success of our initiatives across our channels in order to better serve consumers. The key contributor to this approach is controlled space. Whenever we are able to actively manage the way our brands and products are presented at the point of sale, the impact on the consumer is in most cases significant. We have the power to do so in own retail (including eCommerce), in franchise and in wholesale managed space. By 2020, we aim to generate more than 60% of our revenues through controlled space.

We leverage own retail as a catalyst to our controlled space ambition. We amplify our success in own retail by translating key learnings to franchise stores and expanding franchising as a business model in existing as well as into new geographies. In 2016, we successfully launched our adidas flagship in New York City, featuring the new Stadium concept, which was also implemented at selected wholesale partners. We expect the flagship to set new standards in terms of presentation, execution and service that will be replicated across all other channels. eCommerce will continue to be the fastest-growing channel that we operate, with revenues expected to grow from below € 1 billion in 2016 to € 4 billion in 2020. In wholesale, we will continue to expand our footprint with a keen focus on prioritised accounts, targeting important consumer hotspots and trade zones, especially those that are part of our Cities initiative. Strategic partnerships to operate controlled space remain an important thrust of this expansion.

We are confident that our Global Sales focus on both markets and channels will realise significant wins in our key performance indicators – brand desirability, net sales, market share and profitability. see Internal Management System, p. 86

ADIDAS BRAND STRATEGY

MISSION: TO BE THE BEST SPORTS BRAND IN THE WORLD

The adidas brand has a long history and deep-rooted connection with sport. Its mission is to be the best sports brand in the world, helping athletes of all levels to make a difference – in their game, in their lives, in their world. This is anchored in our belief that through sport we have the power to change lives.

The adidas brand's broad and diverse sports portfolio, from major global sports such as football and running, to regional heartbeat sports such as American football and rugby, has enabled the brand to transcend cultures and become one of the most recognised and iconic global brands.

Driven by a relentless pursuit of innovation in sports product design, development and manufacturing as well as decades of accumulating sports science expertise, the adidas brand has a truly unique and comprehensive sports offering. Spanning footwear, apparel, equipment and services, the brand caters for all, from elite professional athletes and teams to any individual who wants to make sport part of their lives.

With this powerful platform, the adidas brand is in a very strong position for profitable and sustainable growth.

CONSUMER OBSESSION: CREATING FOR THE CREATORS

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

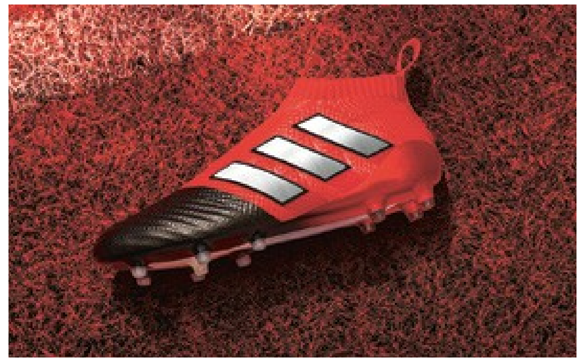
— **Organisational structure:** In 2015, a major reorganisation of roles and responsibilities at the adidas brand was completed under the Brand Leadership programme. The aim of this programme is to provide an organisational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment. This has been achieved by adapting the ownership of decision-making from a horizontal functional model to a vertical consumer model, where the business owner, for example the General Manager of adidas Running, now has clear decision-making authority across all functional marketing disciplines. In addition, our Global Brands organisation now has a centralised, global role for key decisions relating to the appearance of our brands and products around the world. With this approach, we ensure that our product offering in the markets enjoys a high level of commonality, while at the same time we ensure that major initiatives such as product launch and communication activities are managed centrally before they are executed locally by the markets. In 2016, we implemented additional measures

02 **ADIDAS RUNNING**
ULTRABOOST UNCAGED

03 **ADIDAS ORIGINALS**
NMD_XR1

04 **ADIDAS TRAINING**
Z.N.E.

05 **ADIDAS FOOTBALL**
ACE 17+ PURECONTROL



to capture the full potential of Brand Leadership. The decisions taken to accelerate Brand Leadership include the creation of a global merchandising function responsible for developing one global range architecture to ensure maximum impact of our creation efforts as well as for the deployment of the global range into the marketplace. In addition, we have combined all of the individual digital activities across Brand, Sales, IT and Markets in a new function, Digital Brand Commerce, to create an industry-leading, holistic, digital consumer experience.

— **Creator archetype:** Based on the rapid evolution of sport and sports culture, with Creating the New, the adidas brand evolved its consumer segmentation strategy. The consumer grid comprises six key quadrants, which are not mutually exclusive. Within this grid, the key is to win the most influential consumers, defined as the creator archetype. The creator focus is at the top of the grid, on male and female athletes as well as streetwear hounds. True to the brand's values, these influential consumers define themselves as a work in progress – are all doers, first to adopt, creating their own inspiring content and are focused on what's new and what's next. A large portion of creators live, play and work in the world's most influential and aspirational cities, a key reason for the company's Cities strategic choice. In 2017, the adidas brand will accelerate global and local marketing initiatives to amplify the brand's creator positioning in the marketplace with a specific focus on women's.

— **Consumer centricity:** Companies that pursue a strategy of putting the consumer's voice and input as a centrepiece of their operational and decision-making process have proven higher levels of success in creating brand advocacy. Therefore, investing in and rolling out a global Net Promoter Score ecosystem is one of the key change pillars of Creating the New, in order to drive the adidas brand's consumer-obsessed ambition in a measurable and objective manner. The Net Promoter Score (NPS), first introduced in 2015, is the central KPI of the adidas brand's advocacy programme. Through this programme, the adidas brand strives to understand the consumer perception (positive and negative) of the brand and the key drivers which motivate them to recommend the brand to their friends. see Internal Management System, p. 86

FRANCHISES: CREATE THE MOST ICONIC AND DESIRED SYMBOLS IN SPORT

We are convinced that footwear has the highest influence on brand perception and, more importantly, on innovation, on creativity and on design perception. Footwear is also the best driver of NPS, which in turn correlates directly into consumer purchase intent and our potential to grow market share. Therefore, until 2020, the adidas brand is placing a higher emphasis in terms of investment and resources into footwear. In addition, the brand also has a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises that can really make a difference for the brand.

Such footwear franchises are defined as long-term concepts that we commit to for a multi-year period. The goal of franchises is not only to shape sport, but also to influence culture. They are built to create trends, rather than follow. They are targeted directly at the creator consumer through iconic features, stories and functions, and have the potential to be iterated and expanded over time. The mix of franchises is expected to be representative of the brand's annual category priorities, and their life cycles will be carefully managed, to ensure longevity and avoid overheating.

In addition, franchises will be prioritised throughout the value chain, highly leveraging and benefiting from the company's strategic choices of Speed, Cities and Open Source. By 2017, the adidas brand expects its top franchises to represent at least a 30% share of the footwear business. In 2016, key adidas brand franchises included a blend of past icons such as the Stan Smith, Gazelle and Superstar as well as future icons such as the UltraBOOST, PureBOOST X, Ace and NMD.

In 2016, the adidas brand extended its franchise methodology and approach to apparel, introducing the Z.N.E. Hoodie as part of the new Athletics apparel product line, which more extensively bridges athletes' style and on-field performance needs and expectations. The Z.N.E. Hoodie is a perfect example of this new approach, with a fresh take on traditional pre-game outwear, specifically engineered to remove distractions and maximise athletes' focus in the make-or-break period before they compete.

WOMEN'S: ADDING A NEW DIMENSION TO DRIVE GROWTH

Winning the female consumer is an imperative for the adidas brand and offers tremendous growth potential. Women are active in all sports and, to a large extent, dominate social media and household shopping behaviour. Given the magnitude of the business opportunity, in 2016, the adidas brand further invested resources in building a cross-functional women's organisation and support infrastructure to set direction for creative, ranging, merchandising and marketing and to steer cross-category planning.

The adidas brand will relentlessly focus on five products: the bra, the tee, the tank, the tights and the running shoe. These are the five products the brand will innovate against, with the aim to create the best the industry has ever known in these five items. In 2016, the first results of this approach proved successful. A key highlight in this context was the launch of PureBOOST X, an innovative running shoe designed only for women. The adidas brand teamed up with female athletes from around the world to study the female foot and how it moves during running to create the ultimate women's running shoe. While most running shoes are adaptations of male shoes, PureBOOST X was designed with only the female athlete in mind.

06 **ROLE OF CATEGORIES**

Focus Categories			
LEAD	**GROW**	**AMPLIFY**	**AUTHENTICATE**
#1 in every market	Dramatic market share gains	Largest business in every market	Regional players/ growth business
Football **Originals**	**Running** **neo**	**Training**	**Basketball** **Heartbeat Sports** **Digital** **Outdoor**

MARKETING INVESTMENTS: MEAN MORE BY DOING LESS

The adidas brand is focused on creating inspirational and innovative marketing concepts that drive consumer advocacy and build brand equity. The brand spends almost half of its marketing investments on partnership assets, with the remainder on brand marketing activities such as digital, advertising, point-of-sale and grassroots activations. The adidas brand intends to decrease the ratio of marketing investments spent on promotion partnerships to less than 45% by 2020. In addition, the brand will consolidate and focus resources to have the biggest effect on the creator and brand franchises. This will be achieved by focusing on three priorities:

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

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

— **Events:** such as the FIFA World Cup, the UEFA EURO, the UEFA Champions League, Roland Garros (French Open) and the Boston Marathon.
— **High-profile teams:** such as the national federations of Germany, Spain, Argentina, Russia, Mexico, Colombia, Belgium and Japan, as well as top clubs such as Manchester United, Real Madrid, AC Milan, FC Bayern Munich, Juventus and Flamengo in football, the New Zealand All Blacks and France in rugby, and American universities such as Miami, Arizona State and Texas A&M.
— **High-profile individuals:** such as football stars Lionel Messi, Paul Pogba, Gareth Bale, Mesut Özil and James Rodríguez, basketball stars James Harden, Derrick Rose and Damian Lillard, marathon record holder Dennis Kimetto, American football players Aaron Rodgers and Von Miller, baseball rookies Kris Bryant and Carlos Correa as well as tennis stars Angelique Kerber and Simona Halep.

In addition, the adidas brand also has a number of strategic partnerships and collaborations with top designers and design studios, such as with Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. The brand also has similar relationships with many of the most creative and influential personalities from across the entertainment industry, including Kanye West, Pharrell Williams and Rita Ora.

07 **ADIDAS BASKETBALL**
JAMES HARDEN SIGNATURE COLLECTION

ROLE OF CATEGORIES

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

Lead

- To lead in the sporting goods industry, we believe it is a must to lead in the world's most popular sport, football. As such, the adidas brand aspires to be the number one football brand in every market by 2020. This will be driven by focusing on winning the football creator in key cities as well as increasing investment in the brand's football footwear franchises. In 2016, the adidas brand pursued its full reset of its football footwear business with the continued focus on the Ace and X franchises. In addition, 2016 saw the successful launch of Glitch, an interchangeable football boot concept. The customisable football boot allows athletes to combine differently coloured uppers (skins) and chassis (inner shoes) for an even more personal football boot experience and therefore speaks directly to the creative footballer who craves a boot which lets them change their style and performance needs instantly.
- The adidas brand also strives for leadership in every market with Originals. Not only is adidas the original sports brand, it also was the first brand to bring sport to the street. Brand credibility and heritage is an important prerequisite to win the discerning streetwear hound consumer. These consumers are looking for substance and craft and are inspired by stories and design. Growth in this category will be driven by iconic products from the brand's past such as the Stan Smith, Gazelle and Superstar as well as pioneering new contemporary silhouettes inspired by elements from the past and the future, such as NMD, EQT and Tubular, which over the next years are forecasted to account for approximately 50% of the adidas Originals footwear offering.

Grow

- The running category is the adidas brand's biggest growth opportunity across all genders and price points. The brand's goal is to double sales in the category by 2020 compared to the 2015 financial year. Many innovations in the sports industry start in running. With groundbreaking innovation in materials such as Boost and pioneering new manufacturing processes being driven through Speedfactory, the timing is perfect for the adidas brand to strike in this category. To spur growth, amongst other things, adidas Running will significantly refine and evolve its franchise strategy for the male and female athlete, increase its investment in running communities and grassroots activations such as the Boston Runbase, as well as play a central role in driving the future of digital in sport in cooperation with Runtastic.
- The second category where the adidas brand is focused on driving significant market share gains is with adidas neo. adidas neo targets a younger, more price-conscious consumer, particularly in the emerging markets. To ensure success, the adidas neo formula employs a 'fast fashion' business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution. see Research and Development, p. 67

Amplify

- The training category is the adidas brand's largest category and is also the apparel engine of the brand. Led by cutting-edge innovation in fabrics and materials, the adidas brand aims to significantly increase its apparel footprint under two pillars – Training, which provides products for general training purposes as well as for specific sports, and Athletics, which is geared to capturing the sports mindset of every athlete off the pitch. As a result of the high visibility of its products in all markets, this category plays a central role in amplifying the brand message and DNA.

Authenticate

- To be the best sports brand in the world, the adidas brand also needs to be true to sports on a local level. As such, the brand will continue to offer a wide range of sports and sports activities such as basketball, American football, baseball, outdoor, rugby, tennis, handball, volleyball, swimming, cycling and boxing. To maximise impact and resources, in key markets and cities, the adidas brand will prioritise those sports that are most significant in terms of local culture, participation and national pride. At the same time, the brand will use online channels and third-party distributors to ensure that consumers of any sport the brand serves can access its best-in-class products, thus maximising growth and providing avenues for future expansion.

REEBOK BRAND STRATEGY

MISSION: TO BE THE BEST FITNESS BRAND IN THE WORLD

Reebok is an American-inspired global brand with a deep fitness heritage and the mission of being the best fitness brand in the world. To realise this mission, the past years have been characterised by a transformation from traditional sports to fitness. The three sides of the Reebok Delta, a symbol of change and transformation, represent the physical, mental and social changes that occur when individuals embrace the challenges of fitness.

Through this journey, Reebok has invested in its training and running businesses to develop products that cater to an evolving fitness routine, while returning to its fitness roots in Classics to support a fashion-forward lifestyle outside of the gym. Driven by its ambition to be the innovation leader in fitness, Reebok is pioneering new fitness activities as well as developing new technologies and products to reinvent the uniform of fitness and inspire people to be their absolute best.

CONSUMER OBSESSION: THE FIT GENERATION

Reebok strives to lead fitness through a more social and more intense version of fitness that transcends any traditional workout regimen. The 'Fit Generation' is at the epicentre of this fitness movement and therefore Reebok's target consumer group. These consumers, equally men and women, are driven by mental, social and physical challenges. They are constantly setting new goals and recalibrating their definition of success. These consumers believe that fitness is not just something they do; rather, it is part of their identity. They approach fitness with a holistic mindset, engaging in fitness activities several times a week and taking care to constantly mix up their routine to avoid complacency. Through robust research and interaction with consumers, Reebok has taken significant time to understand the complexities of their fitness lifestyle as well as their product needs and desires.

FOOTWEAR FRANCHISES: CREATING THE FOUNDATION FOR FITNESS

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

For this reason, Reebok is heavily investing into franchises, making this a key priority going forward. By 2020, Reebok expects footwear franchises to represent at least 25% of the brand's total footwear business. In 2017, key franchises will include Classics products unique to Reebok's fitness DNA such as the Classic Leather and Club C, while continuing to build on the success of the Nano, a product that is continually enhanced by the CrossFit community and has deep-rooted authenticity. In addition, 2017 stands as a pivotal year for Reebok Running and will include the launch of the FloatRide and Pump Plus as well as the newest evolution of the Print Run.

WOMEN'S: WINNING WITH HER

Reebok is putting women at the heart of everything the brand does. This female-centric approach, where women are the focal point of content strategy, marketing activation and distribution, is a fundamentally different approach relative to other brands in the industry, which will allow Reebok to become a truly dual-gender brand with its women's business representing 50% of the brand's net sales.

MARKETING INVESTMENTS: AMPLIFYING THE BRAND'S PURPOSE

Reebok is focused on creating inspirational marketing capabilities that build brand equity and consumer advocacy, while unleashing powerful brand messages. A key tenet of Reebok's marketing and communication strategy is that movement is essential to living a full life.

- **Be More Human:** Inspiring people to be their absolute best physically, mentally and socially is not only the brand's guiding principle, but also the essence of Reebok's global marketing campaign 'Be More Human'. Launched in 2015, 'Be More Human' celebrates everyday people who have reconnected to a primal physicality that allows them to live more fulfilling and less self-focused lives. For these individuals, fitness isn't just a physical activity – it's something that enhances their entire life and empowers them to reach their full human potential. In 2016, Be More Human saw continued success with the latest chapter, '25,915 Days', which delivers the important message of living each day in one's life to the fullest.

- **Partnerships:** To amplify the brand, Reebok has entered into a series of groundbreaking partnerships with some of the fastest-growing and most innovative organisations in the fitness world, such as CrossFit, UFC, Spartan Race, Ragnar and Les Mills. Reebok also partners with a number of highly influential music artists and athletes such as Kendrick Lamar, Ronda Rousey and J. J. Watt. Most recently, talented music artist Future and high-profile supermodel Gigi Hadid have joined Reebok's strong roster of brand ambassadors.

— **Instructors:** With over 100,000 instructors currently part of its global network, Reebok seeks to be the brand of choice for instructors around the world, providing them a platform to share consumer insights and collaborate on product innovation. Continuing to build relationships with fitness instructors is a crucial component of Reebok's goal of connecting with the global fitness community.

ROLE OF THE CATEGORIES

Reebok Running, Training and Classics each serve vital roles for the Fit Generation. Running is the original fitness activity and will remain a staple within the Fit Generation's exercise routine. Reebok Running's insight-driven and consumer-led approach fosters continually innovating the use of technologies that support authentic and desired cushioning experiences. Reebok Training is central to Reebok's fitness mindset and offers a complete range of both highly specialised and versatile products that are at the forefront of fitness and true to the culture and community the Fit Generation trains in. Reebok Classics fuses the brand's fitness heritage with the modern looks of fitness reflected in Running and Training to support the Fit Generation consumer who seeks to reflect a fitness lifestyle in every aspect of life.

REEBOK REORGANISATION: STRENGTHENING THE BRAND'S GROWTH FOUNDATION IN NORTH AMERICA

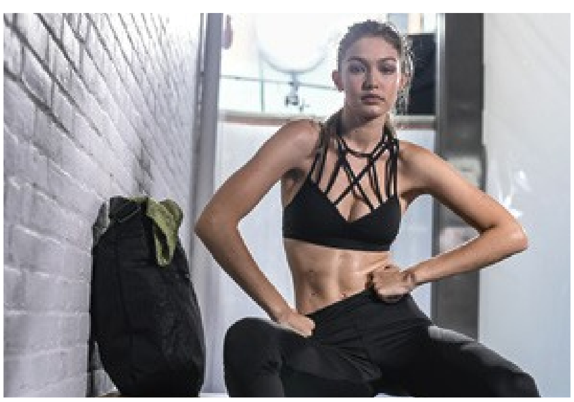
Over the last years, Reebok has made major progress in its transformation from a general sports brand to a 100% fitness-focused brand and has witnessed continued top-line growth in the last 15 quarters. Despite all progress, Reebok continues to grow at a slower pace compared to many of its competitors. In addition, there has been no growth in Reebok's home market, North America, over the last years and the brand's margins are not accretive to the company's overall profitability.

Therefore, in 2016, we announced a plan, starting in 2017, to accelerate Reebok's top-line growth and improve its profitability going forward. As part of this plan, the company has created one united team for Reebok in North America, combining the Global and US organisations under one leadership team, aimed at sharpening the brand's focus on the needs of the US consumer. This also allows us to streamline Reebok's current organisation and create an environment that is fully dedicated to Reebok and fitness. In this context, Reebok will move its organisation to a new location in the heart of the city of Boston in 2017.

Furthermore, to win in North America, efficient and effective distribution is key to Reebok's future success in this all-important market. The company is therefore accelerating its initiatives to streamline Reebok's store base in the market. In 2016, the company closed another 23 own-retail stores, including half of its Reebok FitHub concept stores compared to the prior year. It is forecasted that 2017 will see an even higher number of store closures.

We are confident that the initiated changes will have a positive impact on Reebok's operational and financial performance and will accelerate the brand's top-line growth, particularly in the US market, and significantly lift the brand's profitability in the years to come.

08 **REEBOK**
#PERFECTNEVER CAMPAIGN WITH GIGI HADID



09 **REEBOK TRAINING**
JJ I

GLOBAL OPERATIONS

Global Operations manages the development, production planning, sourcing and distribution of the majority of our products. The function strives to increase efficiency throughout the company's supply chain and ensures the highest standards in product quality, availability and delivery for our customers as well as our own-retail and eCommerce activities at competitive costs. Additionally included under the banner of Global Operations, Global IT manages all digital platforms for the adidas business solutions. It enhances the core systems to be future-proof, builds an open digital platform to connect to consumers and employees, and drives continuous change and innovation.

CLEARLY DEFINED PRIORITIES FOR GLOBAL OPERATIONS

The strategy of Global Operations is an extension of the overall adidas strategy – thus the consumer is at the centre of everything. The function strengthens brand desirability by providing the right product to consumers – in the right quality, size, colour and style, in the right place, at the right time, across the entire range of the company's channels and brands. Additionally, Global Operations builds capabilities that further improve supply chain efficiencies, while mitigating costs, thereby ensuring a continuously competitive supply chain.

Global Operations delivers upon its mission to:

- Create the best product by focusing on innovative materials and manufacturing capabilities.
- Provide the best service by enabling product availability as the consumer chooses through the company's omni-channel approach to supply chain agility.
- Enable the best experience by creating tools that engage consumers through interactive mobile platforms, in-store technology and the ability to co-create.

Within our strategic business plan 'Creating the New', Global Operations focuses on delivering against three strategic priorities driven by several initiatives:

- Become the first fast sports company.
- Create a seamless consumer experience.
- Transform the way we create and manufacture.

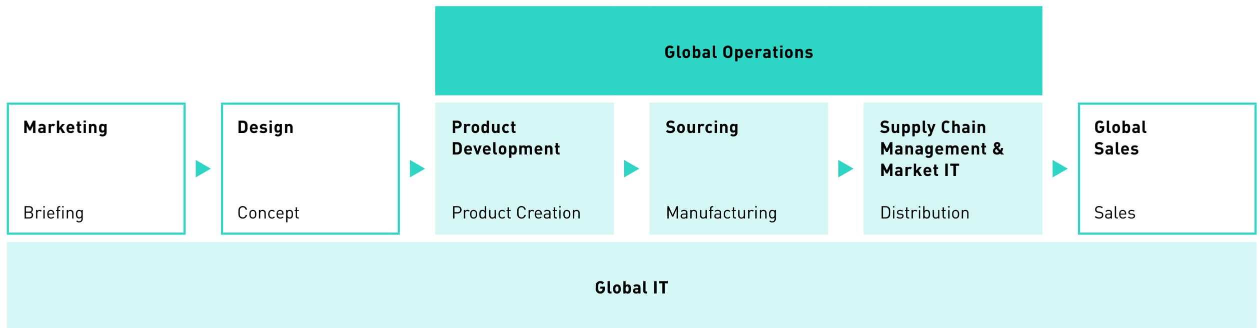
By delivering on these priorities, Global Operations leverages efficiencies across infrastructure and processes and ensures a competitive digital ecosystem and supply chain. This continues to be underlined by our strong 'On-Time In-Full' (OTIF) metric, a non-financial KPI for our company, measuring the adidas delivery performance towards our customers and our own-retail stores. In 2016, adidas delivered 77% (2015: 81%) of its adidas and Reebok brand products 'on time' and 'in full'. While this is broadly in line with the target of around 80%, the decline compared to the prior year reflects the strong increase in volumes throughout 2016. For 2017, Global Operations strives to increase OTIF to a strong level of 80%. OTIF was measured for 68% of net sales of all adidas and Reebok brand products in 2016. It is also planned to further roll out OTIF to those markets that are currently not in scope, thereby increasing the overall share of adidas and Reebok brand products measured against 'on time' and 'in full'. see Internal Management System, p. 86

BECOME THE FIRST FAST SPORTS COMPANY

'Speed' is a strategic priority for both the company as a whole and for Global Operations. Our ambition is to be the first fast sports company in the sporting goods industry. see Corporate Strategy, p. 48 We will leverage market and sell-through data in new ways, respond quickly to deliver concepts that are fresh and desirable and made available when and where they are wanted by the consumer across our wholesale, retail and eCommerce channels. Bringing products to market faster allows our customers and direct-to-consumer channel to place orders closer to the actual time of sale, facilitating buying decisions that are based on better market knowledge. Consequently, adidas will move away from predominantly developing product ranges in advance of seasonal merchandising calendars and towards creation and production capabilities that respond to consumer demands with an in-season development and rapid replenishment manufacturing. Fresher and more desirable products will increase the company's full-price share of sales and reduce the risk of overbuying. By 2020, our target is to achieve 50% of the company's net sales through speed-enabled articles. For this part of our business, we expect to achieve a 20% higher share of full-price sales compared to the regular range which, driven by higher brand and product desirability, will also see significant increases in the full-price sell-through.

Global Operations is scaling the fast replenishment capabilities of best-selling seasonal articles, creating more articles within season based on sales data and ensuring constant availability of long life cycle products. To adjust product supply flows to the changing demands of markets, the function is building a more integrated and agile planning environment with flexibility for deploying products to markets. In 2016, Global Operations continued to expand its efforts to 'enable later ordering' and further reduced production lead times. The function succeeded in providing 60-day production lead times on 80% of apparel volumes in the fall/winter '17 season. The majority of footwear volumes are already on 60 days or less production lead times.

01 **GLOBAL OPERATIONS IN GO-TO-MARKET PROCESS**



adidas is leveraging its strengths in sourcing and partnering with industrial and academic experts to develop smart manufacturing solutions that can react quickly to consumer trends. In this context, Speedfactory is one way we are moving production closer to key markets while developing high-quality performance products faster than ever before. Powered by intelligent robotic, process and material technologies, Speedfactory allows us to support the growing demands for product individualisation, in a socially and environmentally responsible way. As well as providing fast reaction times to consumer needs, we envision a Speedfactory network which will enhance the consumer experience, enabling them to co-create in an interactive production process. see Research and Development, p. 67

CREATE A SEAMLESS CONSUMER EXPERIENCE

Global Operations has a strong track record for establishing state-of-the-art infrastructure, processes and systems that are required to support the company's growth ambition. It has been successfully consolidating and improving legacy structures, thereby reducing complexity and costs for adidas. The function is focused on innovative distribution and IT capabilities, with the goal of providing the best service by enabling product availability as the consumer chooses through the omni-channel approach to supply chain agility.

By creating a higher commonality of our products across the various channels, Global Operations ensures higher flexibility at each consumer touchpoint. This, in turn, enables a broader range of products to be available at the point of sale, including online orders able to be picked up in our own-retail stores or shipped from a store and own-retail stores able to sell inventory available in other own-retail stores. Through the inclusion of the IT organisation, Global Operations is prioritising being 'insights driven'. Data generated during product creation, marketing processes and at consumer interactions is being linked to create actionable insights which the company makes use of to react more quickly to changing consumer needs.

In 2016, Global Operations focused on further optimising the distribution centre network, while at the same time preparing it for rapid business growth. In this context, we opened a new distribution centre in Hong Kong/China. 2016 also saw extensions and improvements in our distribution centres in Pyeongtaek/South Korea, as well as Manchester/UK. Lastly, Global Operations kicked off its new e-commerce distribution centre 'Campus North' in Rieste/Germany – a multi-million euro project focused on ensuring we get our e-commerce products to our consumers across Western Europe whenever and wherever they want them.

Global Operations is developing further IT capabilities to build platforms that support key initiatives which drive brand desire, such as personalised footwear tools. With the close collaboration of Global IT and our brands, efforts are focused on delivering fresh and exciting consumer services with a 'mobile first' approach, allowing consumers to connect to our brands at every touchpoint – from own-retail stores to e-commerce to social networks.

TRANSFORM THE WAY WE CREATE AND MANUFACTURE

Global Operations is driving innovation in new materials, new product constructions and new ways of manufacturing that deliver consumer value and enable competitive advantage. With the consolidation of product features and investments in tools that more directly connect design and factory production, Global Operations is changing traditional models of development to deliver freshness, speed and efficiency.

Through 'Digital Creation', Global Operations, in cooperation with Design and IT, has already improved the creation process from idea to market. With 3D software tools, we look at products the way the consumer sees them. Digital technology will allow us to take product decisions faster, improve collaboration between creation functions and our suppliers and reduce *drop rates* see Glossary, p. 216. 3D technology allows for more frequent and rapid virtual product iterations without increasing the need for physical samples. In 2016, all major business units tested the new 3D software tools in apparel and footwear. From 2017 onwards, some of our business units will begin using 3D technology as their new way of working in the product creation process. see Research and Development, p. 67

The utilisation of state-of-the art digital technology not only drives creativity and efficiency in product creation, it also generates efficiencies in manufacturing by linking the creation process directly with the factory. Global Operations continues to support the Speedfactory programme by feeding product data straight into the Speedfactory for manufacturing without any manual interaction. In 3D printing, Global Operations supports the cross-functional initiative called Futurecraft, which places open-source collaboration and craftsmanship at the heart of design to drive innovation across all areas of production. Being at the forefront of digital technology and modernising our approach to product creation not only supports sustainability efforts to reduce the carbon footprint, but also attracts the next generation of highly qualified 'digital native' employees.

Transitioning to a set pre-season selection of standard product features and driving consistent executions across categories for core products has been underway for several seasons in apparel. Meanwhile Global Operations has fully embedded the modular approach to creation as a 'way of working' that ensures a consistent brand footprint, captures cost savings in factory efficiencies and expands product modules on faster production lead times.

In 2016, we laid the technical foundation to incorporate our new digital creation tools into the modular approach, which further increases speed in creation of our core products and allows us to leverage automation opportunities. We will gradually roll out the new digitised way of working in 2017 as a first step to our vision of an end-to-end digital value chain from pre-season planning to product creation, production and sales.

Furthermore, we are investing in the next generation of materials by focusing, amongst others, on knitted footwear and direct-to-textile digital printing. In addition, we are developing footwear manufacturing process innovations. Working cross-functionally, we intend to reduce dependency on manual labour and to deliver compelling product concepts with integration into key footwear and apparel franchises.

MAJORITY OF PRODUCTION THROUGH INDEPENDENT SUPPLIERS

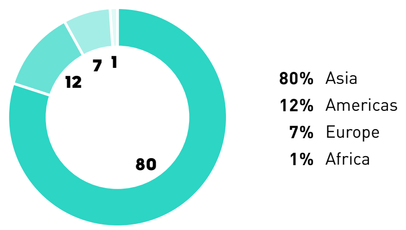
To minimise production costs, we outsource almost 100% of production to independent third-party suppliers, primarily located in Asia. While we provide them with detailed specifications for production and delivery, these suppliers possess excellent expertise in cost-efficient, high-volume production of footwear, apparel and hardware. Working closely with key strategic partners, the vast majority of our products are produced in fewer than 110 manufacturing facilities worldwide. We value long-term relationships: Around half of our strategic suppliers have worked with adidas for more than ten years and, of these, close to 15% have a tenure of more than 20 years. The latest list of our suppliers can be found on our website. www.adidas-group.com/sustainability adidas also operates a limited number of own production and assembly sites in the USA (4), Canada (3) and Germany (1). In order to ensure the high quality that consumers expect from our products, we enforce strict control and inspection procedures at our suppliers and in our own factories. In addition, we promote adherence to social and environmental standards throughout our supply chain. see Sustainability, p. 78

In 2016, Global Operations managed product development, sourcing and distribution for the adidas and Reebok brands as well as for adidas Golf and Ashworth. Due to the specific sourcing requirements in their respective fields of business, TaylorMade, CCM Hockey, Adams Golf and the Sports Licensed Division were not serviced through Global Operations, but instead utilised their own purchasing organisations. In order to quickly seize short-term opportunities in their local market or react to trade regulations, subsidiaries may also source from selected local suppliers outside the realm of Global Operations. Local purchases, however, account only for a minor portion of the company's total sourcing volume.

WORKING WITH 297 INDEPENDENT MANUFACTURING PARTNERS

In 2016, Global Operations worked with 297 independent manufacturing partners (2015: 320). Of our independent manufacturing partners, 80% were located in Asia (2015: 79%), 12% in the Americas (2015: 9%), 7% in Europe (2015: 12%) and 1% in Africa (2015: 0%). see Diagram 02

02 SUPPLIERS BY REGION [1]



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

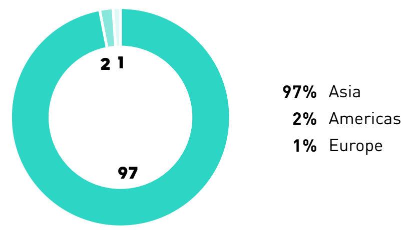
VIETNAM SHARE OF FOOTWEAR PRODUCTION INCREASES SLIGHTLY

97% of our total 2016 footwear volume was produced in Asia (2015: 96%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2015: 4%). see Diagram 03 Vietnam represents our largest sourcing country with 42% of the total volume (2015: 41%), followed by Indonesia with 24% (2015: 24%) and China with 22% (2015: 23%). In 2016, our footwear suppliers produced approximately 360 million pairs of shoes (2015: 301 million pairs). see Diagram 04 Our largest footwear factory produced approximately 10% of the footwear sourcing volume (2015: 11%).

CHINA REMAINS LARGEST SOURCE COUNTRY FOR APPAREL

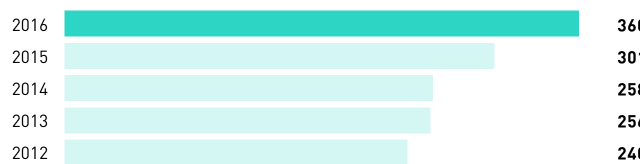
In 2016, we sourced 93% of the total apparel volume from Asia (2015: 93%). Europe and the Americas represented 4% and 3% of the volume, respectively (2015: 3% each). see Diagram 05 China is the largest source country, representing 27% of the produced volume (2015: 29%), followed by Cambodia with 22% (2015: 19%) and Vietnam with 17% (2015: 16%). In total, our suppliers produced approximately 382 million units of apparel in 2016 (2015: 364 million units). see Diagram 06 The largest apparel factory produced approximately 11% of this apparel volume in 2016 (2015: 11%).

03 FOOTWEAR PRODUCTION BY REGION [1]



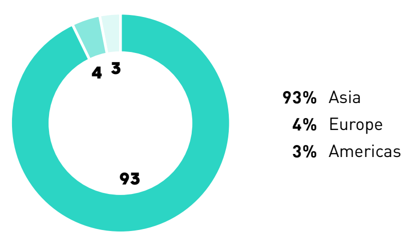
1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.

04 FOOTWEAR PRODUCTION [1] IN MILLION PAIRS



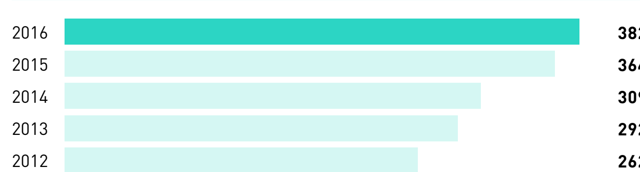
1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.

05 APPAREL PRODUCTION BY REGION [1]



1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.

06 APPAREL PRODUCTION [1,2] IN MILLION UNITS



1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.
2 2012 and 2013 restated due to a reclassification of certain apparel accessories from apparel to hardware.

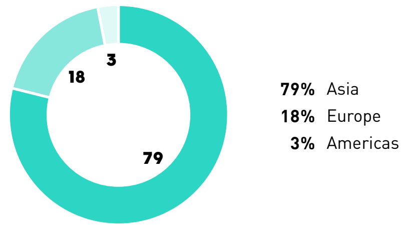
The Sports Licensed Division sourced approximately 22 million units of apparel and 10 million units of headwear (2015: 24 million and 11 million, respectively). The majority of purchased apparel products were sourced as unfinished goods from Latin America (65%) and Asia (33%) (2015: 79% and 21%, respectively), and were subsequently finished in our own facilities in the USA. The vast majority of headwear sourced was finished products manufactured in Asia (more than 99%).

CHINA SHARE OF HARDWARE PRODUCTION INCREASES SLIGHTLY

In 2016, 79% of our hardware products, such as balls and bags, was produced in Asia (2015: 76%). European countries accounted for 18% (2015: 20%), while the Americas represented 3% of the total volume (2015: 3%). see Diagram 07 China remained our largest source country, accounting for 36% of the sourced volume (2015: 35%), followed by Pakistan and Turkey with 17% and 16%, respectively (2015: 15% and 19%, respectively). The total hardware sourcing volume was approximately 109 million units (2015: 113 million units), with the largest factory accounting for 12% of production (2015: 11%). see Diagram 08

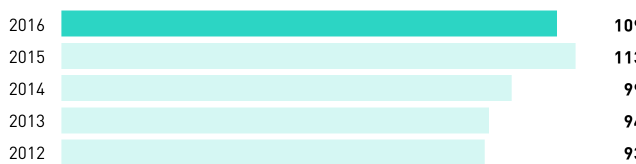
TaylorMade sourced more than 99% of their hardware volumes from Asia (2015: 99%). The vast majority of golf club components were manufactured by suppliers in Asia (China, Vietnam and Taiwan) and assembled in Asia, the USA and Europe.

07 **HARDWARE PRODUCTION BY REGION** [1]



1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.

08 **HARDWARE PRODUCTION** [1,2] IN MILLION UNITS



1 Figures include the adidas and Reebok brands, adidas Golf and Ashworth.
2 2012 and 2013 restated due to a reclassification of certain apparel accessories from apparel to hardware.

RESEARCH AND DEVELOPMENT

Creating innovative products to meet the needs of professional and everyday athletes and consumers is a prerequisite to strengthening our market position in the sporting goods industry and a premise to being the best sports company in the world. We therefore remain highly committed to maintaining a full and innovative product pipeline, bringing new groundbreaking technologies and processes to life, investing into forward-looking and sustainable ways of production and exploring the many possibilities of digitalisation. True to the vision of creative collaboration, our research and development (R&D) approach is widely based on our Open Source mindset which is clearly visible in our numerous collaborations with athletes and consumers, universities, industry-leading companies as well as national and international governments.

R&D AN INTEGRAL PART OF THE PRODUCT AND USER EXPERIENCE CREATION PROCESS

R&D within the company follows a decentralised approach. In line with their respective strategic and long-term visions and distinctive positioning, each brand runs its own R&D activities. However, fundamental research as well as expertise and competencies in sustainable product creation are shared across the company.

For the adidas brand, R&D is closely integrated with the sourcing, design and product marketing functions. At the beginning of the product creation process, development priorities are defined, which, in recent years, have increasingly included sustainability targets. These are derived on a case-by-case basis from a combination of consumer research and feedback, competition analysis and own product testing.

Based on the results, employees in our so-called FUTURE teams evaluate and incubate new materials, production processes and scientific research to increase the scope and impact of idea generation. Their scope also extends to areas such as consumer insights and social media. This helps to promote a holistic and innovation-focused culture which gives deeper consumer insights, while also fuelling creativity and synergies across the organisation. To identify innovative materials as well as integrate sustainability, cost and production process aspects into the development phase, the FUTURE teams are in close contact with our sourcing and material teams within product development who, in turn, work closely with our suppliers.

True to the vision of creative collaboration, our R&D approach is founded on our Open Source mindset which is clearly visible in our numerous collaborations with athletes and consumers, universities, industry-leading companies as well as national and international governments. We are the first sports company that invites creators to be part of our brands while already working with some of the world's most creative and innovative people and organisations. see Corporate Strategy, p. 48

Once conceptualised, new product technologies are engineered using state-of-the-art systems. Extensive virtual prototype testing and engineering loops are carried out on every technology. Once a new product technology is deemed viable, it is produced as a physical sample. These samples are then comprehensively tested by a broad range of users, including top athletes. Only when these comprehensive tests have been successful are the technologies commercialised to a final product.

To capitalise on our R&D achievements, we enforce the company's trademarks and patents by monitoring the marketplace for infringements and taking action to prevent them. Likewise, we have comprehensive processes, and undertake significant research, to avoid infringement of third-party intellectual property rights. see Risk and Opportunity Report, p. 118

FIVE PILLARS OF INNOVATION

Within the framework of our strategic business plan 'Creating the New' we identified five strategic pillars within our R&D principles, which enable us to develop the best products and experiences for our athletes, while at the same time drive game-changing innovations in the fields of manufacturing, digital and sustainability. In 2016, adidas further refined these pillars and amplified its efforts to generate brand desire through collaboration with the consumer.

— ATHLETE INNOVATION

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

Boost: Launched in cooperation with BASF, Boost is an industry-first cushioning technology designed to deliver maximum energy return, responsiveness and comfort to athletes. In 2016, Boost saw a roll-out into additional categories and new Boost franchises. Particular highlights in this regard were the launch of the NMD, a technical runner silhouette realised as a lifestyle sneaker as well as the Colour Boost, introducing new colourways to the Boost midsole, released with the launch of the UltraBOOST Uncaged.

Clima: Clima is a sports apparel concept offering adidas brand clothing for sporting activities in any weather across different categories such as training, running or outdoor. The series includes the franchises ClimaHeat, ClimaChill and ClimaProof, which apply functional, moisture-wicking and breathable materials to ensure that athletes enjoy ideal conditions to perform their training 365 days a year.

Futurecraft M.F.G.: In 2016, we launched Futurecraft M.F.G. (Made for Germany), the first shoe to come out of Speedfactory, a platform that – among several other benefits – will ultimately allow for the creation of footwear made for the specific fit and functional needs of consumers. The running shoe is part of an initial market test, consisting of 500 pairs, with a view to rolling it out across categories, amplifying volumes in the years to come.

— MANUFACTURING INNOVATION

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

Speedfactory: In 2016, the Speedfactory pilot in Ansbach, Germany, served as a 'proof of concept' and a testing ground for the creation of high-performance footwear within a new manufacturing model. In the second half of 2016, the pilot was transferred to a larger facility for the first large-scale manufacturing starting in 2017. As a next step, it is planned to introduce Speedfactory to the USA in 2017. Each Speedfactory is designed to produce up to 500,000 pairs of shoes per year, with an option to extend and diversify production in the future.

Futurecraft: Another important part of our manufacturing innovation approach is the Futurecraft series. In addition to Futurecraft M.F.G., 2016 saw the introduction of another commercialisation of the series, the 3D Runner. The shoe features an engineered 3D web structure with dense zones in high-force areas and less dense zones in the low-force areas, allowing for the optimum level of performance. The 3D Runner also features a 3D printed heel counter, which is integrated into the midsole and avoids the typical process of gluing or stitching. Benefits include greater elasticity, compliancy and support. A Primeknit upper ensures high style, superior fit and performance.

— DIGITAL AND EXPERIENCE INNOVATION

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

Runtastic Shoe Tracking: The Runtastic Shoe Tracking feature in the Runtastic running app automatically assigns covered distances to a designated shoe used for running workouts, hiking tours or Nordic walking sessions. It allows athletes to track the lifespan of a pair of running shoes and notifies consumers when to replace them in order to protect joints and prevent injuries.

Storefactory: In 2016, adidas introduced its first Storefactory in the form of a new pop-up store called 'Knit for You' in the Bikini Berlin shopping mall for a temporary three-month trial period. In addition to offering personalised manufacturing in-store in an urban environment, the Storefactory allows consumers to experience and interact with the creation and manufacturing process of their garments in a simple and engaging manner.

— SUSTAINABILITY INNOVATION

Our commitment to manage our business in a responsible way has long been one of the company's principles. To stay at the forefront of sustainable innovation, adidas is pursuing a proactive approach to establish internationally recognised best practices and achieve scalable improvements. As part of our sustainability strategy we have set ourselves the target for 2020 to invest in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. see Sustainability, p. 78

Parley for the Oceans: In 2016, the partnership with Parley for the Oceans, a thought leader in ocean conservation and eco innovation that creates awareness to end the destruction of the oceans, already yielded its first commercial performance products made with Parley Ocean Plastic in the form of football jerseys for the world-leading clubs Bayern Munich and Real Madrid, as well as the UltraBOOST Uncaged Parley running shoe, with 7,000 pairs available. The first commercialised product made of Parley Ocean Plastic underpins our commitment to accelerating the creation of innovative products and reinventing materials. This is also underlined by our goal to produce one million pairs of shoes using Parley Ocean Plastic by the end of 2017, and to further follow our ultimate ambition to eliminate virgin plastic from our supply chain. see Corporate Strategy, p. 48

Biosteel: Another milestone in 2016 was the launch of the world's first performance shoe made using Biosteel fibre, a nature-based and completely biodegradable high-performance fibre, replicating natural silk, developed by the German biotech company AMSilk. The Futurecraft Biofabric prototype shoe features an upper made from 100% Biosteel fibre, making us move beyond closed-loop production into an infinite loop – or no loop at all.

— FEMALE ATHLETE INNOVATION

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

Ace and X football boots: The adidas brand launched the first versions of its Ace and X boots created explicitly for female players. Using all its technical expertise and key insights provided by numerous female players, we were able to analyse the unique shape of the female foot to create football boots which feature a different combination of shape, design and traction to meet the special needs of the female athlete.

Avenue A: In 2016, the adidas brand introduced Avenue A, a quarterly women-only subscription service that offers a curated box containing premium running and training products. While the content of each shipment is a surprise, the box is filled with three to five premium items – a mix of footwear, apparel and accessories appropriate for the season. Here, the brand collaborates with fashion-forward trendsetters and trainers to hand-pick an array of products for each shipment that exemplify style and performance.

SUCCESSFUL COMMERCIALISATION OF INNOVATIONS

We believe developing industry-leading technologies and user experiences is only one aspect of being an innovation leader. Equally important is the successful commercialisation of those technological innovations. The awards we attained in 2016 confirm our continuous efforts to become the technology leader in the sporting goods industry. see Table 01

As in prior years, the majority of adidas brand sales were generated with products newly introduced in the course of 2016. New products tend to have a higher gross margin compared to products which have been in the market for more than one season. As a result, newly launched products contributed over-proportionately to net income in 2016. We expect this development to continue in 2017 as we will present a wide range of new, innovative products. see Subsequent Events and Outlook, p. 115

01 **2016 MAJOR AWARDS**

Brand	Product/Campaign	Category	Award
adidas	adidas	adidas Brand	Highsnobiety Crown 2016 – Gold, Most Relevant Brand
adidas	Originals	Your Future Is Not Mine campaign	Cannes Cyber Lion – Gold, Best Music/Brand Partnership
adidas	Originals	Your Future Is Not Mine campaign	Cannes Cyber Lion – Gold, Use of Original Music
adidas	Originals	Your Future Is Not Mine campaign	Cannes Design Lion – Bronze, Music Video – Brand and/or Product Integration
adidas	Originals	Strikethrough campaign	Cannes Design Lion – Bronze, Logo Design: International Companies & Brands
adidas	Originals	Originals Yeezy Boost 350 V2 shoe	Highsnobiety Crown 2016 – Gold, Best Sneaker
adidas	Originals	Originals Yeezy Boost 350 V2 shoe	complex.com – The Best Sneakers of 2016
adidas	Originals	Pitch Black NMD shoe	complex.com – The Best Sneakers of 2016
adidas	Originals	Pharrell Human Race NMD shoe	complex.com – The Best Sneakers of 2016
adidas	Outdoor	TERREX Parley T-shirt	Outdoor Industry Award
adidas	Running	Supernova Glide 8 Boost shoe	Solerview's top pick for 2016 – The Best Running Shoe of 2016
adidas	Running	adizero adios 3 shoe	Runner's World (US) – Best Update 2016
adidas	Running	Solebox x adidas Consortium UltraBOOST Uncaged shoe	Highsnobiety Crown 2016 – Bronze, Best Sneaker
Reebok	Training	Speed TR shoe	Men's Health – Best Gym Shoe
TaylorMade	Golf	M1 & M2 metalwoods	Golf Digest Hot List 2016
TaylorMade	Golf	M1 & M2 irons	Golf Digest Hot List 2016
TaylorMade	Golf	TP putter collection	Golf Digest Hot List 2016

SUCCESSFUL PRODUCT LAUNCHES ACROSS ALL MAJOR ADIDAS BRAND CATEGORIES

In 2016, adidas brand sales were again driven by the latest product offerings, with products launched during the course of the year accounting for 77% of brand sales (2015: 81%). Only 1% of sales were generated with products introduced three or more years ago (2015: 3%).

The adidas brand introduced numerous major product innovations in 2016. These included:

- **Glitch:** Glitch is a new football concept introduced in late 2016. The two-piece interchangeable construction, made of an inner shoe and an outer skin, is designed to suit the modern game with a focus on adaptability. Glitch utilises the brand's leading football technologies, including a laceless upper, to create a football boot experience like no other.
- **UltraBOOST Uncaged:** Built on Open Source consumer insights, the shoe combines the performance and innovation of the original UltraBOOST running shoe, providing outstanding comfort and energy return, with a full adidas Primeknit upper featuring an internal support system. Furthermore, the new UltraBOOST Uncaged also introduced new colourways to the Boost midsole alongside the iconic white midsole.
- **Z.N.E.:** In August 2016, the adidas brand officially introduced adidas Athletics. The highlight product of this newly created product line is the Z.N.E. hoodie, a fresh take on traditional pre-game outwear, using unique design elements, making it a very recognisable silhouette that we can further build on in the future.

REEBOK INTRODUCES NEW TECHNOLOGY PLATFORMS

In 2016, Reebok's latest products continued to generate the majority of the brand's sales, with 73% of footwear sales coming from products launched in 2016 (2015: 73%). Only 11% of footwear product sales relate to products introduced three or more years ago (2015: 14%).

In 2016, Reebok presented several key product introductions. Some of the highlights included:

- **CrossFit Nano 6.0:** In 2016, Reebok celebrated its six-year partnership with CrossFit with the launch of the CrossFit Nano 6.0. This training shoe was developed by Reebok in association with the CrossFit community and saw the first evolution of Kevlar infused on the upper to provide durability and lightweight strength. The Nano 6.0 also features a re-engineered anatomical design for a natural and secure fit.
- **ZPrint:** In 2016, Reebok introduced the ZPrint cushioning system, inspired by digital maps of feet in motion. The unique, foot-mapped bottom cushions high-impact zones and propels at take-off. The ride stays stable around the edges thanks to a firm perimeter grid. ZPrint delivers cushioning where it is needed most.
- **Liquid Factory:** In November 2016, Reebok introduced its Liquid Factory manufacturing concept with a 300 pair limited release of its first shoe, the Liquid Speed. The Liquid Factory '3D Drawing' process is an entirely new way to create shoes without moulds, allowing both rapid customisation and ultimately more local manufacturing.

02 MAJOR PRODUCT LAUNCHES IN 2016

Product	Brand
Crazy Explosive basketball shoe	adidas
D Lillard 2 basketball shoe	adidas
D Rose 7 basketball shoe	adidas
Harden Vol. 1 basketball shoe	adidas
X and Ace 16 football boots	adidas
X and Ace women's football boots	adidas
Messi 16 football boot	adidas
Copa 17 football boot	adidas
Glitch football boot	adidas
Confed Cup jersey	adidas
Parley x Real Madrid/FC Bayern jersey	adidas
adizero adios running shoe	adidas
AlphaBOUNCE running shoe	adidas
PureBOOST X running shoe	adidas
UltraBOOST Uncaged running shoe	adidas
Gazelle Originals shoe	adidas
NMD R2 Originals shoe	adidas
Tubular Shadow Originals shoe	adidas
Tubular Instinct Originals shoe	adidas
Yeezy Boost 350 V2 Originals shoe	adidas
Originals by Rita Ora collection	adidas
Originals by Alexander Wang collection	adidas
Originals by Kanye West Yeezy Season 3 collection	adidas
Originals by Pharrell Williams Hu collection	adidas
ClimaHeat apparel	adidas
Stellasport training apparel	adidas
Athletics Z.N.E. training apparel	adidas
TERREX x-king outdoor shoe	adidas
Cloudfoam neo shoe	adidas
Graphic Tees neo collection	adidas
CrossFit Nano 6.0 training shoe	Reebok
JJ I training shoe	Reebok
ZPrint running shoe	Reebok
HexaWarm apparel	Reebok
Classic Leather shoe	Reebok
M2 driver line	TaylorMade
Spider Limited putter	TaylorMade
TP putter collection	TaylorMade
Tour360 Prime Boost golf shoe	adidas Golf
USA Golf Team apparel	adidas Golf

INNOVATION AN IMPORTANT FACTOR FOR TAYLORMADE-ADIDAS GOLF

At TaylorMade-adidas Golf, current products (i.e. products launched in the last 18 months, which is the typical product life cycle in golf) represented 72% of total hardware sales in 2016 (2015: 80%). Products that had been brought to market three or more years ago accounted for 13% of sales in 2016 (2015: 7%).

Among the highlight product launches in 2016 were:

— **M2:** Following the successful launch of the M1 in the prior year, TaylorMade expanded the M family in 2016 with the introduction of the M2. Like its predecessor, the M2 family consists of drivers, fairways and rescue clubs, utilising the same proprietary multi-material combination, including the seven-layer carbon composite crown found in the M1, to develop a line of products that deliver two highly sought-after performance benefits: distance and forgiveness.

— **Tour360 Prime Boost:** In 2016, adidas Golf released the new Tour360 Prime Boost. Designed for stability and traction on uneven ground, the shoe features a flexible adidas Primeknit upper for an enhanced fit built on a responsive Boost midsole.

R&D EXPENSES INCREASE 18%

R&D expenses include expenses for personnel and administration, but exclude other costs, for example those associated with the design aspect of the product creation process. In 2016, as in prior years, all R&D costs were expensed as incurred. The company's R&D expenses increased 18% to € 164 million from € 139 million in the prior year.

As our R&D departments comprise experienced and multi-skilled people from different areas of technical expertise and from diverse cultural backgrounds, personnel expenses represent the largest portion of R&D expenses, accounting for 73% of total R&D expenditure. The number of people employed in R&D activities at December 31, 2016, was 1,128, compared to 993 employees in the prior year. This represents 2% of total employees.

In 2016, R&D expenses represented 2.0% of other operating expenses (2015: 1.9%). R&D expenses as a percentage of sales remained stable at 0.8% (2015: 0.8%). see Table 03

03 **KEY R&D METRICS** [1]

	2016	2015	2014	2013	2012
R&D expenses (€ in millions)	164	139	126	124	128
R&D expenses (in % of net sales)	0.8	0.8	0.9	0.9	0.9
R&D expenses (in % of other operating expenses)	2.0	1.9	2.0	2.0	2.1
R&D employees	1,128	993	985	992	1,035

1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

OUR PEOPLE

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

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

As an integral part of 'Creating the New', the People Strategy is a testament to thinking that our 2020 strategy can only be executed if we speak to our people on all levels and win both their hearts and minds.

The People Strategy consists of four pillars that serve as a basis for creating our culture and environment for our people in order to successfully support the company strategy. see Diagram 01 These four pillars also serve as a tool for prioritisation, sense-checking and measuring our HR actions and initiatives.

The People Strategy is implemented through a portfolio of projects which will directly deliver into each of the four pillars. In 2016, we made good progress by successfully delivering the following initiatives:

Meaningful reasons to join and stay:

— Enabled by a new global mobility policy, our Talent Carousel career development programme entered its second year. Employees from all over the world were once again asked to apply for this programme that would see its 20 finalists take a cross-functional and international career step by starting a new role in a new location in 2017. Successful candidates remain in the programme for 24 months with the right to return to their home location while being prepared for a future senior management position.

01 **THE FOUR PILLARS OF OUR PEOPLE STRATEGY**

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

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

Choice & Agility & Speed

- In September 2016, we introduced a new employee Stock Purchasing Programme for Germany, the US, the Netherlands and Hong Kong. A total of 16.3% of around 16,000 eligible employees decided to participate in the first enrolment period. It is planned to extend this programme to further countries in the coming months.
- A newly introduced central onboarding process at our headquarters in Herzogenaurach/Germany now ensures new starters enjoy a high-quality, consistent experience upon joining the company. The new process is the result of a cross-functional continuous improvement initiative and provided important learnings for the global onboarding initiative which is aimed at introducing standard onboarding tools across the company starting in 2017.
- Since 2016, employees at our headquarters in Herzogenaurach have been able to take advantage of our Employee Assistance Service. By calling an external hotline, employees can get support with finding and organising child care, elder care and household services.

Role models who inspire us:

- In 2016, we offered our first-time people managers across EMEA, Asia and the US our Fit2Lead training. This training is specially designed for all first-time people managers who lead up to five people. It provides them with basic knowledge on how to become a good people manager, manage their business and continue to develop themselves throughout their career. The course can also be booked by managers who would like to refresh their people management skills. This curriculum is complemented by the Fit2Lead Experienced Manager training, a new offer we introduced in 2016. The Experienced Manager training is geared towards managers who bring more than five years of management experience and/or lead or influence larger teams. It is an experiential learning programme with a focus on how to lead those around you to perform better – as a team and as an individual.
- First leadership and executive groups started to take a newly designed gender intelligence training aimed at challenging gender stereotypes as well as providing leaders with data, insights and tools for practising inclusive leadership to build a more balanced organisation.

Bring forward fresh and diverse perspectives:

- We successfully hired the first dedicated Diversity Director in the company's history. Reporting into the Head of HR Strategy, the Diversity Director is in charge of formulating the global diversity strategy and driving its implementation together with leaders and HR Partners.
- For the second consecutive year, adidas North America achieved a perfect 100 point score on the Human Rights Campaign Corporate Equality Index.
- We introduced a global data simulation tool that allows HR managers to calculate and set more realistic gender and age targets for their functional areas by taking criteria such as business growth, attrition, promotions and hirings into consideration.
- Functional and local market teams continued to develop dedicated plans to invest in a stronger female talent pipeline, data analysis on gender balance and action plans to establish a more balanced organisation in terms of gender, age and race.

A creative climate to make a difference:

- In 2016, we cascaded and hard-wired our three company behaviours – creativity, collaboration and confidence – into our global Performance Management system and approach, The Score. Creativity, collaboration and confidence – the '3Cs' – are behaviours we as a company deem to be crucial for employees to display on a daily basis in order to execute our Creating the New strategy and become an even more consumer-focused organisation. As we enter 2017, we will focus on continuing to detail out the exact definition of the 3Cs and use them as the foundation of our company leadership framework.
- In a continued effort to provide our employees with the best work environment possible, further construction work has started on our headquarters campus in Herzogenaurach. A new landmark building called 'Arena' will become the company's new main office at the end of 2018, offering over 2,000 employees a new home and centralising most of the employees in Herzogenaurach on the World of Sports campus. A new restaurant and multi-purpose conference centre called 'HalfTime' will be set up. 2016 also saw the construction of a second future workplace space: 'Pitch 2'. Employees based in Pitch 1 and Pitch 2 work according to the activity-based working concept: employees no longer have assigned desks but can choose from a multitude of different types of rooms and spaces (e.g. project room, focus box) based on the tasks they have on hand. Change management in these new buildings is supported through a dedicated mobile app as well as employee-led feedback groups and regular feedback surveys.

- At our headquarters in Herzogenaurach, we also opened the MakerLab. It serves as a dedicated space providing tools such as laser cutters and 3D printers and know-how to help employees realise their ideas and create prototypes. The MakerLab idea has its roots in the 'hacker space' concept, where all employees are given free rein to create and bring their ideas to life.
- In Moscow, we opened a brand-new office building called 'The Home of Sport'. It includes store facilities, a state-of-the-art gym as well as modern offices and open-plan spaces.

HR FOUNDATIONS FOR OUR PEOPLE STRATEGY

In 2016, the adidas HR function launched the People OneView employee profile. People OneView is a self-service online portal that allows employees, leaders and HR Partners to both access and manage the most important personal and work data such as salary, career and team information as well as HR applications. By providing direct access to People OneView, users are now more empowered as they can manage their most important personal data without having to go via their HR Partner. HR Partners in turn gain back valuable time to counsel and support employees.

With the introduction of the HR Shared Service Centre for Germany, all employee queries relating to compensation, benefits, time management and HR systems are now centrally channelled and managed through this newly founded department. HR Partners are thus enabled to focus fully on supporting line managers and employees on topics such as career counselling, people management and coaching.

MEASURING THE SUCCESS OF OUR HR INITIATIVES: EMPLOYEE ENGAGEMENT AND EMPLOYER RANKINGS

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

Employee engagement: adidas carries out employee engagement surveys in order to measure the engagement and motivation of our employees. The results of these surveys are a non-financial KPI for our company. see Internal Management System, p. 86 Following a successful pilot within HR in 2016, a new approach towards measuring the employee experience in the company will be launched during the first half of 2017.

Employer rankings: Our 'employer of choice' status continues to garner worldwide recognition and enables us to attract, retain and engage industry-leading talent to sustain the company's success and growth. In 2016, adidas locations around the world leveraged our employer brand attributes for attraction, retention and engagement strategies. This work contributed to several Top Ten rankings worldwide and has also enabled us to recruit some of the industry's top talent. see Diagram 02

02 **AWARDS**

The World's Most Attractive Employers/Universum	Corporate Health Award 'Special Award for healthy nutrition'/EuPD Research Sustainable Management, Handelsblatt, TÜV SÜD Akademie and ias-Gruppe	Best Employer 2017/glassdoor Germany	trendence Graduate Barometer – Business Edition/trendence

FOCUS ON PERFORMANCE: OUR PERFORMANCE MANAGEMENT

To further drive high performance within the company, we use a performance management approach called 'The Score'. It brings target setting, employee development and performance appraisal under one common process. The Score also brings focus, simplicity and alignment to the setting of team goals and individual targets. Each employee is evaluated and receives feedback at least twice a year.

Our remuneration system is based on this performance management approach. As part of this system, we are committed to rewarding our employees with compensation and benefit programmes that are competitive in the marketplace. Remuneration throughout the company comprises fixed and variable monetary compensation, non-monetary rewards as well as other intangible benefits. The cornerstone of our rewards programme is our Global Salary Management System, which is used as a basis for establishing and evaluating the value of employees' positions and salaries in a market-driven and performance-oriented way. The various variable compensation components we offer our employees include:

- Bonus programme – short-term incentive programme
- Profit participation programme – 'Champions Bonus'
- Long-Term Incentive Plan (LTIP) for leaders and Executive Board members
- 401-K Retirement Plan (USA) and the adidas Pension Plan (Germany)
- adidas Stock Purchase Plan.

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

OUR TALENT AND SUCCESSION MANAGEMENT

Trainee programme: The Functional Trainee Programme (FTP) is an 18-month programme providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within adidas. The programme comprises six three-month assignments in various departments. At least one of these assignments takes place abroad. At year-end 2016, we employed 49 participants in our global FTP (2015: 27).

Apprenticeships and internships: Our development programmes are complemented by apprenticeship and internship programmes. The adidas apprenticeship offers young people who want to join our company directly out of school the opportunity to gain business experience in a two- to three-year rotation programme. The programme includes vocational training in retail, shoe technology and IT, as well as integrated study programmes in fields such as digital commerce, finance or international business. At the end of 2016, we employed 63 apprentices in Germany (2015: 63) and 35 integrated study programme students (2015: 40). Our global internship programme offers students three to six months of work experience within adidas. In 2016, we employed 623 interns in Germany (2015: 553).

Succession management: Our succession management approach aims to ensure stability and certainty in business continuity. We achieve this through a globally consistent succession plan which covers successors for director-level positions and above. We conduct regular reviews to ensure individual development plans are in place to prepare successors for their potential next steps.

ONLINE PLATFORMS TO DRIVE EMPLOYEE COLLABORATION AND LEARNING

We believe that a robust and state-of-the-art internal communication platform is essential for driving employee engagement and fostering learning as well as open collaboration within our organisation. We use an enterprise collaboration platform called 'a-LIVE', which encourages employees to share knowledge, collaborate and discuss current topics. In addition, we have established an 'Ask the Management' platform on our intranet, enabling employees to openly address questions to our senior leaders. Via a-LIVE we also offer all employees access to the 'Learning Campus', a state-of-the-art learning platform that provides opportunities for both e-learning and knowledge sharing. Employees are able to access content 24/7 in a virtual environment.

DEDICATED PROGRAMME TO SUPPORT WORK-LIFE INTEGRATION

We aim to harmonise the commercial interests of the company with the professional, private and family needs of our employees. Our Work-Life Integration Programme includes flexible work time and place, people development and leadership competence related to work-life integration, as well as family-oriented services. In addition to providing flexible working arrangements, teleworking, sabbaticals and parent/child offices, we have child-care facilities at our company premises in Canton, USA, and a day-care centre at our headquarters in Herzogenaurach, Germany.

In 2016, the employer rating service glassdoor rated adidas as the best employer in Germany with regard to work-life balance offerings.

EMBRACING DIVERSITY AND INCLUSION

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

At our global headquarters in Herzogenaurach, we have employees from more than 80 nations. As part of our global diversity approach we proactively pursue a portfolio of internal and external activities as well as memberships:

- Our active membership in 'Charta der Vielfalt' ('Diversity Charter'), Prout at Work, the Diversity and Inclusion in Asia Network (DIAN) and the non-profit organisation Catalyst allows us to promote communication and the sharing of best practices and insights.
- We have regular events highlighting diversity as a key topic, such as our global Diversity Day.
- We provide quarterly diversity reports to management to support decision making and target setting.
- We provide diversity training to our employees and gender intelligence training to our leaders.
- Within the company, for example, we support the 500-member strong Women's Networking group in Herzogenaurach. Additionally, we continue our support of the international LGBT community, which is also driven by our employees at our major locations. The key objectives and contributions to adidas of the latter are providing awareness and education, acting as an informational resource to interlinking departments and engaging with the outside LGBT communities to combat prejudice and discrimination.
- We have been participating in diversity career fairs in Germany, such as the Sticks & Stones in Berlin.
- adidas is listed in the *genderdax* see Glossary, p. 217.
- We regularly take part in benchmark studies in order to review our activities in the fields of diversity and inclusion.

03 EMPLOYEE STATISTICS [1]

	2016	2015
Total number of employees [2]	60,617	55,555
Total employees (in %)		
Male	50%	50%
Female	50%	50%
Management positions (in %)		
Male	70%	71%
Female	30%	29%
Management positions (in %) within adidas AG [3]		
Male	73%	76%
Female	27%	24%
Average age of employees (in years)	30	30
Average length of service (in years)	5	4

1 At year-end. Figures reflect continuing operations as a result of the divestiture of the Rockport business.
2 Number of employees on a headcount basis.
3 Calculated in accordance with German Act on Equal Participation of Women and Men in Executive Positions in the Private and Public Sector in Germany.

MIXED LEADERSHIP TEAMS AND PROMOTING WOMEN

Already in 2011, adidas proactively set itself the goal of increasing the number of women in leadership positions in the coming years. Specifically, the percentage share of women in management positions is targeted to be increased globally from 30% today to 32% by 2017.

Irrespective of this, German law states that, from January 1, 2016, at least 30% of Supervisory Board representatives of publicly listed companies such as adidas AG shall be women.

As a result, the Supervisory Board and Executive Board of adidas AG have set the following specific targets to be achieved by June 30, 2017:

- The Supervisory Board will appoint one woman to the adidas AG Executive Board.
- The percentage share of women at Board -1 level will be increased from 11% (as at July 2, 2015) to 18%.
- The percentage share of women at Board -2 level will be increased from 26% (as at July 2, 2015) to 30%.

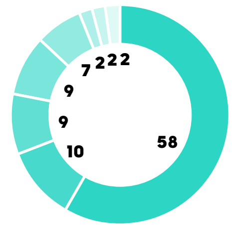
A prerequisite for increasing the number of women at the highest levels of management is the general promotion of women within the company worldwide at all levels of management. www.adidas-group.com/s/employees

GLOBAL EMPLOYEE BASE FURTHER INCREASES

On December 31, 2016, the company had 60,617 employees, which represents an increase of 9% versus 55,555 in the previous year. New hirings related to the global marketing and sales organisation aimed at further strengthening key growth areas and categories were the main driver of this development. On a full-time equivalent basis, our company had 51,899 employees on December 31, 2016 (2015: 47,435). see Table 06

Personnel expenses increased to € 2.532 billion in 2016 (2015: € 2.184 billion), representing 13% of sales (2015: 13%). see Note 33, p. 189 An overview of the development of our employee base in the past ten years can be found in our ten-year overview. see Ten-Year Overview, p. 212

04 EMPLOYEES BY FUNCTION [1]



58%	Own retail
10%	Logistics
9%	Central functions & administration
9%	Marketing
7%	Sales
2%	Production
2%	IT
2%	Research & development

1 At year-end.

05 EMPLOYEES BY REGION [1]

10%	Western Europe
19%	North America
7%	Greater China
21%	Russia/CIS
8%	Latin America
2%	Japan
9%	MEAA
19%	Group functions
4%	Other Businesses

1 At year-end.

06 NUMBER OF EMPLOYEES BY FUNCTION [1]

	Employees [2]		Full-time equivalents [3]	
	2016	2015	2016	2015
Own retail	35,266	32,543	27,706	25,651
Sales	4,447	3,868	4,333	3,763
Logistics	6,337	6,132	6,021	5,598
Marketing	5,605	4,737	5,349	4,580
Central functions and administration	5,250	4,774	4,948	4,508
Production	1,416	1,351	1,352	1,286
Research & development	1,128	993	1,058	927
IT	1,168	1,157	1,131	1,123
Total	**60,617**	**55,555**	**51,899**	**47,435**

1 At year-end. Figures reflect continuing operations as a result of the divestiture of the Rockport business.
2 Number of employees on a headcount basis.
3 Number of employees on a full-time equivalent basis.

SUSTAINABILITY

Our Sustainability Strategy ensures the alignment of our sustainability work with our overall business goals. While it addresses our responsibility towards our employees, the people who make our products, the environment and the communities we operate in, it also follows the ambitious plan to grow our business even further.

SUSTAINABILITY STRATEGY AS A DIRECT OUTCOME OF 'CREATING THE NEW'

Our new Sustainability Strategy 'Sport needs a space', our roadmap towards 2020 and beyond, is a direct outcome of our business strategy 'Creating the New'. It translates our overall sustainability efforts into tangible goals that have a direct impact on the world of sport we operate in. Introduced in 2016, the Sustainability Strategy builds on existing programmes and tackles these subjects that are most material to our business and our stakeholders. It seamlessly supports our overall business goals and is directly linked to our core DNA as a global sports company.

We believe that through sport we have the power to change lives. But sport needs a space to exist, such as a field to play on and a mountain to climb. These spaces are increasingly endangered due to man-made issues, including human rights violations, pollution, growing energy consumption and waste. Our holistic strategy 'Sports needs a space' addresses the challenges that endanger the spaces of sport and simultaneously our planet and people.

SIX STRATEGIC PRIORITIES FOR 2020

'Sport needs a space' identifies six strategic priorities to address the issues and challenges of the spaces where sport is made (all places where products are created, designed, manufactured and shipped), where sport is sold (own retail, wholesale and e-commerce in our markets) and where sport is played (from the indoor court to the outdoor pitch all over the world).

These strategic priorities are cross-cutting and relevant for all 'spaces' and have been translated into tangible and measurable goals. They specifically focus on two dimensions: our products, which include materials, technologies, the manufacturing process, shop fittings and infrastructure, and people, for example our own employees as much as our factory workers, fans and athletes. see Diagram 01

A full overview of our 2020 goals and ambitions can be found on our website. For a detailed overview of the progress we have made towards these goals, please see our Sustainability Progress Report 2016 (as of April 2017). www.adidas-group.com/s/sustainability-strategy
www.adidas-group.com/s/sustainability-reports

CROSS-FUNCTIONAL GOVERNANCE STRUCTURE SUPPORTS EXECUTION OF STRATEGY

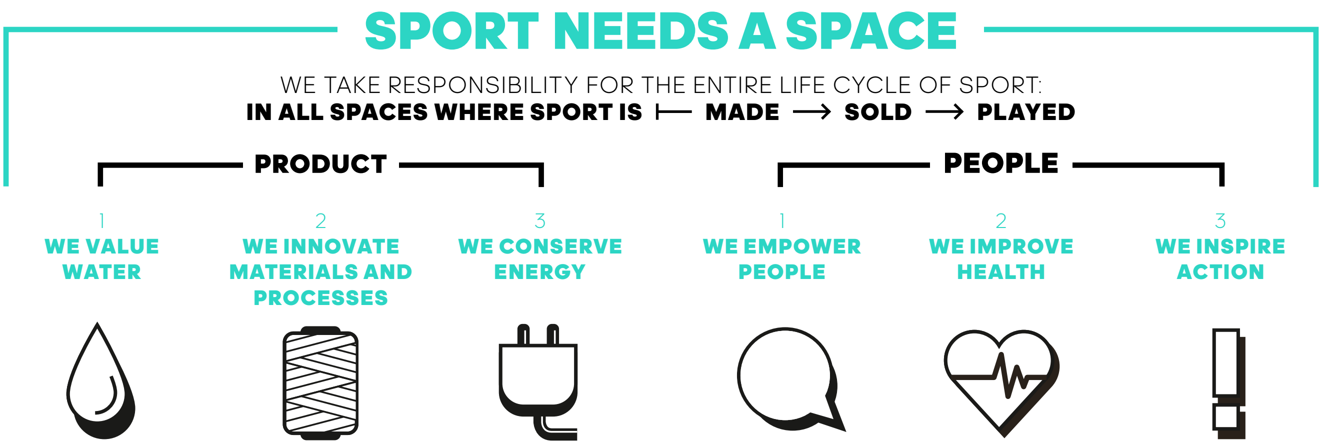
A cross-functional governance structure ensures timely and straight execution of the strategy. Reporting directly to the Executive Board, a sponsor board composed of all functional heads from Social & Environmental Affairs (SEA), Global Operations, Global Brands, Human Resources, Global Workplaces, Retail Concept, Sales, Finance and Communication oversees the progress made towards our 2020 goals and gives direction for further development of the strategy. The sponsor board also works in close alignment with the strategic working group that is tasked with the monitoring of ongoing relevant developments within the company and reporting of progress to the sponsor board. Ultimately, the programme owners ensure operational execution of the strategy.

IDENTIFYING STRATEGIC PRIORITIES: ONGOING MATERIALITY ANALYSIS

We seek to ensure that our Sustainability Strategy addresses the topics that are most salient to our business as well as the challenges ahead. Equally, they must seamlessly support our overall business goals and are directly linked to our core DNA as a global sports company. Our last extensive materiality assessment involved a wide range of internal and external stakeholders and since then has been regularly updated based on our ongoing stakeholder engagement. www.adidas-group.com/s/materiality-analysis

As a result we have chosen the following six strategic ambitions and embedded goals within the two dimensions of 'product' and 'people' that we aim to reach by 2020.

01 **OUR SUSTAINABILITY STRATEGY**



PRODUCT PRIORITY NO. 1: WE VALUE WATER

Water is essential for life. It is also a key resource for our industry. In order to tackle the ever-growing issue of water scarcity and achieve water stewardship, we have developed an approach addressing water efficiency, quality and accessibility.

The goals we want to achieve by 2020 include 20% water savings at our strategic suppliers, 50% water savings at our apparel material suppliers and 35% water savings per employee at our own sites. Additionally, we will further expand the use of waterless technologies for our products and continue to develop programmes focused on providing access to clean water in the communities we operate in. ↘ www.adidas-group.com/s/environmental-approach ↘ www.adidas-group.com/s/sustainability-innovation

PRODUCT PRIORITY NO. 2: WE INNOVATE MATERIALS & PROCESSES

We create the best products for the athlete, while optimising our environmental impact. We are committed to steadily increasing the use of more sustainable materials in our production, products and stores. At the same time, we are driving towards closed-loop solutions.

Examples of the goals we want to achieve by 2020 include 20% waste reduction at our strategic suppliers, 50% waste diversion for owned operations to minimise landfill and 75% paper reduction per employee at our own sites. Additionally, we are working on replacing conventional cotton, with the aim of achieving 100% sustainable cotton by 2018, and on phasing out the use of virgin plastic. In 2016, we already successfully eliminated plastic bags in all our own stores and franchise stores globally. We strive to steadily increase the use of recycled polyester in our products and create a completely new supply chain for Ocean Plastic together with our partner Parley for the Oceans.

Further, we want to achieve rolling out a global product take-back programme to all of our key cities and markets and will be investing in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. Ongoing examples include Sport Infinity and Futurecraft Tailored Fibre. Lastly, we plan to achieve 100% sustainable input chemistry by adopting the ZDHC Manufacturing Restricted Substances List, phasing out hazardous chemicals and providing our strategic suppliers with a list of positive chemistry (the bluesign bluefinder). ⊕ see Research & Development, p. 67 ↘ www.adidas-group.com/s/sustainability-innovation ↘ www.adidas-group.com/s/chemical-footprint

PRODUCT PRIORITY NO. 3: WE CONSERVE ENERGY

The responsible use of energy is critical for our planet to survive. In order to mitigate climate change, we are committed to reducing our absolute energy consumption and CO_2 emissions, transitioning to clean energy and looking into energy-harvesting opportunities.

Goals we have set ourselves for 2020 include 20% energy savings at our strategic suppliers, 3% absolute annual reduction in Scope 1 and Scope 2[1] CO_2 emissions at our own sites, further expansion of ISO 14001 to key sites globally at our own operations and LEED certification for new corporate construction key projects. Additionally, we will reduce the environmental footprint of our consumer events.

In order to contribute to these ambitious targets, Green Company, the successful programme to drive environmental performance at our own sites globally, was expanded in 2016 to include new aspects. For the very first time, it now covers our own-retail stores

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

and includes, for example, LEED-certifying our new flagship stores. More information about our progress will be available in our Green Company Performance Analysis 2016 (as of April 2017). www.adidas-group.com/s/environmental-approach

PEOPLE PRIORITY NO. 1: WE EMPOWER PEOPLE

People are at the heart of everything we do. Like a coach ensures that all of the players on the pitch are in the right position for the best results, we empower people to exercise their rights and unlock their potential.

By 2020, we will empower our supply chain workers by expanding and refining grievance systems and skill training programmes, which include the expansion of the Workers' Hotline to the countries where our strategic suppliers are located. We will further drive and support our suppliers and licensees in achieving top scores as defined by our rigid sustainability assessment and scoring method using our C KPI and E KPI[2]. We will foster cross-functional and cross-cultural careers and experiences for our employees – this includes volunteering programmes together with the adidas Fund and Reebok BOKS, a free before-school physical activity programme mastered by Reebok and the Reebok foundation, which also enhances soft skills such as teamwork, leadership, decision-making and communication while increasing our employees' commitment and motivation. And lastly we will champion diversity – regardless of gender, nationality, ethnic origin, religion, world view, age, sexual orientation or gender identity. see Internal Management System, p. 86 www.adidas-group.com/s/supply-chain-approach www.adidas-group.com/s/employees

Social engagement and support for people in need are key components of our corporate culture. For many years now, we have been working closely with several organisations on both a local and global level, which the company supports with monetary and in-kind donations. In 2016, this included more than € 600,000 for refugee aid in Europe and the Middle East. In addition, the company donated considerable volumes of products for refugees worldwide, largely in close cooperation with 'Luftfahrt ohne Grenzen' ('Wings of Help').

In its support for refugees, adidas follows a holistic concept based on three pillars: humanitarian help, enable and support, and employment integration. In 2016, activities focused on employment integration and training of refugees. As a result, we were able to offer 33 refugees the opportunity to do an internship. In addition, adidas grants every employee participating in voluntary work with refugees that exceeds a certain number of hours three days' special leave for such activities. In 2016, our employees invested around 1,300 hours into the integration of refugees. This enables the company, together with the adidas Fund and external partners, to help a large number of refugees, giving them a change from their everyday life through sports activities and language tuition and offering them a positive outlook.

We are actively participating in refugee-related networks, such as 'Unternehmen integrieren Flüchtlinge' (Companies integrate refugees) or 'Wir zusammen' (Us Together). 'Wir zusammen' is an ideal platform for coordinating our activities with other companies and maximising our impact. Since the start of 'Wir zusammen', the number of participants in the network has risen to 150. www.adidas-group.com/s/community-engagement www.unternehmen-integrieren-fluechtlinge.de www.wir-zusammen.de

PEOPLE PRIORITY NO. 2: WE IMPROVE HEALTH

Sport is the key to an individual's health and happiness. Our aim is to enable people around the world to participate in sports, while educating them on physical and mental health, fitness and nutrition. This will ultimately allow them to lead a healthier and more fulfilled lifestyle.

By 2020, we will introduce education and upskilling measures on health and work-life balance topics for our employees, develop a global Health Management strategy for our employees and utilise sport as a tool to teach values and boost young people's academic and physical performance, adding to their overall confidence and well-being. Through the BOKS programme, we will refine and perfect the collective impact model with our other partners, including those from the healthcare industry, to provide a solution to the physical inactivity epidemic. We also aim to increase the number of enrolled BOKS schools by 50% in our target areas. www.adidas-group.com/s/employees www.adidas-group.com/s/community-engagement

PEOPLE PRIORITY NO. 3: WE INSPIRE ACTION

We work hard every day to inspire and enable people to harness the power of sport in their lives. Likewise, we want to keep driving change in our industry by leading by example.

We will continue to focus on rewarding our employees' commitment and contributions to our company's purpose, strategy and success, and on encouraging and supporting employee volunteering. We will engage with creators and influencers and drive innovative collaborations, inspire consumers, key partners, brand assets and others to join us on our journey. Furthermore, we continue to team up with our athletes who will act as role models for young creators, sharing experiences and showing that sport is about passion, determination, teamwork, helping others and being active.

2 The C KPI rating is our tool to measure the social compliance performance of our suppliers.
The E KPI rating is our tool to measure the environmental performance of our suppliers.

OUR FUNDAMENTALS: COMPLIANCE AND TRANSPARENCY

PROTECTING HUMAN RIGHTS

adidas recognises its responsibility to respect human rights and the importance of showing that we are taking the necessary steps to fulfil this social obligation as a business. We do this by striving to operate responsibly along the entire value chain, by safeguarding the rights of our own employees and those of the workers who manufacture our products through our 'Workplace Standards', and by applying our influence to affect change wherever human rights issues are linked to our business activities.

Since its inception in 1997, our human and labour rights programme has been built on the back of intense stakeholder outreach and engagement: seeking to understand and define the most salient issues to address as a company. Recent highlights of our work include the publication of our approach to support human rights defenders, our participation in a pilot to create an international corporate human rights benchmark for business globally and our ongoing disclosure of cases received through our third-party complaints mechanism, which is part of our long-standing approach to transparency and accountability. Our work was awarded with a leadership position in the KnowTheChain ranking in 2016. www.adidas-group.com/s/human-rights

ENABLING FAIR AND ENVIRONMENTALLY SOUND WORKING CONDITIONS IN OUR SUPPLY CHAIN

Our 'Workplace Standards', the supply chain code of conduct established in 1997, are a contractual obligation under the manufacturing agreements the company signs with its main business partners to ensure workers' health and safety and they provide provisions to ensure environmentally sound factory operations. These standards follow International Labour Organization (ILO) and United Nations conventions relating to human rights and employment practices, as well as the model code of conduct of the World Federation of the Sporting Goods Industry (WFSGI).

To enforce compliance with these standards, the SEA team regularly conducts announced and unannounced social compliance and environmental audits and assesses suppliers by means of an innovative rating system using a score between 1C/1E (worst) and 5C/5E (best). According to the results, our Sourcing teams decide the course of action ranging from training needs at the factories to reinforcement mechanisms such as sending warning letters or even termination of contracts. Potential new suppliers are assessed in a similar way and orders can only be placed if SEA approval has been granted. www.adidas-group.com/s/supply-chain-approach see Table 02 see Table 03 see Diagram 04

02 **PERFORMANCE DATA**

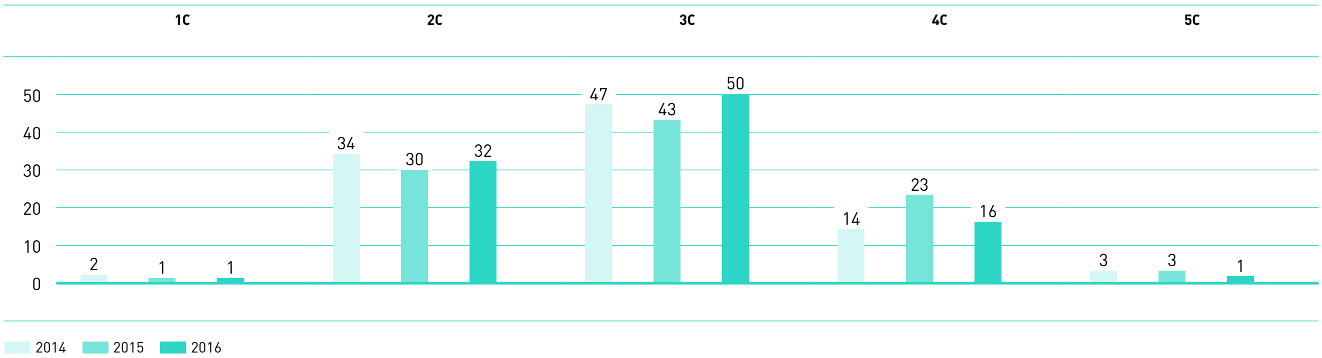
Factory visits	1,225 (2015: 1,255)
Social compliance audits (external and internal) [1]	989 (2015: 1,135)
Environmental audits	143 (2015: 138)
Audits FLA	4 (2015: 4)
Training sessions [2]	171 (2015: 120)
Social compliance performance (C KPI)	see Diagram 04
Termination for compliance reasons	10 (2015: 3)
Better Cotton used (2018 target: 100%)	68% (2015: 43%)

1 In 2016, the total number of social compliance audits declined slightly compared to the previous year. This has several reasons, including the increased collaboration with other brands and the decrease in the number of audits required for our high-performing suppliers.
2 Due to the restructuring of our teams into two specialised teams for Advisory and Monitoring, we had more capacities to provide considerably more training to our suppliers.

03 **COMPLIANCE RATINGS**

Grade	KPI score band	Performance description
1C	0% – 29%	There are numerous severe non-compliance issues and no compliance management and compliance practices in place. The factory has been given notice that business will be terminated unless there is immediate improvement.
2C	30% – 59%	There are some non-compliance issues and no compliance management systems. However, there are some effective compliance practices being delivered.
3C	60% – 79%	There are minor non-compliance issues. The factory has compliance management systems and some effective compliance practices in place.
4C	80% – 89%	Generally, there are no non-compliance issues. The factory has compliance management systems in place, and most of the components are effective.
5C	90% – 100%	There are no non-compliance issues and all of the factory's management systems and practices are well delivered and effective.

04 **DEVELOPMENT BY COMPLIANCE RATINGS**[1] IN %



1 We saw a slight decline in the number of our high-performing suppliers as a result of the implementation of a more consistent application of our rigid audit process.

To best reduce our suppliers' environmental impacts at their manufacturing plants we help them establish sound environmental management systems. We have specific guidelines and training programmes in place for our suppliers, using the environmental performance of our own sites as best-practice examples. Our suppliers' environmental impacts and progress are tracked through a tailored data management system that requires them to report environmental data such as carbon emissions, energy and water consumption as well as waste volumes on a regular basis. The majority of our footwear sourcing volume is produced in factories which are OHSAS 18000 and/or ISO 14001 certified. The remaining part of our footwear sourcing volume is produced in factories that have management systems in place but have not yet been certified. All footwear factories are regularly assessed against our standards on environment and workplace health and safety. ↘ www.adidas-group.com/s/policies

ENSURING OUR PRODUCTS ARE SAFE

We have company-wide product safety policies in place that ensure we consistently apply physical and chemical product safety and conformity standards across all brands. Since pioneering the Restricted Substances Policy in 1998, we continue to develop policies which ban or restrict chemicals in our products. The Restricted Substances Policy for product materials covers the strictest local requirements and includes best-practice standards as recommended by consumer organisations. It prohibits, for example, the use of chemicals considered harmful or toxic, the sourcing or processing of raw materials from any endangered or threatened species and the use of leathers, hides or skins from animals that have been inhumanely treated, whether these animals are wild or farmed. They are mandatory for all business partners and are updated regularly based on findings in our ongoing dialogue with scientific organisations. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected. ↘ www.adidas-group.com/s/product-safety

DRIVING STAKEHOLDER DIALOGUE AND INCREASING TRANSPARENCY

We openly engage with numerous stakeholders, involving them in key social and environmental decisions that shape day-to-day operations. Through active participation in, for example, the Better Cotton Initiative (BCI), the Sustainable Apparel Coalition (SAC), the Leather Working Group (LWG) and the AFIRM Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organisations such as the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA). In addition, we build awareness, capacity and knowledge of laws and rights among factory management and workers by partnering with leading providers such as the EHS+ Centre in China and the ILO's Better Work programme.

A key element of our transparent communication is the disclosure of our global supplier factory list on our website. First published in 2007 and updated twice a year, it is complemented with factories that manufactured products for major sports events such as the FIFA World Cup or Olympic Games. ↘ www.adidas-group.com/s/partnerships ↘ www.adidas-group.com/s/supply-chain-approach

ADIDAS AG IN SUSTAINABILITY INDICES

EXTERNAL RECOGNITION FOR OUR SUSTAINABILITY EFFORTS

We have continuously received positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for our sustainability initiatives. In 2016, adidas AG was again represented in a variety of high-profile sustainability indices. For the 17th consecutive time, adidas AG was selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. As one of the top-scoring companies in our industry, adidas AG has received the Gold Class and Industry Mover distinction for excellent sustainability performance. Within each industry, companies with a minimum total score of 60 and whose score is within 1% of the top-performing company's score receive the RobecoSAM Gold Class award. In the sector 'Textiles, Apparel & Luxury Goods', adidas AG was rated industry best in the criteria Brand Management, Innovation Management, Risk & Crisis Management, Environmental Policy & Management Systems, Operational Eco-Efficiency, Corporate Citizenship & Philanthropy and Stakeholder Engagement. Furthermore, in 2016, adidas was ranked fifth among the Global 100 Most Sustainable Corporations in the World (Global 100 Index), making it to the Top Ten for the third consecutive year. The company has also again received recognition for outstanding environmental performance of its supply chain in China, ranking first in the textile industry in the annual CITI (Corporate Information Transparency Index) evaluation for the second year in a row. The ranking was developed jointly by the Institute of Public & Environmental Affairs (IPE) and the Natural Resources Defense Council (NRDC) and identifies the top brands to carry out environmental management towards their supply chains in China.

- Dow Jones Sustainability Index (World and Europe)
- Euronext Vigeo Indices (Eurozone 120 and Europe 120)
- ECPI Ethical Equity Indices (Euro and EMU) & ECPI ESG Equity (Euro and World)
- Ethibel Sustainability Indices (Global and Europe)
- FTSE4Good Index Series
- MSCI Global Sustainability Indices & MSCI SRI Indices
- STOXX ESG Leaders
- Global 100 Most Sustainable Corporations in the World (Global 100 Index)
- Carbon Disclosure Project Climate Change (Score B) and Water (Score B)

5

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GROUP MANAGEMENT REPORT

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

INTERNAL MANAGEMENT SYSTEM

In order to increase shareholder value, adidas aims to maximise operating cash flow. We strive to achieve this by continually improving our top- and bottom-line performance while at the same time optimising the use of invested capital. In addition, we focus on driving strong earnings growth in the interest of our shareholders. Our company's planning and controlling system is therefore designed to provide a variety of tools to assess our current performance and to align future strategic and investment decisions to best utilise commercial and organisational opportunities.

INTERNAL MANAGEMENT SYSTEM DESIGNED TO DRIVE SHAREHOLDER VALUE

We believe *operating cash flow* see Glossary, p. 218 is one of the most important drivers to increase shareholder value. To support this, the company's Management focuses on a set of major financial Key Performance Indicators (KPIs). see Diagram 01 Increasing net sales and operating profit are the main contributors to improve operating cash flow. In addition, strict management of operating working capital and value-enhancing capital expenditure are beneficial for operating cash flow development. In order to maximise operating cash flow generation across our organisation, the management teams of our operating segments are responsible for improving net sales and operating profit as well as optimising operating working capital and capital expenditure. In addition, to keep Management focused on driving strong returns in the interest of our shareholders, the development of the company's net income position, as well as earnings per share (EPS), is of high importance. see Diagram 01

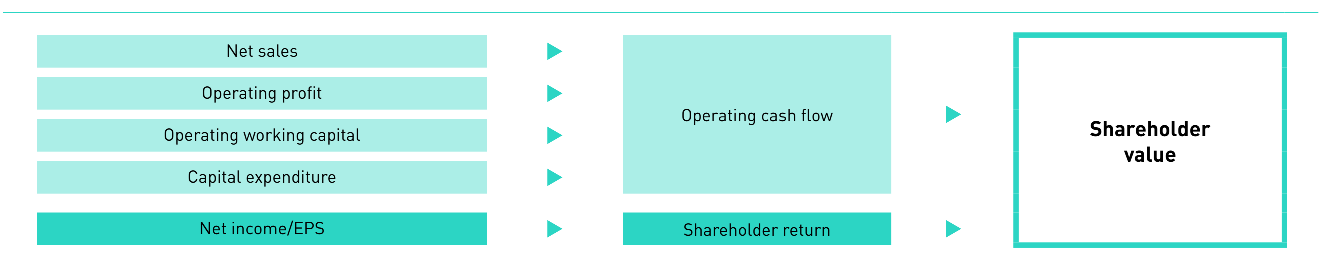
In order to encourage long-term performance improvements, we measure the development of the business units over a multi-year period. In this context, we also recognise that the long-term success of our company depends on our ability to identify, measure and manage all relevant tangible and intangible value drivers of the entire organisation. As a consequence, in 2016, we continued our efforts towards Integrated Performance Management (IPM), which is our approach to a systematic and consistent consideration of the company's major value drivers such as our employees, our brands, sustainability and financials in decision-making.

OPERATING MARGIN AS MAJOR KPI FOR OPERATIONAL PROGRESS

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

- **Sales and gross margin development:** Management focuses on identifying and exploiting growth opportunities that not only provide for future top-line improvements, but also have potential to increase our gross margin. Major levers for enhancing our sales and gross margin include:
  - Minimising clearance activities, while at the same time increasing the full-price share of sales.
  - Optimising our product mix.
  - Improving the quality of distribution, with a particular focus on *controlled space* see Glossary, p. 216.
  - Realising supply chain efficiency initiatives.

01 MAJOR KEY PERFORMANCE INDICATORS (KPIS)



— **Operating expense control:** Management puts high emphasis on tightly controlling operating expenses to leverage sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the company's cost base. Expenditure for *marketing investments* see Glossary, p. 217 is one of our largest operating expenses and at the same time one of the most important mechanisms for driving brand desirability and top-line growth sustainably. Therefore, we are committed to improving the efficiency of our marketing investments. This includes concentrating our communication efforts on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs, athletes and artists.

We also aim to increase operational efficiency by tightly managing *operating overhead expenses* see Glossary, p. 218. In this respect, we regularly review our operational structure – streamlining business processes, eliminating redundancies and leveraging the scale of our organisation. These measures may also be supplemented by short-term initiatives such as temporarily curtailing operational investments, for example staff hiring.

TIGHT OPERATING WORKING CAPITAL MANAGEMENT

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

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

CAPITAL EXPENDITURE TARGETED TO MAXIMISE FUTURE RETURNS

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

In addition to optimising return on investments, we evaluate larger projects upon completion and document learnings for future capital expenditure decisions.

NET INCOME AND EARNINGS PER SHARE TO FOCUS ON SHAREHOLDER INTERESTS

Beyond our ambition to maximise operating cash flow, we are committed to a continuous improvement in the company's bottom line. We are convinced that, by doing so, we place an even stronger focus on the interests of our shareholders. Consequently, Management closely monitors the development of both net income and earnings per share (EPS) and executes against these two major financial KPIs. see Diagram 01 Our strong focus on driving the company's bottom line is also reflected in the fact that our Management's variable compensation is linked to the company's net income growth. see Compensation Report, p. 32

NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

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

Furthermore, within the framework of Creating the New, we implemented an NPS system, which strengthens our capabilities to more carefully review brand advocacy as NPS tells us how likely it is that consumers will recommend our brands. NPS is a key pillar in transforming our company into a consumer-centric organisation. It represents a holistic and transparent measure of brand performance and has been successfully applied in other industries and organisations. NPS comes from the following question asked to a surveyed group of people: 'How likely is it that you would recommend this brand to a friend?' The answer has a scale from 0 to 10 with 10 being the most likely. NPS is calculated using Promoters (consumers that answered 9 or 10) minus Detractors (consumers that answered 0 to 6). Consumers answering 7 or 8 are called Neutrals or Passives and are not taken into consideration for the calculation of the NPS.

Our efforts around NPS (both our own NPS as well as the NPS of our major competitors) are driven by an independent agency and monitored by our internal global consumer insight teams on a regular basis. We firmly believe that advocacy will create sustained growth for our brands, underpinned by the fact that brand advocates on average buy more than non-advocates. In addition, a large part of our consumers rely on referrals by friends or family when making purchase decisions. Consequently, the results from our NPS system are also reflected in the variable compensation for Executive Board members and a large number of our employees. see Compensation Report, p. 32

Market share: To measure the operational performance of our brands relative to our major competitors, we continuously collect, on a market and category level, market share data. see Corporate Strategy, p. 48 The findings provide detailed insights for our senior management team into which markets and categories we have been able to gain market share relative to our peers, enabling us to leverage those insights across the organisation. see Management Assessment of Performance, Risks and Opportunities, and Outlook, p. 133 In addition, the results help us to define clear roles and responsibilities for each of our markets and categories within our long-term strategic aspirations, based on their overall positioning within the sporting goods industry.

Backlogs and sell-through data: To manage demand planning and better anticipate our future performance, *backlogs* see Glossary, p. 216 comprising orders received up to nine months in advance of the actual sale are monitored closely. However, due to the growing share of own retail in our business mix, fluctuating order patterns among our customers as well as an increasing part of our business being realised under significantly shortened lead times, orders received from our retail partners are less indicative of anticipated revenues for adidas compared to the past. Therefore, qualitative feedback from our retail partners on the full-price sell-through success of our collections at the point of sale as well as data received from our own-retail activities is becoming increasingly important.

On-Time In-Full (OTIF): OTIF measures the company's delivery performance towards customers and our own-retail stores. Managed by our Global Operations function, OTIF assesses to what degree customers received what they ordered and if they received it on time. see Global Operations, p. 62 It helps us to investigate improvement potential in the area of order book management and logistics processes. It therefore also helps us to improve our delivery performance, which is a major aspect when it comes to customer satisfaction. The OTIF assessment covers both the adidas and Reebok brands in most of our key markets. see Management Assessment of Performance, Risks and Opportunities, and Outlook, p. 133

Employee engagement: To measure the level of engagement and motivation of our employees, adidas carries out employee engagement surveys. These surveys aim to provide key insights into how well we, as an employer, are doing in engaging our employees. They thus enable us to develop the right focus and future people strategies across our organisation. Against the background of organisational changes within the company, the existing engagement survey approach has been re-designed with regard to the survey's scope and frequency. The new survey approach is planned to be introduced in 2017. see Our People, p. 72

Sustainability performance: We have a strong commitment to enhance the social and environmental performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation, but also increase its economic value. We have therefore implemented a comprehensive Sustainability Strategy under which we regularly review our performance. We closely monitor our sustainability targets and have set ourselves clear milestones. A major focus lies on monitoring and rating our supplier factories with regard to compliance with our Workplace Standards and rating the effectiveness of compliance systems. A rating tool helps us evaluate six fundamental elements of social compliance. see Sustainability, p. 78 We have a strong track record in sustainability reporting, with our Sustainability Progress Report being an integral part of this. All our social and environmental publications, which include more details and additional data, are provided on our corporate website.
see Management Assessment of Performance, Risks and Opportunities, and Outlook, p. 133
www.adidas-group.com/s/sustainability-reports

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM

We have developed an extensive performance measurement system, which utilises a variety of tools to measure the company's performance. Key performance indicators as well as other important financial metrics are monitored and compared against initial targets as well as *rolling forecasts* see Glossary, p. 218 on a monthly basis. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimise the development of our operating performance. To assess current sales and profitability development, Management continuously analyses the performance of our operating segments. We also benchmark our financial results with those of our major competitors on a regular basis.

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

ENHANCED INTEGRATED BUSINESS PLANNING AND MANAGEMENT APPROACH

In order to further optimise profitability and working capital efficiency as well as operating cash flow development, we continue to drive our Integrated Business Planning initiative (IBP). This initiative focuses on developing and forming an enhanced forecasting approach by aligning processes and timelines of major business functions such as marketing, sales and operations at a market and global level. The centre-point of this approach is to improve the reliability of future business planning, leading to a new efficiency level of order book building and conversion. This, in turn, is expected to lead to an increase in the full-price share of sales.

BUSINESS PERFORMANCE

2016 marked a year of strong operational and financial performance for adidas. Revenues increased 18% on a currency-neutral basis, driven by strong double-digit growth at the adidas brand and mid-single-digit sales increases at the Reebok brand. All market segments recorded currency-neutral sales increases, with double-digit growth across all regions except Russia/CIS, where revenues grew at a low-single-digit rate. Despite severe pressure from negative currency effects, the gross margin increased 0.3 percentage points to 48.6%, reflecting an improved pricing, product and channel mix as well as lower input costs. Other operating expenses as a percentage of sales were down 0.3 percentage points to 42.8%. In combination with a non-recurring gain related to the early termination of the Chelsea F.C. contract, the operating margin increased a robust 1.3 percentage points to 7.7%, excluding last year's goodwill impairment losses. As a result, net income from continuing operations, excluding goodwill impairment losses in the prior year, increased 41% to € 1.019 billion. At € 4.99, diluted EPS from continuing operations grew 41%, excluding goodwill impairment losses in the prior year.

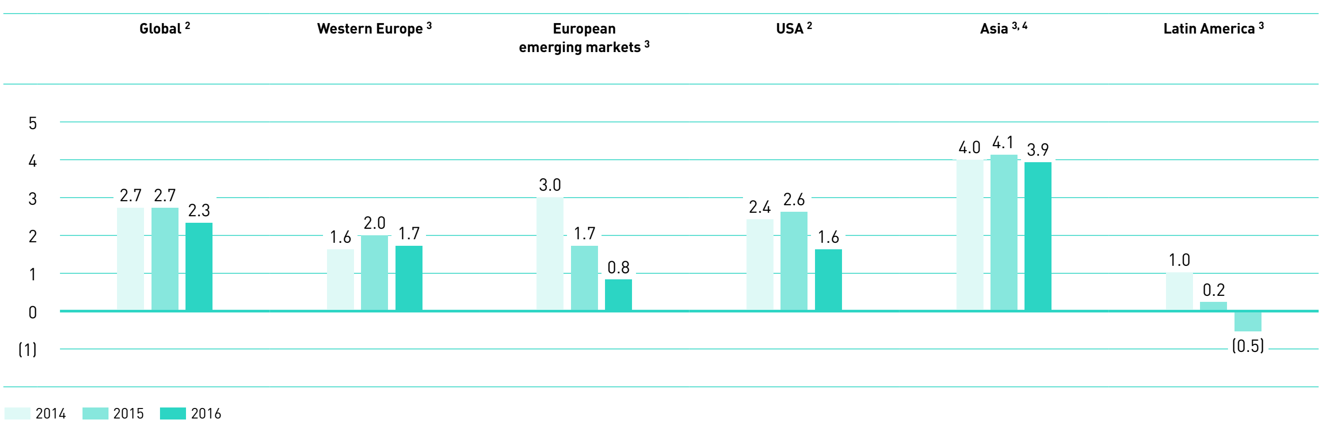
ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMY EXPANDS 2.3% IN 2016 [1]

2016 marked another challenging year for the global economy, which grew at a slower rate than initially projected. With global gross domestic product (GDP) growth of 2.3%, 2016 experienced the lowest economic expansion since 2009. The weaker-than-expected economic activity reflects sluggish global trade, lacklustre investment spending, policy uncertainties as well as volatile financial markets. These developments, in combination with heightened geopolitical tensions and political discord such as the unexpected UK vote in favour of leaving the European Union ('Brexit') as well as the electoral outcome in the USA, remained major sources of uncertainty and continued to weigh on economic activity. Developing economies grew 3.4% in 2016, mainly reflecting improving domestic demand, the modest stabilisation in commodity prices as well as accommodative macroeconomic policies. Nonetheless, weak investment and productivity growth negatively impacted the economic recovery in those markets. At 1.6%, growth in developed economies decelerated, as several markets continued to face significant challenges, such as weak external demand, lacklustre investment activity, policy uncertainties and sluggish productivity growth. Nevertheless, improving labour market conditions as well as accommodative monetary policies supported the overall economic activity.

1 Sources: World Bank Global Economic Prospects and HSBC Global Research.

01 **REGIONAL GDP DEVELOPMENT [1]** IN %



1 Real, percentage change versus prior year; 2014 and 2015 figures restated compared to prior year.
2 Source: World Bank.
3 Source: HSBC.
4 Includes Japan and Area Pacific.

02 QUARTERLY UNEMPLOYMENT RATE BY REGION[1] IN % OF TOTAL ACTIVE POPULATION

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USA[2]	5.0	5.0	4.9	4.9	4.7
Euro area[3]	10.5	10.2	10.1	9.8	9.6
Japan[4]	3.3	3.2	3.1	3.0	3.1
China[5]	4.1	4.0	4.1	4.0	4.0
Russia[6]	5.8	6.0	5.4	5.2	5.3
Brazil[7]	7.4	7.9	11.2	11.7	11.9

1 Quarter-end figures.
2 Source: US Bureau of Labor Statistics.
3 Source: Eurostat.
4 Source: Japan Ministry of Internal Affairs and Communications.
5 Source: China National Bureau of Statistics.
6 Source: Russia Federal Service of State Statistics.
7 Source: Brazil Institute of Geography and Statistics.

03 QUARTERLY DEVELOPMENT OF CONSUMER PRICE INDEX[1] BY REGION

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USA[2]	0.7	0.9	1.0	1.5	2.1
Euro area[3]	0.2	0.0	0.1	0.4	1.1
Japan[4]	0.2	0.0	(0.4)	(0.5)	0.3
China[5]	1.6	2.3	1.9	1.9	2.1
Russia[6]	12.9	7.3	7.5	6.4	5.4
Brazil[7]	10.7	9.4	8.8	8.5	6.3

1 Quarter-end figures.
2 Source: US Bureau of Labor Statistics.
3 Source: Eurostat.
4 Source: Japan Ministry of Internal Affairs and Communications.
5 Source: China National Bureau of Statistics.
6 Source: Russia Federal Service of State Statistics.
7 Source: Brazil Institute of Geography and Statistics.

MOMENTUM IN THE SPORTING GOODS INDUSTRY CONTINUES[2]

In 2016, the global sporting goods industry grew at robust rates, supported by rising consumer spending in both developing and developed markets, the ongoing athleisure trend as well as higher sports participation and increasing health awareness around the world. In addition, the industry benefited from major sporting events, such as the 2016 Olympic Games hosted by Brazil as well as the UEFA EURO 2016, held in France. Moreover, social trends including social fitness remained strong catalysts, significantly impacting the overall sports industry. The e-commerce channel continued to see rapid expansion, as retailers leveraged a wide variety of commercial opportunities across mobile technologies and social media. Nevertheless, the industry was negatively impacted by the bankruptcy of several retailers, with the majority of their business not yet fully recovered by other physical stores. From a category perspective, athletic footwear sales posted a strong performance in 2016. In particular, the casual athletic category continued to enjoy strong momentum throughout the year, fuelled by retro running and tennis silhouettes. In addition, running footwear recorded further improvements in 2016, supported by fashion and retro silhouettes. Basketball footwear remained challenged, reflecting the shift in fashion away from the basketball styles. Furthermore, the athletic apparel category delivered solid gains throughout the year, mainly benefiting from stronger demand in activewear apparel, as consumers continued to shift their preferences from more traditional and technical apparel to activewear. Despite the ongoing challenging equipment business environment, the category managed to post sales growth especially in the US market.

2 Sources: NPD Market Research and Deutsche Bank Market Research.

04 QUARTERLY CONSUMER CONFIDENCE DEVELOPMENT[1] BY REGION

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USA[2]	96.3	96.1	97.4	103.5	113.3
Euro area[3]	(5.7)	(9.7)	(7.2)	(8.2)	(5.1)
Japan[4]	41.3	41.3	42.1	42.6	42.3
China[5]	103.7	100.0	102.9	104.6	108.4
Russia[6]	(26.0)	(30.0)	(26.0)	(19.0)	(18.0)
Brazil[7]	96.3	97.6	101.0	103.1	100.3

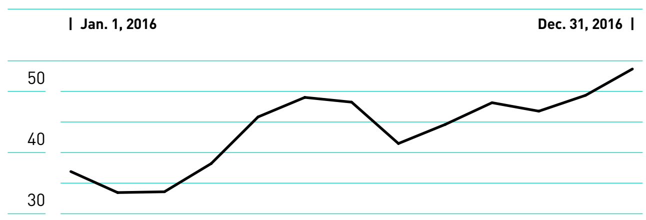
1 Quarter-end figures.
2 Source: Conference Board.
3 Source: European Commission.
4 Source: Economic and Social Research Institute, Government of Japan.
5 Source: China National Bureau of Statistics.
6 Source: Russia Federal Service of State Statistics.
7 Source: Brazil National Confederation of Industry.

05 EXCHANGE RATE DEVELOPMENT[1] € 1 EQUALS

	Average rate 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Average rate 2016
USD	1.1101	1.1385	1.1102	1.1161	1.0541	1.1069
GBP	0.7259	0.7916	0.8265	0.8610	0.8562	0.8188
JPY	134.42	127.90	114.05	113.09	123.40	120.40
RUB	67.682	76.971	71.339	70.491	63.938	74.278
CNY	6.9721	7.3561	7.3620	7.4531	7.3123	7.3515

1 Spot rates at quarter-end.

06 2016 OIL PRICE DEVELOPMENT[1] IN US $ PER BARREL



1 West Texas Intermediate Cushing crude oil.

Source: Bloomberg.

INCOME STATEMENT

ADIDAS DELIVERS STRONG FINANCIAL PERFORMANCE IN 2016

In 2016, revenues increased 18% on a currency-neutral basis. In euro terms, revenues grew 14% to € 19.291 billion from € 16.915 billion in 2015. see Diagram 07

From a market segment perspective the combined currency-neutral sales of the adidas and Reebok brands grew at double-digit rates in nearly all regions in 2016. Revenues in Western Europe increased 20% on a currency-neutral basis, driven by double-digit sales growth in all major countries. Currency-neutral sales in North America and Greater China increased 24% and 28%, respectively. Revenues in Russia/CIS grew 3% on a currency-neutral basis. In Latin America, revenues grew 16% on a currency-neutral basis, as all major countries grew at double-digit rates with the exception of Brazil, where sales increased at a low-single-digit rate. In Japan, sales were up 16% on a currency-neutral basis. Revenues in MEAA grew 16% on a currency-neutral basis, reflecting broad-based strength and double-digit growth in almost all of the region's countries.

Revenues in Other Businesses were up 1% on a currency-neutral basis. Strong increases in Other centrally managed businesses and Runtastic were only partly offset by sales declines at CCM Hockey and TaylorMade-adidas Golf.

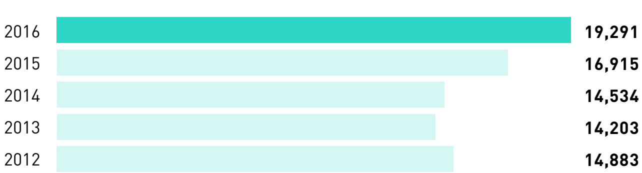
ADIDAS BRAND REVENUES GROW AT STRONG DOUBLE-DIGIT RATE

Currency-neutral revenues for the adidas brand increased 22%, driven by double-digit sales increases in the training and running categories as well as at adidas Originals and adidas neo. In addition, high-single-digit sales increases in the football category as well as mid-single-digit growth in the outdoor category also contributed to this development. Currency-neutral Reebok brand sales were up 6% versus the prior year, reflecting double-digit sales increases in Classics as well as mid-single-digit growth in the training and running categories. Revenues at TaylorMade-adidas Golf were down 1% on a currency-neutral basis, as growth at TaylorMade and adidas Golf was more than offset by sales declines at Ashworth and Adams Golf.

SALES GROW AT DOUBLE-DIGIT RATES IN FOOTWEAR AND APPAREL

Currency-neutral footwear sales grew 26% in 2016, driven by double-digit increases in all major categories. Apparel revenues grew 11% on a currency-neutral basis, due to double-digit increases in the training and running categories as well as at adidas Originals and adidas neo. In addition, mid-single-digit growth in the football category also contributed to this development. Currency-neutral hardware sales were up 9%, driven by high-single-digit growth in the football and training categories. see Diagram 09

07 **NET SALES** [1] € IN MILLIONS

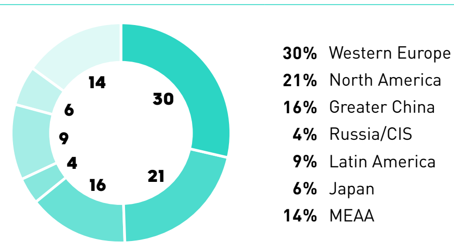


1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

09 **NET SALES BY PRODUCT CATEGORY** € IN MILLIONS

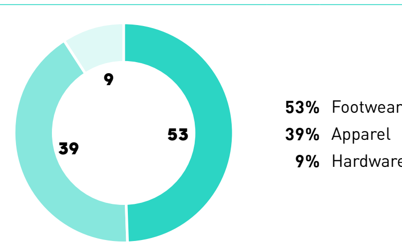
	2016	2015	Change	Change (currency-neutral)
Footwear	10,135	8,360	21%	26%
Apparel	7,476	6,970	7%	11%
Hardware	1,681	1,585	6%	9%
Total	**19,291**	**16,915**	**14%**	**18%**

08 **NET SALES BY REGION** [1] IN % OF NET SALES



1 Figures reflect all operating activities of the operating segments, including Other Businesses.

10 **NET SALES BY PRODUCT CATEGORY** IN % OF NET SALES



GROUP SALES DEVELOPMENT SUPPORTED BY DOUBLE-DIGIT GROWTH IN RETAIL

In 2016, retail revenues increased 23% on a currency-neutral basis, mainly as a result of strong double-digit sales growth at the adidas brand. Reebok brand revenues increased at a mid-single-digit rate. In euro terms, retail sales grew 19% to € 5.003 billion from € 4.221 billion in the prior year. From a store format perspective, sales from concept stores and factory outlets both grew at double-digit rates, while revenues from concession corners were up at a low-single-digit rate. The company ended 2016 with a total of 2,811 adidas and Reebok brand stores compared to the prior year-end level of 2,722. see Table 11 Currency-neutral comparable store sales increased 12% versus the prior year, with double-digit sales growth in all market segments except Russia/CIS, where comparable store sales increased at a high-single-digit rate. eCommerce revenues grew 59% on a currency-neutral basis.

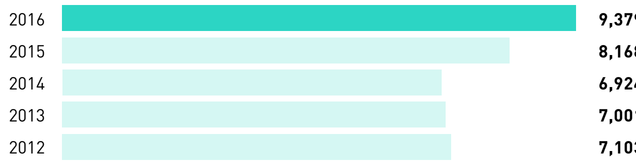
COST OF SALES INCREASES

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2016, cost of sales was € 9.912 billion, representing an increase of 13% compared to the prior year level of € 8.748 billion. This development reflects the strong growth of our business.

11 **RETAIL NUMBER OF STORES DEVELOPMENT**

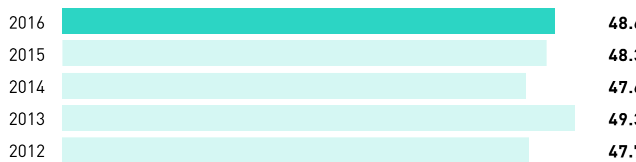
	Total	Concept stores	Factory outlets	Concession corners
December 31, 2015	**2,722**	**1,698**	**872**	**152**
Opened	337	235	85	17
Closed	248	176	55	17
Opened (net)	89	59	30	–
December 31, 2016	**2,811**	**1,757**	**902**	**152**

12 **GROSS PROFIT** [1] € IN MILLIONS



1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

13 **GROSS MARGIN** [1] IN %



1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

GROSS MARGIN IMPROVES 0.3 PERCENTAGE POINTS DESPITE SEVERE CURRENCY HEADWINDS

In 2016, despite severe headwinds from negative currency effects, the gross profit increased 15% to € 9.379 billion from € 8.168 billion in 2015, representing a gross margin increase of 0.3 percentage points to 48.6% (2015: 48.3%). see Diagram 12 see Diagram 13 This development was due to the positive effects from a significantly better pricing, product and channel mix as well as lower input costs.

ROYALTY AND COMMISSION INCOME DECLINES

Royalty and commission income for the company decreased 8% both on a currency-neutral basis and in euro terms to € 109 million (2015: € 119 million).

OTHER OPERATING INCOME INCREASES STRONGLY

In 2016, other operating income rose 175% to € 266 million from € 96 million in 2015. This development mainly reflects two non-recurring gains during the second quarter of 2016, which were related to the early termination of the Chelsea F.C. contract as well as the divestiture of the Mitchell & Ness business.

OTHER OPERATING EXPENSES AS A PERCENTAGE OF SALES DOWN 0.3 PERCENTAGE POINTS

Other operating expenses, including depreciation and amortisation, consist of expenditure for point-of-sale and marketing investments as well as operating overhead costs. In 2016, other operating expenses were up 13% to € 8.263 billion (2015: € 7.289 billion), reflecting an increase in expenditure for point-of-sale and marketing investments as well as higher operating overhead expenditure. see Diagram 14 As a percentage of sales, other operating expenses decreased 0.3 percentage points to 42.8% from 43.1% in 2015. see Diagram 15

EXPENDITURE FOR POINT-OF-SALE AND MARKETING INVESTMENTS AS A PERCENTAGE OF SALES DECREASES 0.8 PERCENTAGE POINTS

Expenditure for *point-of-sale and marketing investments* see Glossary, p. 218 relates to the company's initiatives to strengthen the desirability of our brands and products. While expenditure for point-of-sale investments mainly consists of expenses to support the company's full-price sell-through development at the point of sale, expenditure for marketing investments consists of items such as expenses for promotion partnerships, advertising, public relations and other communication activities. In absolute terms, expenditure for point-of-sale and marketing investments amounted to € 2.521 billion in 2016 compared to € 2.348 billion in the prior year, which represents an increase of 7%. By brand, expenditure for point-of-sale and marketing investments increased 11% to € 2.102 billion (2015: € 1.897 billion) for the adidas brand. Expenditure for point-of-sale and marketing investments for the Reebok brand was down 1% to € 265 million from € 267 million in the prior year. As a percentage of sales, the company's expenditure for point-of-sale and marketing investments declined 0.8 percentage points to 13.1% from 13.9% in 2015, reflecting the company's strong top-line improvement. see Diagram 17

14 **OTHER OPERATING EXPENSES [1]** € IN MILLIONS

2016	**8,263**
2015	**7,289**
2014	**6,203**
2013	**6,013**
2012	**6,150**

1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

15 **OTHER OPERATING EXPENSES [1]** IN % OF NET SALES

2016	**42.8**
2015	**43.1**
2014	**42.7**
2013	**42.3**
2012	**41.3**

1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

OPERATING OVERHEAD EXPENSES AS A PERCENTAGE OF SALES GROW 0.6 PERCENTAGE POINTS

Operating overheads include overhead costs related to marketing, logistics, sales and R&D as well as central administration. In 2016, operating overhead expenses grew 16% to € 5.742 billion versus € 4.941 billion in 2015, and, as a percentage of sales, increased 0.6 percentage points to 29.8% (2015: 29.2%). This development was primarily a result of an increase in costs related to central administration and sales expenditure, which primarily includes further investments to spur the strategic business plan 'Creating the New', accruals for bonus payments for employees due to the company's strong operational performance as well as restructuring costs at Reebok and TaylorMade.

16 **OTHER OPERATING EXPENSES BY AREA** € IN MILLIONS

	2016	2015
Point-of-sale investments	**540**	462
Marketing investments	**1,981**	1,886
Marketing overhead	**684**	554
Sales force	**2,237**	2,040
Logistics	**967**	859
Research & development	**164**	139
Central administration	**1,690**	1,350
Total	**8,263**	7,289

2016 2015

17 **POINT-OF-SALE AND MARKETING INVESTMENTS [1]** IN % OF NET SALES

	Point-of-sale investments	Marketing investments	Total
2016	2.8	10.3	**13.1**
2015	2.7	11.2	**13.9**
2014	2.6	10.6	**13.2**
2013	2.4	10.2	**12.6**
2012	2.0	10.1	**12.1**

Point-of-sale investments Marketing investments

1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

EBITDA INCREASES 28%

Earnings before interest, taxes, depreciation and amortisation as well as impairment losses/reversal of impairment losses on property, plant and equipment and intangible assets (EBITDA) increased 28% to € 1.883 billion in 2016 versus € 1.475 billion in 2015. see Diagram 18 Depreciation and amortisation expense for tangible and intangible assets (excluding impairment losses/reversal of impairment losses) increased 10% to € 373 million in 2016 (2015: € 338 million). This development is mainly due to an increase in property, plant and equipment. In accordance with IFRS, intangible assets with indefinite useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. In this connection, no impairment of intangible assets with unlimited useful lives was incurred in 2016.

NO GOODWILL IMPAIRMENT LOSSES IN 2016

No goodwill impairment losses occurred in 2016. In the prior year period, the company recorded goodwill impairment losses in an amount of € 34 million, mainly related to the company's Russia/CIS and Latin America cash-generating units.

OPERATING MARGIN EXCLUDING GOODWILL IMPAIRMENT INCREASES 1.3 PERCENTAGE POINTS

Excluding the goodwill impairment losses in the prior year, operating profit grew 36% to € 1.491 billion in 2016 versus € 1.094 billion in 2015. see Diagram 19 This represents an operating margin increase of 1.3 percentage points to 7.7% compared to the prior year level of 6.5%. see Diagram 20 This development was due to the gross margin increase, the positive effects from lower other operating expenses as a percentage of sales as well as the non-recurring gain related to the early termination of the Chelsea F.C. contract.

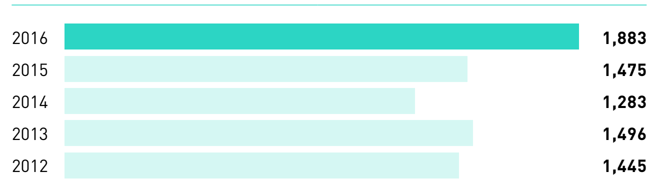
NET FINANCIAL EXPENSES INCREASE STRONGLY

Financial income decreased 40% to € 28 million in 2016 (2015: € 46 million), mainly due to the non-recurrence of positive exchange rate effects. Financial expenses were up 11% to € 74 million compared to € 67 million in 2015, reflecting an increase in interest expenses. As a result, the company recorded net financial expenses of € 46 million. This represents a significant increase compared to net financial expenses of € 21 million in the prior year. see Diagram 21

NET INCOME FROM CONTINUING OPERATIONS EXCLUDING GOODWILL IMPAIRMENT INCREASES 41%

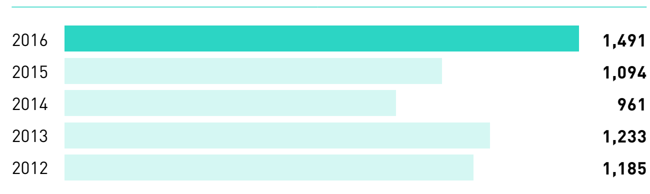
Excluding the goodwill impairment losses in the prior year, the 2016 tax rate reached a level of 29.5%, representing a decline of 3.4 percentage points compared to the prior year level of 32.9%. Net income from continuing operations was up 41% to € 1.019 billion versus € 720 million in 2015. Basic EPS from continuing operations increased 43% from € 3.54 in 2015 to € 5.08 in 2016. Diluted EPS from continuing operations was up 41% to € 4.99 in 2016 (2015: € 3.54).

18 **EBITDA** [1] € IN MILLIONS



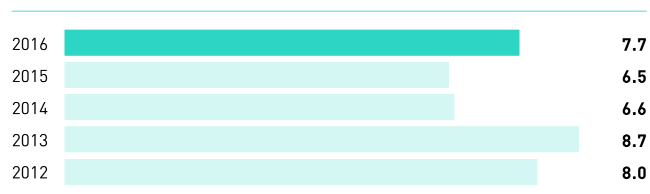
1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

19 **OPERATING PROFIT** [1, 2, 3, 4, 5] € IN MILLIONS



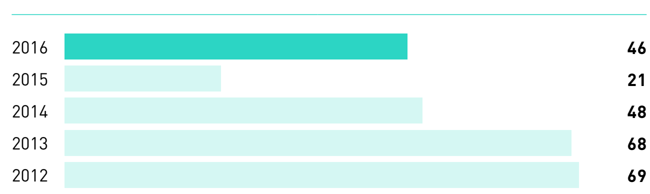
1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.
2 2015 excluding goodwill impairment of € 34 million.
3 2014 excluding goodwill impairment of € 78 million.
4 2013 excluding goodwill impairment of € 52 million.
5 2012 excluding goodwill impairment of € 265 million.

20 **OPERATING MARGIN** [1, 2, 3, 4, 5] IN %



1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.
2 2015 excluding goodwill impairment of € 34 million.
3 2014 excluding goodwill impairment of € 78 million.
4 2013 excluding goodwill impairment of € 52 million.
5 2012 excluding goodwill impairment of € 265 million.

21 **NET FINANCIAL EXPENSES** € IN MILLIONS



The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the result from discontinued operations, grew 52% to € 1.017 billion (2015: € 668 million). see Diagram 22 Basic EPS from continuing and discontinued operations increased 53% to € 5.08 versus € 3.32 in 2015. Diluted EPS from continuing and discontinued operations grew 51% to € 4.99 (2015: € 3.32). see Diagram 23 The weighted average number of shares used in the calculation of basic earnings per share was 200,188,276 (2015: 201,536,418).

NET INCOME FROM CONTINUING OPERATIONS INCLUDING GOODWILL IMPAIRMENT UP 49%

Including the goodwill impairment losses in the prior year, operating profit grew 41% to € 1.491 billion in 2016 (2015: € 1.059 billion), representing an operating margin increase of 1.5 percentage points versus the prior year to 7.7% (2015: 6.3%). The company's tax rate decreased 4.5 percentage points to 29.5% from 34.0% in 2015. Net income from continuing operations was up 49% to € 1.019 billion (2015: € 686 million). Basic EPS from continuing operations increased 50% from € 3.37 in 2015 to € 5.08 in 2016. Diluted EPS from continuing operations was up 48% to € 4.99 in 2016 (2015: € 3.37). Net income attributable to shareholders grew 60% to € 1.017 billion versus € 634 million in 2015. Basic EPS from continuing and discontinued operations increased 62% to € 5.08 (2015: € 3.15) and diluted EPS from continuing and discontinued operations was up 59% to € 4.99 compared to € 3.15 in 2015.

22 **NET INCOME ATTRIBUTABLE TO SHAREHOLDERS [1, 2, 3, 4, 5]**
€ IN MILLIONS

2016	**1,017**
2015	**668**
2014	**568**
2013	**839**
2012	**791**

1 Includes continuing and discontinued operations.
2 2015 excluding goodwill impairment of € 34 million.
3 2014 excluding goodwill impairment of € 78 million.
4 2013 excluding goodwill impairment of € 52 million.
5 2012 excluding goodwill impairment of € 265 million.

23 **DILUTED EARNINGS PER SHARE [1, 2, 3, 4, 5]** IN €

2016	**4.99**
2015	**3.32**
2014	**2.72**
2013	**4.01**
2012	**3.78**

1 Includes continuing and discontinued operations.
2 2015 excluding goodwill impairment of € 34 million.
3 2014 excluding goodwill impairment of € 78 million.
4 2013 excluding goodwill impairment of € 52 million.
5 2012 excluding goodwill impairment of € 265 million.

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

DIVESTITURE OF ROCKPORT AND MITCHELL & NESS

As of July 31, 2015, the Rockport operating segment was divested. In addition, the Mitchell & Ness business was divested as of June 30, 2016. As a result, all relevant assets and liabilities were derecognised from the consolidated statement of financial position as of these dates. see Note 11, p. 161

24 **STRUCTURE OF STATEMENT OF FINANCIAL POSITION [1]**
IN % OF TOTAL ASSETS

	2016	2015
Assets (€ in millions)	**15,176**	13,343
Cash and cash equivalents	**9.9**	10.2
Accounts receivable	**14.5**	15.4
Inventories	**24.8**	23.3
Fixed assets	**35.4**	37.4
Other assets	**15.4**	13.7

2016 2015

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 138.

25 **STRUCTURE OF STATEMENT OF FINANCIAL POSITION [1]**
IN % OF TOTAL LIABILITIES AND EQUITY

	2016	2015
Liabilities and equity (€ in millions)	**15,176**	13,343
Short-term borrowings	**4.2**	2.7
Accounts payable	**16.4**	15.2
Long-term borrowings	**6.5**	11.0
Other liabilities	**30.4**	28.8
Total equity	**42.5**	42.3

2016 2015

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 139.

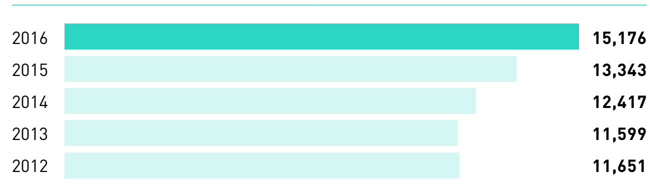
ASSETS

At the end of December 2016, total assets were up 14% to € 15.176 billion versus € 13.343 billion in the prior year, as a result of an increase in both current assets as well as non-current assets. see Diagram 26

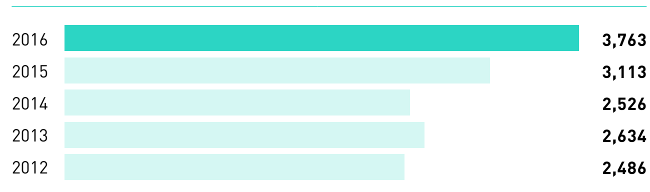
Total current assets increased 19% to € 8.886 billion at the end of December 2016 compared to € 7.497 billion in 2015. Cash and cash equivalents were up 11% to € 1.510 billion at the end of December 2016 from € 1.365 billion in the prior year, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 35 million. Inventories increased 21% to € 3.763 billion at the end of December 2016 from € 3.113 billion in 2015. see Note 09, p. 160 see Diagram 27 On a currency-neutral basis, inventories grew 19%, reflecting higher stock levels to support the company's top-line momentum. Accounts receivable increased 7% to € 2.200 billion at the end of December 2016 (2015: € 2.049 billion). see Note 07, p. 159 see Diagram 28 On a currency-neutral basis, receivables were also up 7%, and thus well below the company's top-line development during the year, reflecting our strict discipline in trade terms management and concerted collection efforts. Other current financial assets almost doubled to € 729 million at the end of December 2016 from € 367 million in 2015. see Note 08, p. 160 This development was driven by an increase in the fair value of financial instruments as well as an increase in other financial assets, which was mainly related to the early termination of the Chelsea F.C. contract. Other current assets were up 19% to € 580 million at the end of December 2016 (2015: € 489 million), mainly due to an increase in prepaid promotion contracts as well as higher other prepaid expenses. see Note 10, p. 160

Total non-current assets grew 8% to € 6.290 billion at the end of December 2016 from € 5.846 billion in 2015. Fixed assets increased 8% to € 5.367 billion at the end of December 2016 versus € 4.986 billion in 2015. Additions of € 708 million were primarily related to own-retail activities, investments into the company's logistics and IT infrastructure as well as the further development of the company's headquarters in Herzogenaurach. Currency translation effects of € 103 million also contributed to the increase in fixed assets. Additions and positive currency translation effects were partly offset by depreciation and amortisation of € 395 million as well as disposals and transfers to assets held for sale in a total amount of € 36 million. Other non-current financial assets decreased 3% to € 96 million from € 99 million at the end of 2015. see Note 16, p. 165 This development was mainly due to the reclassification of fixed promissory notes related to the divestiture of the Rockport business to current financial assets, partly offset by an increase in the fair value of financial instruments and security deposits.

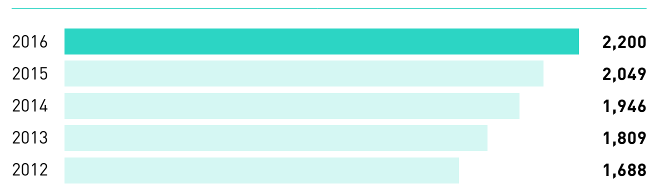
26 **TOTAL ASSETS** € IN MILLIONS



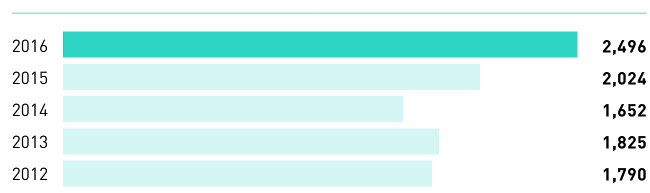
27 **INVENTORIES** € IN MILLIONS



28 **ACCOUNTS RECEIVABLE** € IN MILLIONS



29 **ACCOUNTS PAYABLE** € IN MILLIONS



LIABILITIES AND EQUITY

Total current liabilities increased 26% to € 6.765 billion at the end of December 2016 from € 5.364 billion in 2015. Short-term borrowings grew 74% to € 636 million at the end of December 2016 (2015: € 366 million), reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings as well as an increase in bank loans. These effects were partly offset by first conversions of convertible bonds into adidas AG shares during the year as well as a decrease in private placements. Accounts payable were up 23% to € 2.496 billion at the end of December 2016 versus € 2.024 billion in 2015. see Diagram 29 On a currency-neutral basis, accounts payable grew 23%, as a result of higher inventories compared to the prior year. Other current financial liabilities were up 41% to € 201 million from € 143 million in 2015, mainly due to an increase in the negative fair value of financial instruments. see Note 19, p. 167 Other current provisions increased 26% to € 573 million at the end of December 2016 versus € 456 million in 2015, driven by an increase in operational provisions. Current accrued liabilities grew 20% to € 2.023 billion at the end of December 2016 from € 1.684 billion in 2015, mainly as a result of an increase in accruals for personnel, invoices not yet received and customer discounts. Other current liabilities were up 31% to € 434 million at the end of December 2016 from € 331 million in 2015, mainly due to an increase in customers with credit balances as well as higher miscellaneous taxes payable. see Note 22, p. 168

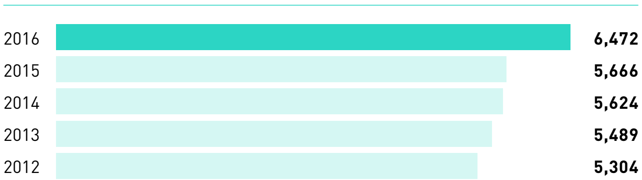
Total non-current liabilities decreased 16% to € 1.957 billion at the end of December 2016 from € 2.332 billion in the prior year. Long-term borrowings were down 33% to € 982 million at the end of December 2016 from € 1.463 billion in the prior year, reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings. see Note 18, p. 166 Other non-current financial liabilities were up 24% to € 22 million at the end of December 2016 from € 18 million in 2015, mainly due to the earn-out components for Runtastic. see Note 25, p. 173

Shareholders' equity increased 14% to € 6.472 billion at the end of December 2016 versus € 5.666 billion in 2015. see Diagram 30 The net income generated during the last twelve months, the reissuance of treasury shares (due to the conversion of convertible bonds) of € 240 million as well as positive currency effects of € 71 million were partly offset by the dividend of € 320 million paid to shareholders for the 2015 financial year and the repurchase of treasury shares in the amount of € 229 million. The company's equity ratio increased slightly to 42.6% compared to 42.5% in the prior year. see Note 26, p. 173

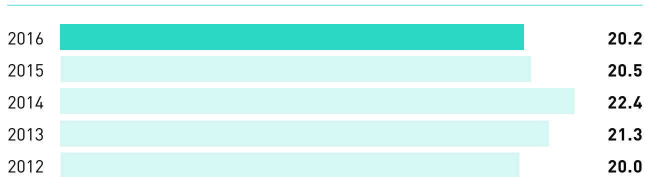
OPERATING WORKING CAPITAL

Operating working capital see Glossary, p. 218 increased 11% to € 3.468 billion at the end of December 2016 compared to € 3.138 billion in 2015. Average operating working capital as a percentage of sales from continuing operations decreased 0.3 percentage points to 20.2% (2015: 20.5%), reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management. see Diagram 31

30 **SHAREHOLDERS' EQUITY**
€ IN MILLIONS



31 **AVERAGE OPERATING WORKING CAPITAL** [1]
IN % OF NET SALES



1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

INVESTMENT ANALYSIS

Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions). Capital expenditure increased 27% to € 651 million in 2016 (2015: € 513 million). Capital expenditure for property, plant and equipment was up 26% to € 586 million compared to € 464 million in the prior year. The company invested € 65 million in intangible assets, representing a 33% increase compared to the prior year (2015: € 49 million). Depreciation and amortisation excluding impairment losses/reversal of impairment losses of tangible and intangible assets increased 10% to € 373 million in 2016 (2015: € 338 million).

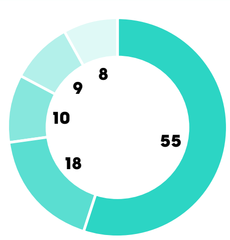
The majority of the company's capital expenditure was related to our controlled space initiatives. Investments in new or remodelled own-retail and franchise stores as well as in shop-in-shop presentations of our brands and products in our customers' stores accounted for 55% of total capital expenditure (2015: 45%). Expenditure for IT and logistics represented 10% and 8%, respectively (2015: 11% and 21%, respectively). In addition, expenditure for administration represented 9% (2015: 6%), while 18% of total capital expenditure was recorded for other initiatives (2015: 16%). see Diagram 32 From a regional perspective, the majority of the capital expenditure was recorded at the company's headquarters in Herzogenaurach, Germany, accounting for 32% (2015: 45%). In addition, capital expenditure in Greater China accounted for 15% (2015: 15%) of the total capital expenditure, followed by North America with 13% (2015: 6%), Western Europe with 12% (2015: 12%), MEAA with 9% (2015: 7%), Russia/CIS and Latin America with 7% each (2015: 3% and 6%, respectively), and Japan with 2% (2015: 2%). Expenditure for Other Businesses accounted for 2% of total capital expenditure (2015: 4%). see Diagram 33

LIQUIDITY ANALYSIS

In 2016, net cash generated from operating activities increased to € 1.348 billion (2015: € 1.090 billion), driven by an increase in income before taxes which was partly offset by higher operating working capital requirements as well as an increase in income taxes paid. Net cash used in investing activities increased to € 614 million (2015: 591 million). The majority of investing activities in 2016 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of our own-retail stores and investments in IT systems. Net cash used in financing activities totalled € 553 million (2015: € 691 million). This development was mainly related to the dividend paid to our shareholders and the repurchase of adidas AG shares. Exchange rate effects negatively impacted the company's cash position by € 35 million. As a result of all these developments, cash and cash equivalents increased by € 145 million to € 1.510 billion at the end of December 2016 compared to € 1.365 billion at the end of December 2015. see Diagram 34

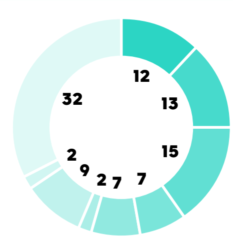
Net borrowings see Glossary, p. 217 at December 31, 2016 amounted to € 103 million, compared to net borrowings of € 460 million in 2015, representing a decrease of € 357 million compared to the prior year. This development is mainly a result of first conversions of convertible bonds into adidas AG shares as well as an increase in cash generated from operating activities partly offset by the utilisation of cash for the purchase of fixed assets, the dividend payment and the continued repurchase of adidas AG shares. see Treasury, p. 101 The company's ratio of net borrowings over EBITDA amounted to 0.1 at the end of December 2016 (2015: 0.3), which is below the company's mid-term target corridor of below two times. see Diagram 34

32 **CAPITAL EXPENDITURE BY TYPE** IN % OF TOTAL CAPEX



55% Controlled space
18% Other
10% IT
9% Administration
8% Logistics

33 **CAPITAL EXPENDITURE BY REGION** IN % OF TOTAL CAPEX



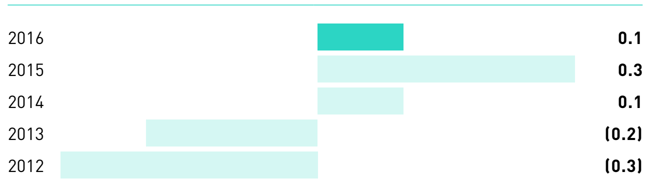
12% Western Europe
13% North America
15% Greater China
7% Russia/CIS
7% Latin America
2% Japan
9% MEAA
2% Other Businesses
32% HQ/Consolidation

Operating cash flow, as described in the Internal Management System, increased 45% to € 901 million in 2016 from € 620 million in 2015, mainly due to a higher operating profit. see Internal Management System, p. 86

OFF-BALANCE SHEET ITEMS

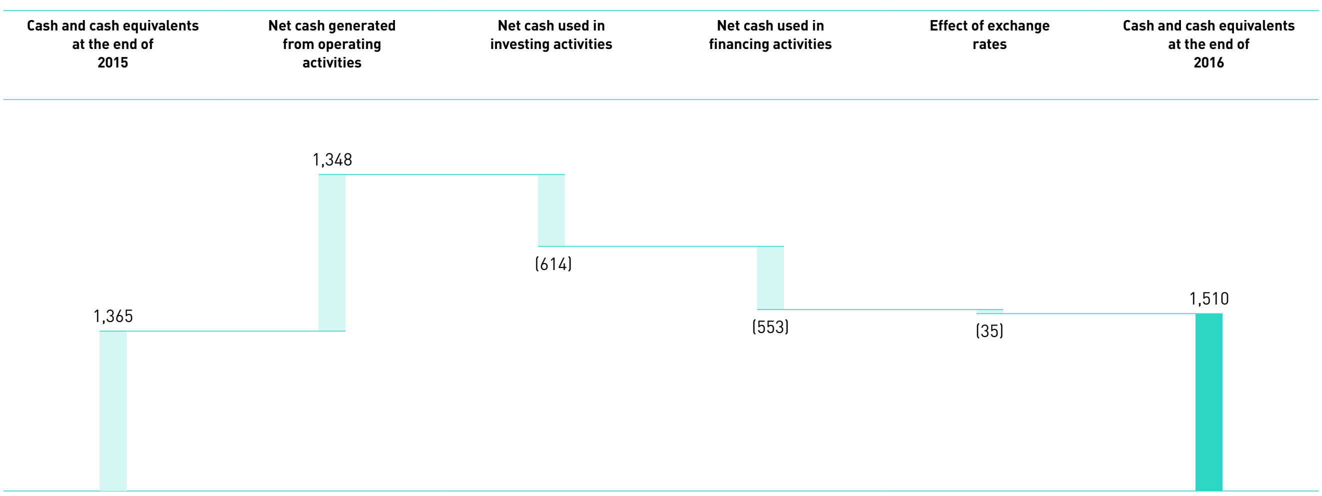
The company's most significant off-balance sheet items are commitments for promotion and advertising as well as operating leases, which are related to own-retail stores, offices, warehouses and equipment. The company has entered into various operating leases as opposed to property acquisitions in order to reduce exposure to property value fluctuations. Minimum future lease payments for operating leases were € 2.501 billion at December 31, 2016, compared to € 2.199 billion at the end of December 2015, representing an increase of 14%. see Note 29, p. 179 At the end of December 2016, financial commitments for promotion and advertising decreased 2% to € 5.643 billion in 2016 (2015: € 5.779 billion). see Note 39, p. 199

34 **NET BORROWINGS/EBITDA**[1] € IN MILLIONS



1 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.

35 **CHANGE IN CASH AND CASH EQUIVALENTS** € IN MILLIONS



TREASURY

CORPORATE FINANCING POLICY

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

TREASURY POLICY AND RESPONSIBILITIES

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

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

CENTRALISED TREASURY FUNCTION

In accordance with our Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Treasury department. Portions of those lines are allocated to our subsidiaries and backed by adidas AG guarantees. As a result of this centralised liquidity management, the company is well positioned to allocate resources efficiently throughout the organisation. The company's debt is generally unsecured and may include standard covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the company and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. see Risk and Opportunity Report, p. 118 Only in exceptional cases are our companies authorised to work with banks with a lower rating. To ensure optimal allocation of the company's liquid financial resources, subsidiaries transfer excess cash to our headquarters in all instances where it is legally and economically feasible. In this regard, the standardisation and consolidation of our global cash management and payment processes, including automated domestic and cross-border *cash pools* see Glossary, p. 216, is a key priority for our Treasury department.

FINANCIAL FLEXIBILITY

The company's financial flexibility is ensured by the availability of unutilised credit facilities of € 2.024 billion at the end of 2016 (2015: € 1.906 billion), consisting of committed and uncommitted bilateral credit lines at different banks with a remaining time to maturity of up to five years. At the end of 2016, committed and uncommitted bilateral credit lines grew 13% to € 2.403 billion compared to € 2.134 billion in the prior year. Committed and uncommitted credit lines represent approximately 43% and 57% of total short-term bilateral credit lines, respectively (2015: 47% and 53%, respectively). see Diagram 38 In addition, we have an unused multi-currency commercial paper programme in the amount of € 2.0 billion available (2015: € 2.0 billion). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

36 **TOTAL CREDIT FACILITIES** € IN MILLIONS

	2016	2015
Bilateral credit lines	**2,403**	2,134
Private placements	**–**	138
Eurobonds	**982**	981
Convertible bond	**257**	483
Total	**3,642**	3,736

2016 2015

STANDARD COVENANTS

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross default provisions and change of control. Our financial arrangements no longer contain any financial covenants. If we failed to meet any covenant and were unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2016, we were in full compliance with all of our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs. see Subsequent Events and Outlook, p. 115

EUROBONDS WITH AN OVERALL VOLUME OF € 1.0 BILLION OUTSTANDING

In 2014, we issued two Eurobonds with an overall volume of € 1.0 billion, thereby taking the opportunity of a low interest rate environment in the Eurobond market to further strengthen the company's financing mix while increasing the overall duration. The seven-year Eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year Eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. see Table 39 see Note 18, p. 166

GROSS BORROWINGS DECREASE

Gross borrowings decreased 12% to € 1.618 billion at the end of 2016 from € 1.830 billion in the prior year. see Diagram 40 This development was mainly due to the conversion of convertible bonds in the amount of € 240 million and the repayment of a US private placement of US $ 150 million, partly offset by an increase in short-term borrowings. Bank borrowings amounted to € 379 million compared to € 229 million in the prior year. At the end of 2016 there was no commercial paper outstanding (2015: no commercial paper outstanding). Convertible bonds outstanding decreased 47% to € 257 million from € 483 million in the prior year. see Table 41 This was mainly a result of first conversions into adidas AG shares that occurred in the course of 2016, partly offset by an increase in the convertible bond's debt component. see Our Share, p. 41 The conversions were done on a non-cash basis using treasury shares. At issuance in 2012, the convertible bond was split – after deducting the issuance costs – into the equity component amounting to € 55 million and the debt component amounting to € 441 million. The debt component is accrued to its nominal value amounting to € 260 million until 2017 by use of the effective interest method. The total amount of bonds outstanding at the end of 2016 was € 1.239 billion (2015: € 1.463 billion).

37 REMAINING TIME TO MATURITY OF AVAILABLE FACILITIES € IN MILLIONS

	2016	2015
< 1 year	**2,160**	2,272
1 to 3 years	**150**	483
3 to 5 years	**945**	–
> 5 years	**387**	981
Total	**3,642**	3,736

2016 2015

38 BILATERAL CREDIT LINES € IN MILLIONS

	2016	2015
Committed	**1,041**	1,008
Uncommitted	**1,362**	1,126
Total	**2,403**	2,134

2016 2015

39 ISSUED BONDS AT A GLANCE € IN MILLIONS

	Volume	Coupon	Maturity
Convertible bond	EUR 500	fixed	2019
Eurobond	EUR 600	fixed	2021
Eurobond	EUR 400	fixed	2026

40 REMAINING TIME TO MATURITY OF GROSS BORROWINGS € IN MILLIONS

	2016	2015
< 1 year	**636**	366
1 to 3 years	**–**	483
3 to 5 years	**595**	–
> 5 years	**387**	981
Total	**1,618**	1,830

2016 2015

41 FINANCING STRUCTURE € IN MILLIONS

	2016	2015
Cash and short-term financial assets	**1,515**	**1,370**
Bank borrowings	379	229
Private placements	–	138
Eurobonds	982	981
Convertible bond	257	483
Gross total borrowings	**1,618**	**1,830**
Net borrowings	**103**	**460**

42 CURRENCY SPLIT OF GROSS BORROWINGS € IN MILLIONS

	2016	2015
EUR	**1,242**	1,463
USD	**157**	282
All others	**219**	85
Total	**1,618**	1,830

2016 2015

43 NET CASH/(NET BORROWINGS) € IN MILLIONS

2016	**(103)**
2015	**(460)**
2014	**(185)**
2013	**295**
2012	**448**

EURO DOMINATES CURRENCY MIX

The vast majority of our gross borrowings are denominated in euros and US dollars. At the end of 2016, gross borrowings denominated in euros accounted for 77% of total gross borrowings (2015: 80%). The share of gross borrowings held in US dollars decreased to 10% (2015: 15%). see Diagram 42

STABLE DEBT MATURITY PROFILE

Over the course of 2016, the company's financing maturity profile remained stable, excluding the anticipated conversion of convertible bonds. In 2017, assuming unchanged maturities, debt instruments of € 636 million will mature of which € 257 million consist of the anticipated conversions. This compares to € 366 million which matured during the course of 2016. see Diagram 40

NET BORROWINGS POSITION OF € 103 MILLION

Net borrowings at December 31, 2016 amounted to € 103 million, compared to net borrowings of € 460 million in 2015, representing a decrease of € 357 million versus the prior year. see Diagram 43 This development was mainly a result of first conversions of convertible bonds into adidas AG shares as well as an increase in cash generated from operating activities partly offset by the utilisation of cash for the purchase of fixed assets, the dividend payment and the continued repurchase of adidas AG shares.

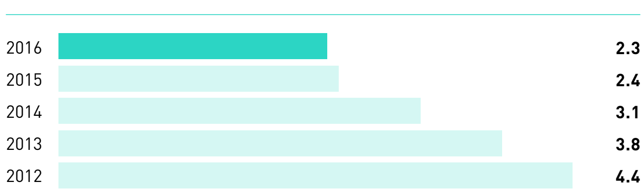
INTEREST RATE DECREASES

The weighted average interest rate on the company's gross borrowings decreased to 2.3% in 2016 (2015: 2.4%). see Diagram 44 This development was mainly due to the repayment of a US private placement of US $ 150 million, which carried a higher coupon. Fixed-rate financing represented 77% of total gross borrowings at the end of 2016 (2015: 87%). Variable-rate financing accounted for 23% of total gross borrowings at the end of the year (2015: 13%).

EFFECTIVE CURRENCY MANAGEMENT A KEY PRIORITY

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our programme. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. see Global Operations, p. 62 In 2016, Treasury managed a net deficit of around US $ 6.5 billion related to operational activities (2015: US $ 6.2 billion). Thereof, around US $ 3.5 billion was against the euro (2015: US $ 3.6 billion). As governed by our Treasury Policy, we have established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. As a result, we had largely covered our anticipated hedging needs for 2017 as of year-end 2016 and have already started hedging our exposure for 2018. In 2017, we expect a negative effect from less favourable conversion rates, mainly as a result of the continued strengthening of the US dollar. The use or combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, protects us against unfavourable currency movements. see Risk and Opportunity Report, p. 118

44 **INTEREST RATE DEVELOPMENT** [1] IN %



1 Weighted average interest rate of gross borrowings.

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF ADIDAS AG

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

OPERATING ACTIVITIES AND CAPITAL STRUCTURE OF ADIDAS AG

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

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

The opportunities and risks as well as the future development of adidas AG largely reflect those of the company as a whole. see Subsequent Events and Outlook, p. 115 see Risk and Opportunity Report, p. 118

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 53% of total assets as at December 31, 2016 related to financial assets (2015: 56%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 35% of total assets (2015: 27%) and 45% of total equity and liabilities as at December 31, 2016 (2015: 44%).

PREPARATION OF ACCOUNTS

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2016, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

In the financial statements as at December 31, 2016, the requirements of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG), as adopted by the Bundestag on June 18, 2015, have been implemented for the first time. In particular, the new definition of revenues pursuant to § 277 section 1 HGB (new version) and the related adjustment of cost of materials have impacted the financial statements. This resulted in reclassifications from other operating income to sales and from other operating expenses to cost of materials. Detailed explanations as well as the presentation of the effects from the restatement are contained in the financial statements of adidas AG in the section 'Notes to the annual financial statements of adidas AG for the year ended December 31, 2016'. ↘ http://adidas-group.com/s/financial-report-2016 Furthermore, for the sake of better comparability, adidas AG has opted to present a three-column income statement. This contains the prior year income statement pursuant to § 277 section 1 HGB, the prior year income statement prepared in accordance with the provisions of the new version of § 277 section 1 HGB and the income statement for the year under review.

All references to prior year figures hereinafter refer to the prior year figures after application of the new version of § 277 section 1 HGB.

INCOME STATEMENT

45 **STATEMENT OF INCOME IN ACCORDANCE WITH HGB (CONDENSED)** € IN MILLIONS

	2016	2015 New Version	2015 Old Version
Net sales	3,289	2,833	2,416
Total output	**3,289**	**2,833**	**2,416**
Other operating income	439	1,060	1,478
Cost of materials	(1,127)	(947)	(663)
Personnel expenses	(588)	(488)	(488)
Depreciation and amortisation	(100)	(96)	(96)
Other operating expenses	(1,803)	(2,039)	(2,324)
Operating profit	**110**	**323**	**323**
Financial result	600	394	394
Taxes	(93)	(78)	(78)
Net income	**617**	**639**	**639**
Retained earnings brought forward	322	4	4
Allocation to other revenue reserves	(300)	0	0
Utilisation for the repurchase of treasury shares	(11)	0	0
Retained earnings	**629**	**643**	**643**

46 **ADIDAS AG NET SALES** € IN MILLIONS

	2016	2015 New Version	2015 Old Version
Royalty and commission income	1,580	1,373	1,371
adidas Germany	939	821	821
Foreign subsidiaries	137	137	139
Y-3	89	63	63
Other revenues	544	439	22
Total	**3,289**	**2,833**	**2,416**

NET SALES INCREASE 16%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas and Reebok brands, external revenues from Y-3 products as well as revenues from foreign subsidiaries. Reported revenues also include royalty and commission income, mainly from affiliated companies, and other revenues. In 2016, adidas AG net sales grew 16% to € 3.289 billion (2015: € 2.833 billion). This growth was mainly due to an increase in royalty income from affiliated companies as well as higher sales at adidas Germany. see Table 46

OTHER OPERATING INCOME DOWN 59%

In 2016, other operating income of adidas AG decreased 59% to € 439 million (2015: € 1.060 billion). This was primarily attributable to a decline in income from currency translation as well as in income from the disposal of fixed assets.

OTHER OPERATING EXPENSES DECLINE 12%

Other operating expenses of adidas AG decreased 12% in 2016 to € 1.803 billion (2015: € 2.039 billion). see Table 45 This was largely due to a decline in losses from currency translation, which was partly offset by an increase in intercompany cost transfers as well as legal and consultancy expenses.

DEPRECIATION AND AMORTISATION INCREASES 4%

Depreciation and amortisation for adidas AG rose 4% to € 100 million in 2016 (2015: € 96 million), mainly as a result of an increase in depreciation and amortisation of operating and office equipment.

OPERATING PROFIT DECLINES 66%

Operating profit decreased 66% to € 110 million (2015: € 323 million), primarily due to the decline in other operating income. see Table 45

FINANCIAL RESULT IMPROVES STRONGLY

The financial result of adidas AG improved 52% to € 600 million in 2016 (2015: € 394 million). The increase was attributable to higher income from investments.

NET INCOME DECLINES SLIGHTLY

Net income, after taxes of € 93 million (2015: € 78 million), amounted to € 617 million in 2016 and was thus 3% below the prior year level (2015: € 639 million). see Table 45

BALANCE SHEET

47 **BALANCE SHEET IN ACCORDANCE WITH HGB (CONDENSED)** € IN MILLIONS

	Dec. 31, 2016	Dec. 31, 2015
Assets		
Intangible assets	112	118
Property, plant and equipment	493	449
Financial assets	4,205	4,216
Fixed assets	**4,810**	**4,783**
Inventories	50	48
Receivables and other assets	2,968	2,157
Cash and cash equivalents, securities	28	447
Current assets	**3,046**	**2,652**
Prepaid expenses	143	82
Active difference from asset allocation	4	1
Total assets	**8,003**	**7,518**
Equity and liabilities		
Shareholders' equity	2,395	2,087
Provisions	525	446
Liabilities and other items	5,083	4,985
Total equity and liabilities	**8,003**	**7,518**

TOTAL ASSETS ABOVE PRIOR YEAR

At the end of December 2016, total assets rose 6% versus the prior year to € 8.003 billion (2015: € 7.518 billion), as an increase in receivables and other assets was only partly offset by a decrease in cash and cash equivalents. see Table 47

SHAREHOLDERS' EQUITY UP 15%

Shareholders' equity rose 15% to € 2.395 billion at the end of December 2016 (2015: € 2.087 billion). see Table 47 The equity ratio rose slightly to 29.9% (2015: 27.8%).

PROVISIONS INCREASE 18%

Provisions were up 18% to € 525 million at the end of 2016 (2015: € 446 million). see Table 47 The increase primarily resulted from higher pension provisions and other provisions for personnel.

LIABILITIES AND OTHER ITEMS UP 2%

At the end of December 2016, liabilities and other items increased 2% to € 5.083 billion compared to the prior year level of € 4.985 billion. see Table 47 This increase was mainly a result of higher payables to affiliated companies.

CASH OUTFLOW FROM FINANCING ACTIVITIES REFLECTS CHANGE IN CASH AND CASH EQUIVALENTS

adidas AG generated a positive cash flow from operating activities of € 263 million (2015: € 1.076 billion). The change versus the prior year was mainly a result of higher receivables from affiliated companies. Net cash outflow from investment activities was € 133 million (2015: € 830 million). This was primarily attributable to capital expenditure for tangible fixed assets of € 143 million, partly offset by disposals from financial assets of € 13 million. Financing activities resulted in a net cash outflow of € 549 million (2015: € 733 million). The net cash outflow from financing activities mainly relates to the dividend payment in an amount of € 320 million and the share buyback programme in an amount of € 229 million. As a result of all these developments, cash and cash equivalents of adidas AG decreased to € 28 million compared to € 447 million at the end of the prior year.

adidas AG has bilateral credit lines of € 1.7 billion. In addition, the company has a multi-currency commercial paper programme in an amount of € 2.0 billion. see Treasury, p. 101

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

DISCLOSURES PURSUANT TO § 315 SECTION 4 AND § 289 SECTION 4 OF THE GERMAN COMMERCIAL CODE

COMPOSITION OF SUBSCRIBED CAPITAL

The nominal capital of adidas AG amounts to € 209,216,186 (as at December 31, 2016) and is divided into the same number of registered no-par-value shares with a pro-rata amount in the nominal capital of € 1 each ('shares'). Pursuant to § 4 section 10 of the Articles of Association, shareholders' claims to the issuance of individual share certificates are, in principle, excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations. As at December 31, 2016, adidas AG held 7,726,876 treasury shares, which however do not confer any rights to the company in accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG). see Note 26, p. 173

In the USA, we have issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one share. see Our Share, p. 41

RESTRICTIONS ON VOTING RIGHTS OR TRANSFER OF SHARES

We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct in conjunction with an internal guideline of adidas AG and based on Article 19 section 11 of the Market Abuse Regulation, however, particular lock-up periods do exist for members of the Executive Board with regard to the purchase and sale of adidas AG shares. These lock-up periods are connected, in particular, with the (time of) publication of quarterly and full year results. Lock-up periods stipulated in the Code of Conduct and the internal guideline also exist for employees who have access to yet unpublished financial results.

In addition, restrictions of voting rights may exist pursuant, inter alia, to § 136 AktG or for treasury shares pursuant to § 71b AktG as well as due to capital market regulations, in particular pursuant to §§ 21 et seq. German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

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

SHAREHOLDINGS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS

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

VOTING RIGHT CONTROL IF EMPLOYEES HAVE A SHARE IN THE CAPITAL

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

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO as well as four further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years. see Executive Board, p. 16

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

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

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

AUTHORISATIONS OF THE EXECUTIVE BOARD

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

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

Authorised Capital

— Until June 2, 2018, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 25,000,000 altogether (Authorised Capital 2015).
— Until June 30, 2018, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorised Capital 2013/I).
— Until June 30, 2018, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorised Capital 2013/III).
— Until June 14, 2021, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 4,000,000 altogether (Authorised Capital 2016).

Subject to Supervisory Board approval, shareholders' subscription rights are partially excluded or may be excluded in certain cases for the above-mentioned, cumulative authorisations. see Note 26, p. 173

Contingent Capital

— The nominal capital of the company is conditionally increased by up to € 36,000,000 (Contingent Capital 2010). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued up to May 5, 2015 based on the resolution of the Annual General Meeting on May 6, 2010 subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds.

On March 14, 2012, following the approval of the Supervisory Board, the Executive Board resolved to make partial use of the authorisation granted by the Annual General Meeting on May 6, 2010 and issued a convertible bond, excluding shareholders' subscription rights, on March 21, 2012. However, the shares will only be issued insofar as bondholders make use of their conversion rights. The total number of shares to be issued to bondholders in case of full conversion amounted to up to 6,097,243 shares as at December 31, 2015. Due to the fact that conversion rights were exercised, which were all serviced with treasury shares of the company, the remaining number of shares to be issued to bondholders in case of full conversion amounted to up to 3,182,525 shares as at December 31, 2016.

Moreover, the authorisation to issue bonds with warrants and/or convertible bonds granted on May 6, 2010 was cancelled by resolution of the Annual General Meeting on May 8, 2014.

— Furthermore, the nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2014). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued based on the resolution of the Annual General Meeting on May 8, 2014 subscription or conversion rights relating to no more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorisation granted by the Annual General Meeting on May 8, 2014, the Executive Board is authorised, subject to Supervisory Board approval, to issue bonds with warrants and/or convertible bonds in an aggregate nominal value of up to € 1,000,000,000 with or without a limited term, against contributions in cash once or several times until May 7, 2019, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorised, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts and to exclude shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Furthermore, the Executive Board is authorised, 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. The issuance of new shares or the use of treasury shares must be taken into account when calculating the limit of 10% in certain other specific cases.

The Executive Board has so far not utilised the authorisation to issue bonds with warrants and/or convertible bonds granted by the Annual General Meeting on May 8, 2014.

AUTHORISATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES

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

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

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

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

  — They may be sold via the stock exchange, through a public share purchase offer made to all shareholders or sold otherwise against cash (limited to 10% of the nominal capital taking into account certain offsets) at a price not significantly below the stock market price of shares with the same features.
  — They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies, participations in companies or other economic assets or within the scope of company mergers.
  — They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property

rights or for the acquisition of licences relating to such rights, also through subordinated Group companies.

- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.
- In connection with employee share purchase plans, up to 4,000,000 shares may be issued in favour of (current or former) employees of the company and its affiliated companies as well as in favour of (current and former) management bodies of the company's affiliated companies.
- They may be cancelled without the cancellation, or the execution thereof, requiring an additional resolution of the Annual General Meeting.

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

In case of utilisation of shares for the above-mentioned purposes, except for the cancellation of shares, shareholders' subscription rights are excluded.

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

In the year under review, the Executive Board partly utilised the authorisation to repurchase treasury shares. In the period from November 8, 2016 up to and including December 31, 2016, and moreover until January 31, 2017, adidas AG bought back 2,128,200 treasury shares via the stock exchange. see Note 26, p. 173

- In the scope of the authorisation resolved by the Annual General Meeting on May 12, 2016, the Executive Board is furthermore authorised to conduct the share buyback also by using equity derivatives which are arranged with a credit institution or financial services institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of *call and put options* see Glossary, p. 216 or other equity derivatives if the option conditions ensure that these shares are only delivered if they were purchased in compliance with the equality principle. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilisation of the authorisation). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 11, 2021. The authorisation furthermore sets out the lowest and highest nominal value that may be granted in each case.

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

CHANGE OF CONTROL/COMPENSATION AGREEMENTS

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

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

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses. While the business segments Western Europe, North America, Greater China, Russia/CIS, Latin America and Japan are reported separately, the markets Middle East, South Korea and Southeast Asia/Pacific are combined to the segment MEAA ('Middle East, Africa and other Asian markets'). Each market comprises all business activities in the wholesale and retail distribution channels of the adidas and Reebok brands. The segmental results of TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses, including brands such as Y-3 and Five Ten, are aggregated under Other Businesses. Segmental operating expenses primarily relate to expenditure for point-of-sale and marketing investments as well as expenditure for sales force, logistics and administration.

01 **NET SALES BY SEGMENT** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Western Europe	5,291	4,539	17%	20%
North America	3,412	2,753	24%	24%
Greater China	3,010	2,469	22%	28%
Russia/CIS	679	739	(8%)	3%
Latin America	1,731	1,783	(3%)	16%
Japan	1,007	776	30%	16%
MEAA	2,685	2,388	12%	16%
Other Businesses [1]	1,475	1,467	1%	1%
Total	**19,291**	**16,915**	**14%**	**18%**

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.

WESTERN EUROPE

In 2016, sales in Western Europe increased 20% on a currency-neutral basis. In euro terms, sales in Western Europe grew 17% to € 5.291 billion from € 4.539 billion in 2015. adidas brand revenues grew 20% on a currency-neutral basis, driven by double-digit sales growth in the running and outdoor categories as well as at adidas Originals and adidas neo. In addition, high-single-digit sales increases in the football and training categories also contributed to this development. Reebok brand revenues in Western Europe increased 18% on a currency-neutral basis, mainly due to double-digit sales growth in the training category as well as in Classics. From a country perspective, the main contributors to the increase in the combined revenues of the adidas and Reebok brands were the UK, Germany, Italy, France, Poland and Spain, where revenues grew at double-digit rates each. see Table 02

02 **WESTERN EUROPE AT A GLANCE** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	5,291	4,539	17%	20%
adidas brand	4,889	4,193	17%	20%
Reebok brand	402	347	16%	18%
Gross profit	2,350	2,157	9%	–
Gross margin	44.4%	47.5%	(3.1pp)	–
Segmental operating profit	951	909	5%	–
Segmental operating margin	18.0%	20.0%	(2.1pp)	–

Gross margin in Western Europe decreased 3.1 percentage points to 44.4% from 47.5% in 2015. The significant positive effects from a more favourable pricing, product and channel mix as well as lower input costs were more than offset by the severe negative impact from unfavourable currency developments. Operating expenses were up 12% to € 1.398 billion versus € 1.248 billion in 2015. This development mainly reflects an increase in expenditure for point-of-sale and marketing investments as well as higher logistic costs. Operating expenses as a percentage of sales were down 1.1 percentage points to 26.4% (2015: 27.5%). The operating margin declined 2.1 percentage points to 18.0% (2015: 20.0%), as the positive effect of lower operating expenses as a percentage of sales was more than offset by the gross margin decrease. Operating profit in Western Europe increased 5% to € 951 million versus € 909 million in the prior year. see Table 02

NORTH AMERICA

North America revenues increased 24% both on a currency-neutral basis and in euro terms to € 3.412 billion from € 2.753 billion in 2015. adidas brand sales increased 30% on a currency-neutral basis, driven by double-digit sales growth in the running, training and US sports categories as well as at adidas Originals and adidas neo. In addition, mid-single-digit increases in the football category also contributed to this development. Revenues of the Reebok brand in North America decreased 1% on a currency-neutral basis as double-digit sales growth in Classics as well as low-single-digit increases in the running category were more than offset by sales declines in other categories, including the training category. see Table 03

03 **NORTH AMERICA AT A GLANCE** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	3,412	2,753	24%	24%
adidas brand	2,897	2,231	30%	30%
Reebok brand	514	523	(2%)	(1%)
Gross profit	1,286	1,008	28%	–
Gross margin	37.7%	36.6%	1.1pp	–
Segmental operating profit	214	69	209%	–
Segmental operating margin	6.3%	2.5%	3.8pp	–

Gross margin in North America increased 1.1 percentage points to 37.7% (2015: 36.6%) driven by a more favourable product and pricing mix as well as lower input costs, partly offset by negative currency effects. Operating expenses were up 15% to € 1.124 billion versus € 977 million in 2015, reflecting higher sales expenditure as well as higher expenditure for point-of-sale investments. Operating expenses as a percentage of sales decreased 2.5 percentage points to 32.9% (2015: 35.5%). As a result of the strong top-line development, the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 3.8 percentage points to 6.3% from 2.5% in 2015. Operating profit in North America increased 209% to € 214 million versus € 69 million in 2015. see Table 03

GREATER CHINA

Sales in Greater China grew 28% on a currency-neutral basis. In euro terms, sales in Greater China were up 22% to € 3.010 billion from € 2.469 billion in 2015. Revenues of brand adidas grew 28% on a currency-neutral basis. This development was due to strong double-digit sales growth in the training, running and football categories as well as at adidas Originals and adidas neo. Reebok brand sales in Greater China grew 17% on a currency-neutral basis, driven by double-digit sales increases in the training and running categories as well as in Classics. see Table 04

Gross margin in Greater China increased 0.4 percentage points to 57.5% (2015: 57.1%), reflecting lower input costs as well as a more favourable channel, product and pricing mix, partly offset by negative currency effects. Operating expenses were up 23% to € 671 million versus € 545 million in 2015. This development reflects a significant increase in sales expenditure as well as higher expenditure for point-of-sale and marketing investments. Operating expenses as a percentage of sales increased 0.2 percentage points to 22.3% (2015: 22.1%). As a result of the gross margin improvement, which was partly offset by the negative effect of higher operating expenses as a percentage of sales, the operating margin grew 0.1 percentage points to 35.2% versus 35.1% in 2015. Operating profit in Greater China increased 22% to € 1.060 billion from € 866 million in 2015. see Table 04

RUSSIA/CIS

Sales in Russia/CIS increased 3% on a currency-neutral basis. In euro terms, sales in Russia/CIS decreased 8% to € 679 million from € 739 million in 2015. adidas brand revenues were up 1% on a currency-neutral basis, supported by double-digit sales increases in the running category as well as at adidas neo. In addition, mid-single-digit sales growth in the football category also contributed to this development. Revenues of the Reebok brand in Russia/CIS increased 9% on a currency-neutral basis, due to double-digit sales growth in the training and running categories. see Table 05

Gross margin in Russia/CIS increased 2.1 percentage points to 58.1% from 56.0% in 2015, reflecting a significantly better pricing mix which more than compensated severe negative currency effects. Operating expenses were down 12% to € 290 million (2015: € 329 million), reflecting a significant decline in sales expenditure as well as lower expenditure for point-of-sale and marketing investments. Operating expenses as a percentage of sales were down 1.8 percentage points to 42.7% versus 44.6% in the prior year. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 4.0 percentage points to 15.4% from 11.4% in 2015. Operating profit in Russia/CIS increased 24% to € 105 million versus € 85 million in 2015. see Table 05

04 **GREATER CHINA AT A GLANCE** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	3,010	2,469	22%	28%
adidas brand	2,944	2,411	22%	28%
Reebok brand	67	58	15%	17%
Gross profit	1,731	1,411	23%	–
Gross margin	57.5%	57.1%	0.4pp	–
Segmental operating profit	1,060	866	22%	–
Segmental operating margin	35.2%	35.1%	0.1pp	–

05 **RUSSIA/CIS AT A GLANCE** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	679	739	(8%)	3%
adidas brand	514	570	(10%)	1%
Reebok brand	166	170	(2%)	9%
Gross profit	395	414	(5%)	–
Gross margin	58.1%	56.0%	2.1pp	–
Segmental operating profit	105	85	24%	–
Segmental operating margin	15.4%	11.4%	4.0pp	–

LATIN AMERICA

Revenues in Latin America were up 16% on a currency-neutral basis. In euro terms, sales in Latin America were down 3% to € 1.731 billion from € 1.783 billion in 2015. Revenues of brand adidas increased 19% on a currency-neutral basis. This development was driven by double-digit sales growth in the football, running and training categories as well as at adidas Originals and adidas neo. Reebok brand sales in Latin America grew 1% on a currency-neutral basis, as double-digit growth in the training category as well as in Classics was partly offset by sales declines in the running category. From a country perspective, the combined revenues of the adidas and Reebok brands grew in all major markets at double-digit rates with the exception of Brazil, where sales increased at a low-single-digit rate. see Table 06

Gross margin in Latin America remained stable at 42.4% (2015: 42.4%), as the positive effects from a more favourable pricing, channel and product mix were offset by negative currency effects. Operating expenses were down 3% to € 507 million from € 521 million in 2015, reflecting lower expenditure for marketing investments as well as a decline in sales expenditure. Operating expenses as a percentage of sales grew 0.1 percentage points to 29.3% (2015: 29.2%). As a result of higher operating expenses as a percentage of sales, the operating margin declined 0.1 percentage points to 13.1% from 13.2% in 2015. Operating profit in Latin America decreased 3% to € 227 million versus € 235 million in 2015. see Table 06

JAPAN

Sales in Japan increased 16% on a currency-neutral basis. In euro terms, revenues in Japan increased 30% to € 1.007 billion from 776 million in 2015. adidas brand revenues grew 17% on a currency-neutral basis, driven by double-digit sales increases at adidas Originals as well as high-single-digit growth at adidas neo. In addition, mid-single-digit increases in the training and running categories also contributed to this development. Sales of the Reebok brand in Japan were up 12% on a currency-neutral basis, supported by high-single-digit sales increases in Classics as well as low-single-digit growth in the training category. see Table 07

Gross margin in Japan increased 2.3 percentage points to 49.4% versus 47.1% in 2015, driven by a better pricing, product and channel mix, which more than offset the significant impact from negative currency effects. Operating expenses were up 31% to € 304 million from € 231 million in 2015, reflecting higher sales expenditure as well as an increase in expenditure for point-of-sale and marketing investments. Operating expenses as a percentage of sales increased 0.4 percentage points to 30.2% (2015: 29.8%). The operating margin grew 1.6 percentage points to 20.6% versus 19.0% in 2015, reflecting the gross margin increase, which was only partly offset by the negative effect of higher operating expenses as a percentage of sales. Operating profit in Japan increased 41% to € 207 million from € 147 million in 2015. see Table 07

MEAA

Revenues in MEAA were up 16% on a currency-neutral basis. In euro terms, sales in MEAA grew 12% to € 2.685 billion from € 2.388 billion in 2015. Sales of the adidas brand increased 18% on a currency-neutral basis, due to double-digit sales growth in the training and running categories as well as at adidas Originals and adidas neo. Reebok brand revenues in MEAA were up 3% on a currency-neutral basis, driven by double-digit increases in the running category as well as low-single-digit growth in the training category, partly offset by declines in Classics. From a country perspective, the increase in the combined revenues of the adidas and Reebok brands was driven by double-digit growth in almost all of the countries in the region. see Table 08

Gross margin in MEAA decreased 1.4 percentage points to 50.0% (2015: 51.4%), as the positive effects from an improved pricing and product mix as well as lower input costs were more than offset by significant negative currency effects. Operating expenses were

06 LATIN AMERICA AT A GLANCE € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	1,731	1,783	(3%)	16%
adidas brand	1,515	1,516	(0%)	19%
Reebok brand	216	266	(19%)	1%
Gross profit	734	756	(3%)	–
Gross margin	42.4%	42.4%	(0.0pp)	–
Segmental operating profit	227	235	(3%)	–
Segmental operating margin	13.1%	13.2%	(0.1pp)	–

07 JAPAN AT A GLANCE € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	1,007	776	30%	16%
adidas brand	907	696	30%	17%
Reebok brand	100	80	25%	12%
Gross profit	497	365	36%	–
Gross margin	49.4%	47.1%	2.3pp	–
Segmental operating profit	207	147	41%	–
Segmental operating margin	20.6%	19.0%	1.6pp	–

08 **MEAA AT A GLANCE** € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	2,685	2,388	12%	16%
adidas brand	2,385	2,091	14%	18%
Reebok brand	301	298	1%	3%
Gross profit	1,344	1,228	9%	–
Gross margin	50.0%	51.4%	(1.4pp)	–
Segmental operating profit	722	664	9%	–
Segmental operating margin	26.9%	27.8%	(0.9pp)	–

up 10% to € 624 million versus € 565 million in 2015, mainly due to higher sales expenditure. As a percentage of sales, operating expenses declined 0.4 percentage points to 23.2% from 23.7% in 2015. The operating margin was down 0.9 percentage points to 26.9% (2015: 27.8%), as the positive effect of lower operating expenses as a percentage of sales was more than offset by the gross margin decline. Operating profit in MEAA increased 9% to € 722 million versus € 664 million in 2015. see Table 08

OTHER BUSINESSES

Revenues in Other Businesses grew 1% both on a currency-neutral basis and in euro terms to € 1.475 billion from € 1.467 billion in 2015. Revenues at TaylorMade-adidas Golf decreased 1% on a currency-neutral basis, as growth at TaylorMade and adidas Golf was more than offset by sales declines at Ashworth and Adams Golf. Currency-neutral CCM Hockey sales were down 13%, mainly due to sales decreases in the licensed apparel business as well as in the sticks and skates categories. Other centrally managed businesses revenues increased 19% on a currency-neutral basis, mainly as a result of strong double-digit sales growth at Y-3. see Table 09

09 **OTHER BUSINESSES AT A GLANCE** [1] € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Net sales	1,475	1,467	1%	1%
TaylorMade-adidas Golf	892	902	(1%)	(1%)
CCM Hockey	271	317	(14%)	(13%)
Other centrally managed businesses	289	242	19%	19%
Gross profit	553	497	11%	–
Gross margin	37.5%	33.9%	3.6pp	–
Segmental operating profit	(14)	(89)	84%	–
Segmental operating margin	(0.9%)	(6.1%)	5.1pp	–

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.

Gross margin was up 3.6 percentage points to 37.5% (2015: 33.9%), driven by significantly higher product margins at TaylorMade-adidas Golf. Operating expenses decreased 3% to € 576 million from € 596 million in 2015, reflecting a decline in expenditure for point-of-sale and marketing investments. As a percentage of sales, operating expenses were down 1.6 percentage points to 39.0% versus 40.6% in 2015. While Other Businesses recorded a negative operating margin of 0.9%, this represents an improvement of 5.1 percentage points compared to the prior year (2015: negative operating margin of 6.1%). Other Businesses recorded an operating loss of € 14 million, an improvement of 84% compared to the prior year (2015: operating loss of € 89 million). see Table 09

10 **OTHER BUSINESSES NET SALES BY REGION** [1] € IN MILLIONS

	2016	2015	Change	Change (currency-neutral)
Western Europe	438	383	14%	18%
North America	719	783	(8%)	(8%)
Greater China	18	22	(19%)	(16%)
Russia/CIS	1	3	(79%)	(77%)
Latin America	10	11	(12%)	12%
Japan	180	156	15%	3%
MEAA	110	109	1%	4%
Total	**1,475**	**1,467**	**1%**	**1%**

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.

SUBSEQUENT EVENTS AND OUTLOOK

In 2017, despite continuing uncertainties regarding the economic outlook for both advanced and emerging economies, we expect the global economy and consumer spending to grow, providing a positive backdrop for moderate growth and expansion of the sporting goods industry. Through our extensive pipeline of new and innovative products, increased brand-building activities, the tight control of inventory levels and stringent cost management, we project strong top- and bottom-line improvements in 2017. We forecast sales to increase at a rate between 11% and 13% on a currency-neutral basis. Gross margin is projected to grow up to 0.5 percentage points to a level of up to 49.1%. Operating margin is expected to increase between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5%, reflecting the gross margin expansion as well as the positive effect of lower other operating expenses as a percentage of sales. As a result, we project net income from continuing operations to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion.

SUBSEQUENT EVENTS

NO SUBSEQUENT EVENTS

Since the end of 2016, there have been no significant organisational, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

OUTLOOK

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. see Risk and Opportunity Report, p. 118 In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialise, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

GLOBAL ECONOMY TO GROW IN 2017 [1]

Global GDP is projected to increase moderately by 2.7% in 2017. This development will be supported by a further stabilisation in commodity prices as well as continuous accommodative fiscal and monetary policies. Nevertheless, subdued prospects for developed economies, heightened policy uncertainty, weak productivity growth as well as demographic pressures are expected to weigh on the economic recovery. Developing economies are forecasted to remain a major contributor to the global economic expansion in 2017. At 4.2%, their growth rate is projected to accelerate compared to 2016. More specifically, developing economies are expected to benefit from the gradual recovery of commodity prices, resulting in improving domestic demand and less divergent growth outlooks for commodity-importing and commodity-exporting countries. However, a risk to growth is forecasted to persist throughout the year, reflecting weak global trade, lacklustre investment and policy uncertainty in developed economies. GDP in developed economies is expected to grow at a level of 1.8% in 2017. This development will be mainly supported by accommodative monetary and fiscal policies, firm export growth as well as improvements in consumer confidence and labour markets. Despite these improvements, political tensions as well as the economic uncertainties arising from the Brexit vote and the outcome of the US elections will continue to pose a threat to the economic outlook.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2017 [2]

In the absence of any major economic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2017, in spite of the non-recurrence of major sporting events that took place in 2016, such as the 2016 Olympic Games in Brazil as well as the UEFA EURO 2016 in France. Consumer spending on sporting goods in the developing economies is expected to grow faster than in the more developed markets. Strong wage growth and domestic consumption in many developing economies are predicted to propel industry growth throughout the year. In developed economies, the sporting goods industry is forecasted to improve moderately, as wage increases will support consumer spending on sporting goods and fuel the industry's growth. In addition, rising sports participation and health awareness globally is projected to continue to boost sportswear demand. The *athleisure* see Glossary, p. 216 trend is forecasted to remain a dominant structural growth driver for the industry as a whole,

1 Sources: World Bank Global Economic Prospects and HSBC Global Research.

2 Source: NPD Market Research.

fuelling the demand for athletic casual and activewear products. Furthermore, innovation in the supply chain and breakthroughs in new manufacturing techniques are projected to improve the speed-to-market capabilities of sports brands, getting products more quickly and more sustainably to the marketplace. E-commerce, which is already a significant growth driver for the industry, is anticipated to expand further and investments in digital transformation are projected to rise across the sporting goods industry.

CURRENCY-NEUTRAL SALES TO INCREASE AT A RATE BETWEEN 11% AND 13% IN 2017

We expect sales to increase at a rate between 11% and 13% on a currency-neutral basis in 2017. see Table 01 Despite continued uncertainties regarding the global economic outlook, the company's sales development will be favourably impacted by rising consumer spending, the ongoing robust athleisure trend as well as increased health awareness and sports participation in most geographical areas. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own eCommerce channel, as well as major product launches will more than offset the non-recurrence of sales related to the UEFA EURO 2016 and the Copa América. see Table 02

CURRENCY-NEUTRAL COMBINED SALES OF THE ADIDAS AND REEBOK BRANDS EXPECTED TO INCREASE IN ALL MARKET SEGMENTS

In 2017, we expect currency-neutral combined revenues of the adidas and Reebok brands to increase in all our market segments. While currency-neutral sales are expected to grow at double-digit rates in Western Europe, North America, Greater China and Russia/CIS, currency-neutral sales in Latin America, Japan and MEAA are forecasted to improve at a high-single-digit rate each. Currency-neutral revenues of Other Businesses are expected to be below the prior year level, due to currency-neutral sales decreases at CCM Hockey. Currency-neutral sales at TaylorMade-adidas Golf are expected to grow at a mid-single-digit rate.

GROSS MARGIN EXPECTED TO INCREASE TO A LEVEL OF UP TO 49.1%

In 2017, the gross margin is forecasted to increase up to 0.5 percentage points to a level of up to 49.1% (2016: 48.6%). see Table 01 Gross margin will benefit from the positive effects of a more favourable pricing, product, channel and regional mix. Higher product margins at TaylorMade-adidas Golf compared to the prior year are also expected to positively impact the company's gross margin development. These improvements will be partly offset by the projected increase in costs for our Asian-dominated sourcing as a result of less favourable US dollar hedging rates, rising labour expenditures as well as higher commodity prices.

01 **2017 OUTLOOK**

Currency-neutral sales development (in %):	
adidas	to increase at a rate between 11% and 13%
Western Europe [1]	double-digit rate increase
North America [1]	double-digit rate increase
Greater China [1]	double-digit rate increase
Russia/CIS [1]	double-digit rate increase
Latin America [1]	high-single-digit rate increase
Japan [1]	high-single-digit rate increase
MEAA [1]	high-single-digit rate increase
Other Businesses	below prior year level
TaylorMade-adidas Golf	mid-single-digit rate increase
CCM Hockey	below prior year level
Gross margin	to increase up to 0.5 percentage points to a level of up to 49.1%
Other operating expenses in % of sales	below prior year level
Operating profit	to increase at a rate between 18% and 20%
Operating margin	to increase between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5%
Net income from continuing operations	to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion
Basic earnings per share from continuing operations	to increase at a rate between 18% and 20%
Average operating working capital in % of sales	modest increase
Capital expenditure	around € 1.1 billion

1 Combined sales of the adidas and Reebok brands.

OPERATING MARGIN TO GROW TO A LEVEL BETWEEN 8.3% AND 8.5%

In 2017, other operating expenses as a percentage of sales are expected to be below the prior year level of 42.8%. This, together with the strong top-line growth and the projected gross margin improvement, is expected to drive an increase in operating profit of between 18% and 20%. Consequently, we expect the operating margin to increase between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5% compared to the prior year level of 7.7%. see Table 01

NET INCOME FROM CONTINUING OPERATIONS TO INCREASE AT A RATE BETWEEN 18% AND 20%

Net income from continuing operations is projected to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion compared to € 1.019 billion in 2016. Basic earnings per share from continuing operations are also expected to increase at a rate between 18% and 20% compared to the prior year level of € 5.08. see Table 01 Net financial expenses are forecasted to increase slightly in 2017, mainly as a result of an increase in interest expenses. The tax rate is projected to be around the prior level of 29.5%.

AVERAGE OPERATING WORKING CAPITAL AS A PERCENTAGE OF SALES TO INCREASE MODESTLY

In 2017, average operating working capital as a percentage of sales is projected to increase modestly compared to the prior year level (2016: 20.2%).

CAPITAL EXPENDITURE TO INCREASE TO A LEVEL AROUND € 1.1 BILLION

In 2017, capital expenditure is expected to be around € 1.1 billion and thus significantly above the prior year level (2016: € 651 million). Investments will mainly focus on controlled space initiatives of the adidas and Reebok brands, the company's logistics infrastructure as well as the further development of the corporate headquarters in Herzogenaurach, Germany.

MANAGEMENT TO PROPOSE DIVIDEND OF € 2.00

As a result of the strong operational and financial performance in 2016, our strong financial position as well as Management's confidence in our short- and long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 2.00 per dividend-entitled share for 2016 to shareholders at the Annual General Meeting (AGM) on May 11, 2017 (2015: € 1.60), representing an increase of 25% compared to the prior year. see Our Share, p. 41

IMPACT OF PLANNED DIVESTITURES ON 2017 OUTLOOK

As part of the company's 'Creating the New' acceleration plan, it is our ambition to focus even more on the adidas and Reebok brands going forward. In this context, we announced our intention to divest the TaylorMade business with the brands TaylorMade, Adams Golf and Ashworth as well as the CCM Hockey business. see Corporate Strategy, p. 48 These divestitures are likely to occur in 2017. In this case, the company's outlook for 2017 will be impacted to the extent that both 2016 and 2017 will be reported excluding the respective businesses expected to be divested in the financial year. In the event that the planned divestitures occur, we project currency-neutral sales in 2017 to increase between 12% and 14% (2016 adjusted net sales: € 18.5 billion). In addition, the gross margin would increase by up to 0.3 percentage points to a level of up to 49.5%. This together with lower other operating expenses as a percentage of sales will result in an increase in the company's operating margin of between 0.2 and 0.4 percentage points to a level between 8.6% and 8.8%. Net income from continuing operations is forecasted to increase at a rate between 13% and 15% to a level between € 1.200 billion and € 1.225 billion in 2017. see Management Assessment of Performance, Risks and Opportunities, and Outlook, p. 133

02 MAJOR 2017 PRODUCT LAUNCHES

Product	Brand
Ace 17 football boot	adidas
COPA 17 football boot	adidas
Glitch 17 football boot	adidas
UltraBOOST Cleat football boot	adidas
adidas x Paul Pogba collection	adidas
UltraBOOST X running shoe	adidas
PureBOOST running shoe	adidas
CMMTTD training apparel	adidas
Z.N.E. 90/10 training apparel	adidas
adidas x Wanderlust collection	adidas
Superstar BOOST Originals shoe	adidas
EQT Support ADV Originals shoe	adidas
EQT Support Ultra Originals shoe	adidas
Originals by Kanye West Yeezy Season 5 collection	adidas
neo cloudfoam QT Racer shoe	adidas
Club C 85 Classics shoe	Reebok
Nano 7.0 training shoe	Reebok
Pump Supreme training shoe	Reebok
Floatride running shoe	Reebok
All-Terrain Super 3.0 running shoe	Reebok
Spider Tour putter	TaylorMade
Powerband Boa BOOST golf shoe	adidas Golf
Crossknit BOOST golf shoe	adidas Golf

RISK AND OPPORTUNITY REPORT

In order to remain competitive and ensure sustainable success, adidas consciously takes certain risks and continously explores and develops opportunities. Our risk and opportunity management principles and system provide the framework for our company to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES

We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company's ability to achieve its business objectives or financial goals. We have summarised risks in four main categories: Strategic, Operational, Legal & Compliance and Financial. Opportunities are classified in two main categories: Strategic & Operational and Financial.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The adidas AG Executive Board has overall responsibility for operating an effective risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. see Diagram 01 The Risk Management department coordinates the execution and further development of the company's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the adidas AG Executive Board. The adidas AG Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company's Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

01 ADIDAS RISK AND OPPORTUNITY MANAGEMENT SYSTEM

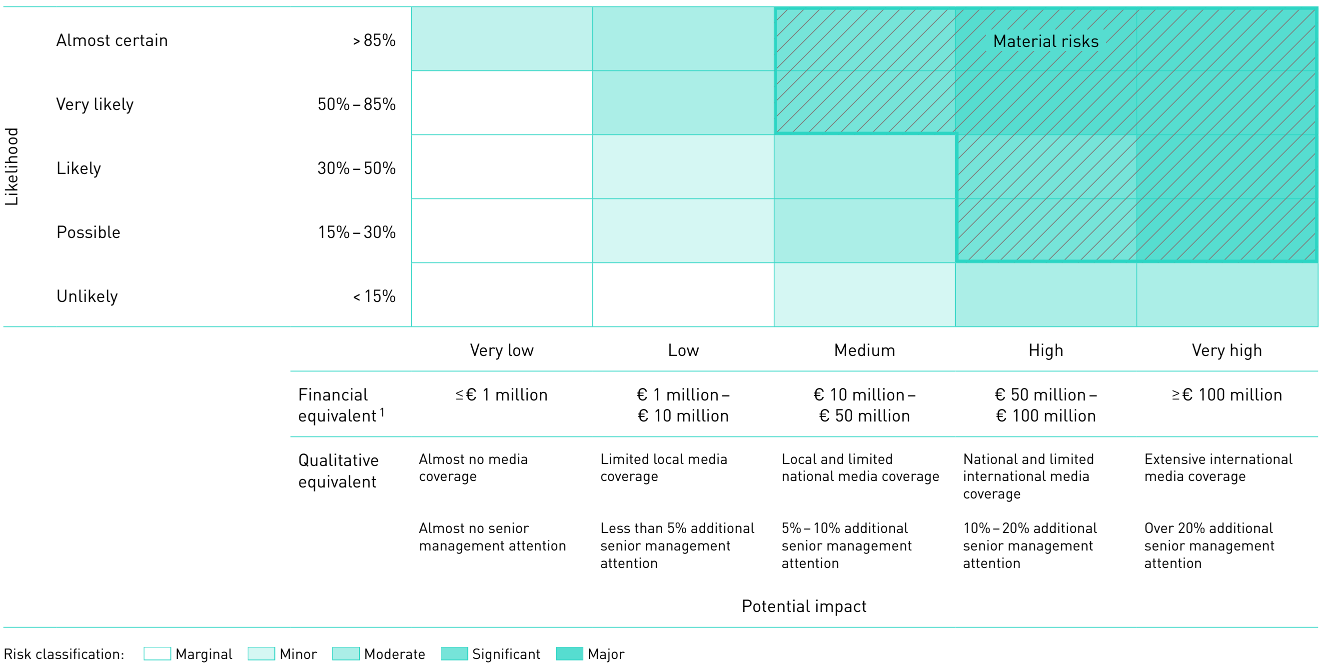
To facilitate effective risk and opportunity management, we implemented an integrated risk and opportunity management system, which is based on the integrated frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, it has been adapted to more appropriately reflect the structure as well as the corporate and management culture of the company. This system focuses on the identification, evaluation, handling, monitoring and systematic reporting of risks and opportunities. The key objective of the risk and opportunity management system is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our company.

Risk and opportunity management is a company-wide activity which utilises critical day-to-day management insight from both global and local business units and functions.

Our risk and opportunity management process comprises the following steps:

— **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry, as well as internal processes, to identify risks and opportunities as early as possible. Our company-wide network of Risk Owners (generally all direct reports to the adidas AG Executive Board, including the Managing Directors of our markets) ensures effective identification of risks and opportunities. The Risk Management department has defined a catalogue of potential risk areas (Risk Universe) to assist Risk Owners in identifying and categorising risks and opportunities.

02 **RISK EVALUATION CATEGORIES**



1 Based on operating profit, financial result or tax expenses.

The Risk Owners use various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. However, our risk and opportunity identification process is not only limited to external risk factors or opportunities; it also includes an internal perspective that considers processes, projects, human resources and compliance aspects.

— **Risk and opportunity evaluation:** We evaluate identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritisation as well as allocation of resources. Risk and opportunity evaluation is also part of the Risk Owners' responsibility. The Risk Management department supports and guides the Risk Owners in the evaluation process.

According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materialises. Based on this evaluation, we classify risks and opportunities into five categories: marginal, minor, moderate, significant and major.

The potential impact is evaluated using five categories: very low, low, medium, high and very high. see Diagram 02 These categories represent quantitative or equivalent qualitative measurements. The quantitative measurements are based on the potential financial effect on the relevant income statement metrics (operating profit, financial result or tax expenses). Qualitative measurements used are, for example, the degree of media exposure or additional senior management attention needed. Likelihood represents the possibility that a given risk or opportunity may materialise with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: unlikely, possible, likely, very likely and almost certain.

When evaluating risks and opportunities, we also consider the earliest time period when the company's target achievement may be impacted, in order to provide a broad perspective and ensure early identification and mitigation. Short-term risks and opportunities may affect the achievement of the company's objectives already in the current financial year, mid-term risks and opportunities would impact the company's target achievement in the next financial year, while long-term risks and opportunities might only have an effect on the achievement of the company's objectives after the next financial year.

We consider both gross and net risks in our risk assessments. While the gross risk reflects the inherent ('worst-case') risk before any mitigating action, the net risk reflects the residual ('expected') risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of high-level risks that materialised against the original assessment on a yearly basis. In this way, we ensure continuous monitoring of the accuracy of risk evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

— **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimise impact and/or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating action if applicable. The Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action.

— **Risk and opportunity monitoring and reporting:** Our integrated risk and opportunity management system aims to increase the transparency of risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments but also the adequacy and effectiveness of the current risk-handling strategy on an ongoing basis.

Regular risk reporting consists of a two-step reporting stream that is supported and facilitated by a globally used company-wide IT solution. Firstly, on a quarterly basis, Risk Owners are required to report to Risk Management risks that have a possible gross impact rating of at least medium or a net impact rating of at least low, both regardless of the likelihood of materialising. Risk Owners are also required to report all opportunities that have an impact rating of at least low. Secondly, Risk Management aggregates the reported risks and opportunities and, also on a quarterly basis, provides a consolidated company-wide report based on the Risk Owners' input, which specifically highlights substantial individual risks and opportunities as well as, on an aggregated level, key areas of risk and opportunity.

Material changes in previously reported risks and/or newly identified risks with a potential net impact of at least medium, and any issues identified which, due to their material nature, require immediate reporting to the Executive Board, are also reported outside the regular quarterly reporting stream on an ad hoc basis.

COMPLIANCE MANAGEMENT SYSTEM (ADIDAS FAIR PLAY COMPLIANCE FRAMEWORK)

We consider compliance with the law as well as with external and internal regulations to be imperative. Every employee is required to act ethically and in compliance with the law as well as with external and internal regulations while executing the company's business. Violations must be avoided under all circumstances. As a company with worldwide operations and more than 60,000 employees, however, we realise that it will never be possible to exclude compliance violations with absolute certainty.

The adidas Fair Play Compliance Framework and our risk and opportunity management system are closely aligned and both are overseen by the company's Chief Compliance Officer who reports directly to the company's Chief Executive Officer. We see compliance as all-encompassing, spanning all business functions throughout the entire value chain, from supply chain through to the end consumer. Consequently, the identification, analysis and evaluation of potential compliance risks is an essential part of our risk and opportunity management process. The Risk Management department works closely with the Risk Owners and responsible Compliance Officers to conduct a systematic assessment of key compliance risks on a quarterly basis. In addition, the Compliance department regularly conducts detailed compliance risk assessments within selected entities.

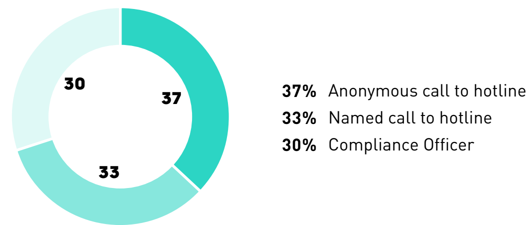
The company's compliance management system is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises and is designed to:

- Support the achievement of qualitative and sustainable growth through good corporate governance.
- Reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct.
- Protect and further enhance the value and reputation of the company and its brands through compliant conduct.
- Preserve diversity by fighting harassment and discrimination.

Our Fair Play Code of Conduct, which is applicable globally and for all business areas, stipulates guidelines for behaviour in everyday work, which all employees are obliged to comply with. The Code of Conduct is accessible on our website, on our intranet and as an app for smartphones. ↘ www.adidas-group.com/s/code-of-conduct The Code of Conduct is the cornerstone of our compliance management programme which is founded on three pillars: prevention, detection and response.

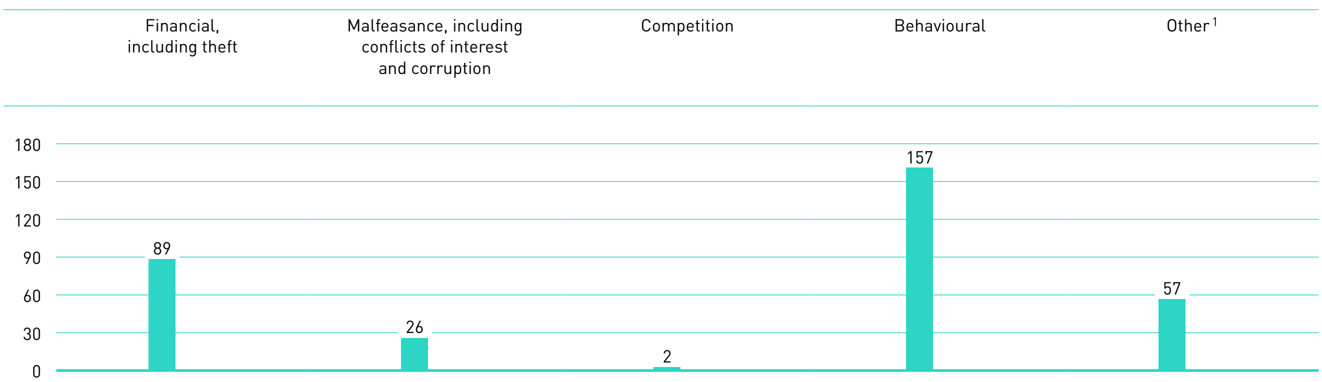
Prevention includes, for example, policies such as the company's Code of Conduct, the anti-bribery and corruption policy or the privacy policy, training of employees or targeted compliance-related communication by management or the Compliance department. In 2016, more than 4,700 employees participated in our web-based Code of Conduct training, which is a major component of employee onboarding, while around 2,700 employees completed our web-based anti-bribery and corruption training. In addition, 12,200 employees completed the Securing Information and Protecting Privacy training. Furthermore, 80 senior executives were selected and trained in dedicated three-hour compliance workshops.

03 **REPORTING OF POTENTIAL COMPLIANCE VIOLATIONS** IN %



To ensure timely detection of potential infringements of statutory regulations or internal guidelines, we have implemented whistleblowing procedures which allow employees to either report concerns over wrongdoing/potential compliance violations internally (e.g. directly to their supervisor, to the Chief Compliance Officer or other Compliance Officers, the relevant HR manager or the Works Council) or externally via an independent, confidential reporting hotline or email service. The hotline (named 'Fair Play hotline') is available at all times worldwide. In case of reported or suspected compliance violations, the Chief Compliance Officer or the Compliance department undertake the required investigations.

04 **POTENTIAL COMPLIANCE VIOLATIONS**



1 Includes payroll issues, intellectual property and leaks of confidential information, inter alia.

Appropriate and timely response to compliance violations is essential. Therefore, we have established a global network of local Compliance Officers reporting directly to the adidas Chief Compliance Officer as contact persons to whom complaints and information concerning compliance violations can be reported. We track, monitor and report potential incidents of non-compliance worldwide using a web-based reporting solution. In 2016, we recorded 331 potential compliance violations, representing a slight increase compared to the prior year when 314 potential violations were recorded. see Diagram 03 see Diagram 04 This increase is attributable to ongoing senior management communication, training and workshops, which have led to improved employee awareness with respect to ethical conduct.

Appropriate sanction mechanisms (ranging from warnings through to termination of employment) are used to react promptly to confirmed compliance violations. Insights gained from the investigation of past violations are used to continuously improve the compliance management system.

Monthly key performance indicators (KPIs), including those for participation in training and for compliance violations, are reported to the Executive Board by the Compliance department. The Chief Compliance Officer regularly reports to the Chief Executive Officer on the further development of the compliance programme and on major compliance cases, which are also reported to the Audit Committee. Further, he reports to the Audit Committee at one of its meetings at least once a year concerning the contents and the further development of the compliance programme.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS PURSUANT TO § 315 SECTION 2 NO. 5 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the company represents a process embedded within the company-wide corporate governance system. It aims to provide reasonable assurance regarding the reliability of the company's external financial reporting by ensuring company-wide compliance with statutory accounting regulations, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Finance Manual).

We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, treatment, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process. In a first step, the internal control and risk management system serves to identify and assess as well as to limit and control risks identified in the consolidated financial reporting process which might result in our consolidated financial statements not being in conformity with internal and external regulations.

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of reporting and compliance with applicable laws and regulations despite identified financial reporting risks. To monitor the effectiveness of ICoFR, the Policies & Internal Controls department and the Internal Audit department regularly review accounting-related processes. Additionally, as part of the year-end audit, the external auditor selects and examines internal controls, including IT controls, to assess their effectiveness. The Audit Committee of the adidas AG Supervisory Board also monitors the effectiveness of ICoFR. However, due to the limitations of ICoFR, even with appropriate and functional systems absolute certainty about the effectiveness of ICoFR cannot be guaranteed.

All Group companies are required to comply with the consolidated financial reporting policies (Finance Manual), which are available to all employees involved in the financial reporting process through the company-wide intranet. We update the Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Finance Manual are promptly communicated to all Group companies. Clear policies serve to limit employees' scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the company. We aim to ensure compliance with the Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, each quarter, the local manager responsible for the accounting process within the respective company and the respective local Managing Director confirm adherence to the Finance Manual and to IFRS in a signed representation letter to the Accounting department.

The accounting for Group companies is conducted either locally or by an adidas Shared Service Centre. Most of the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardised SAP system. Some Group companies use Navision-based ERP software. As part of an initiative aimed at harmonising our system infrastructure (One ERP), we will also introduce an SAP-based ERP system within these Group companies in the medium term. Following approval by the Finance Director of the respective Group company, the local financial statements are transferred to a central consolidation system based on SAP SEM-BCS. At the corporate level, the regularity and reliability of the financial statements prepared by Group companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and adherence to the reporting logic. In addition, differences between current year and prior year financial data as well as budget figures are analysed on a market level. If necessary, the company seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the Group companies. After finalisation of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analysed with respect to trends and variances. Unless already otherwise clarified, the Group companies are asked to explain any identified material deviations.

All financial systems used are protected against malpractice by means of appropriate authorisation concepts, approval concepts and access restrictions. Access authorisations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimised through central control and monitoring of virtually all IT systems, centralised management of change processes and regular data backups.

ILLUSTRATION OF MATERIAL RISKS

This report includes an explanation of what we perceive as material risks to the achievement of the company's objectives in 2017. Besides these material risks, we also report risks we deem to be relevant in 2017 as well as credit risks, interest rate risks, and financing and liquidity risks. The risk overview table shows the assessment of all risks described below. see Table 05

STRATEGIC RISKS

Risks related to organisational structure and change

Operating in a dynamic and fast-moving competitive environment, the company needs to cope with constantly changing requirements in respect of the workforce (e.g. adaptability, learning, skillsets, mobility, diversity) and workplace (e.g. flexibility and space management). Therefore, organisational flexibility and the ability to adapt quickly to new competitive circumstances are critical to remain successful. A complex organisational structure and unclear roles and responsibilities can lead to delayed or sub-optimal decision-making, as well as inefficient and ineffective processes. Improper planning and execution of reorganisation and transformation initiatives may reduce employee engagement and cause business disruption and inefficiencies. Frequent organisational changes could cause fatigue among the workforce and lead to reduced efficiency and productivity. The HR function therefore plays a key role in driving effective change management.

We mitigate these risks through continuous, open and transparent communication with our employees. Our Executive Board members as well as the senior management team across the company regularly update employees on organisational changes and openly explain the reasons for change. To adequately manage change and to ensure clarity about roles and responsibilities throughout the organisation, we also utilise internal and external experts in project management, change management and communication, who actively educate and engage the workforce to embrace and support new organisational structures and processes. To increase flexibility and adaptability in the workforce and workplace and thereby reduce risks related to organisational change, we implement various mitigating measures such as strategic workforce planning, tailored on-the-job learning programmes and development plans for our employees, as well as the future workplace concept. see Our People, p. 72 In this context, the company continues to roll out its 'MyArena' concept, aimed at creating a flexible and attractive work environment that stimulates innovation, collaboration and creativity.

05 **RISK OVERVIEW**

	Potential impact	Change (2015 rating)	Likelihood	Change (2015 rating)
Strategic risks				
Risks related to organisational structure and change	Very high		Unlikely	↓ (Possible)
Risks related to distribution strategy	Medium	↓ (High)	Likely	
Competition risks	Medium	↓ (High)	Possible	
Risks related to media and stakeholder activities	Medium	↓ (High)	Possible	
Macroeconomic, sociopolitical and regulatory risks	Very high		Unlikely	
Operational risks				
Personnel risks	High	↓ (Very high)	Possible	
Business partner risks	High		Possible	
IT risks	High		Possible	
Inventory risks	High		Unlikely	↓ (Possible)
Legal & Compliance risks				
Risks related to customs and tax regulations	High		Likely	
Financial risks				
Currency risks	Very high		Likely	
Risks related to impairment of goodwill/other intangible assets	Very high		Likely	
Credit risks	High	↓ (Very high)	Unlikely	
Interest rate risks	Low		Likely	
Financing and liquidity risks	Very low		Likely	

Risks related to distribution strategy

The inability to appropriately influence the channels in which the company's products are sold constitutes a continuous risk. Grey market activity or parallel imports could negatively affect our own sales performance and the image of our brands. Furthermore, changes to segmentation and channel strategies could lead to inadequate utilisation of our multiple distribution channels as well as strong retaliation from our customers. An unbalanced portfolio of own-retail stores (e.g. overexposure to certain markets or store formats) or inappropriate store locations may result in worse-than-expected sales development and lower profitability.

To mitigate these risks, adidas has developed and implemented clearly defined distribution policies and procedures to avoid over-distribution of products in a particular channel and limit the exposure to grey markets. We continuously monitor our own-retail store portfolio, which helps us identify imbalances and quickly take appropriate action such as store closure or remodelling. New store openings are managed according to a standardised company-wide business plan model, taking into account our many years of own-retail experience and best practices from around the world. In addition, we conduct specific training for our sales force to appropriately manage product distribution and ensure that the right product is sold at the right point of sale to the right consumer at an appropriate price.

Competition risks

Strategic alliances amongst competitors and/or retailers, the increase of retailers' own private label businesses and intense competition for consumers and promotion partnerships between well-established industry peers and new market entrants (e.g. new brands, vertical retailers) pose a substantial risk to adidas. This could lead to harmful competitive behaviour, such as price wars in the marketplace or bidding wars for promotion partnerships. Sustained pricing pressure in key markets could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position. World leaders in digital technologies could threaten adidas' success in markets for sport, health and fitness apps.

To mitigate competition risks, we continuously monitor and analyse information on our competitors and markets in order to be able to anticipate unfavourable changes in the competitive environment rather than reacting to such changes. This enables us to proactively adjust our marketing and sales activities when needed. Continuous investment in research and development ensures that we remain innovative and distinct from competitors. see Research and Development, p. 67 We also pursue a strategy of entering into long-term agreements with key promotion partners such as FC Bayern Munich or Lionel Messi, as well as adding new partners to refresh and diversify our portfolio, e.g. Paul Pogba, Kristaps Porzingis or Gigi Hadid. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth and strengthen our brands' market position.

Risks related to media and stakeholder activities

The company faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. Adverse or inaccurate media coverage of our products or business practices as well as negative social media discussion may significantly harm the company's reputation and brand image, lead to public misperception of our business performance and eventually result in a sales slowdown. Similarly, certain activities on the part of key stakeholders (e.g. non-governmental organisations, governmental institutions) could cause reputational damage, distract management and disrupt business activities.

To mitigate these risks, we pursue proactive, open communication and engagement with key stakeholders (e.g. consumers, media, non-governmental organisations, the financial community) on a continuous basis. In addition, we have established clear crisis communication processes to ensure a quick and effective response to adverse developments. We have also strengthened social media capabilities and created various digital newsrooms worldwide that enable continuous monitoring of social media content related to the company's products and activities and allow early management of potentially damaging social media discussion. On a case-by-case basis, we seek external advice from experts in communication and stakeholder management.

Macroeconomic, sociopolitical and regulatory risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns and sociopolitical factors such as military conflicts, changes of government, civil unrest, nationalisation or expropriation, in particular in regions where the company is strongly represented, therefore pose a significant risk to the company's business activities and top- and bottom-line performance. In addition, substantial changes in the regulatory environment (e.g. trade restrictions, tax legislation, economic and political sanctions) could lead to potential sales shortfalls or cost increases. Recent developments, such as the result of the referendum in the United Kingdom in favour of leaving the European Union ('Brexit'), increase the level of uncertainty and thereby related potential risks.

To mitigate these macroeconomic, sociopolitical and regulatory risks, adidas strives to balance sales across key regions and also between developed and emerging markets. We also continuously monitor the macroeconomic, political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be a reallocation of investments to alternative, more attractive markets, changes in product prices, closure of own-retail stores, more conservative product purchasing, tight working capital management and an increased focus on cost control. In addition, by building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators in their efforts to liberalise global trade and curtail trade barriers and also in order to proactively adapt to significant changes in the regulatory environment.

OPERATIONAL RISKS

Personnel risks

Achieving the company's strategic and financial objectives is highly dependent on our employees and their talents. In that respect, strong leadership and a performance-enhancing culture are critical to the company's success. Therefore, inconsistent or ineffective leadership as well as the failure to instil and maintain a performance-oriented culture and ensure strong employee engagement amongst our workforce could also substantially impede our ability to achieve our goals. In addition, global competition for highly qualified personnel remains fierce. As a result, the loss of key personnel in strategic positions and the inability to identify, recruit and retain sufficient numbers of highly qualified and skilled people who best meet the specific needs of our company pose substantial risks to our business performance. Unattractive or non-competitive management and employee remuneration may exacerbate these risks. In addition, a lack of sufficient training measures and inadequate documentation of critical know-how might dilute or lead to a loss of key capabilities.

Our People Strategy, aimed at fostering a corporate culture of confidence, creativity and collaboration that is needed to be successful, is an essential part of our strategic business plan 'Creating the New' and is designed to reduce these risks. see Our People, p. 72 We continuously invest in improving employer branding activities to be the 'employer of choice' in our industry and as a result attract and retain the right talent. We have also established a global recruiting organisation to enhance our internal and external recruiting services and capabilities. In addition, we strengthen employee retention by providing employees with development and career opportunities (e.g. via our Talent Carousel programme) and we focus on promoting from within the organisation rather than recruiting externally. We also have attractive reward and incentive schemes in place, designed to further support long-term employee commitment.

Business partner risks

adidas interacts and enters into partnerships with various third parties such as promotion partners, retail partners or suppliers. As a result, the company is exposed to a multitude of business partner risks.

Injuries to individual athletes or poor on-field performance on the part of sponsored teams or athletes could reduce their consumer appeal and eventually result in lower sales and diminished attractiveness of our brands. Failure to cement and maintain strong relationships with retailers could have substantial negative effects on our wholesale activities and thus the company's business performance. Losing important customers in key markets due to sub-par relationship management would result in significant sales shortfalls. In a few individual markets, we work with distributors or strategic partners whose approach might differ from our own distribution practices and standards, which could also negatively impact the company's business performance. Similarly, failure to maintain strong relationships with suppliers or service providers could negatively impact the company's sales and profitability. Risks may also arise from a dependence on particular suppliers, customers or service providers. Over-reliance on a supplier for a substantial portion of the company's product volume, or over-dependence on a particular customer, increases the company's vulnerability to delivery and sales shortfalls and could lead to significant margin pressure. Business partner default (including insolvency) or other disruptive events such as strikes may negatively affect the company's business activities and result in additional costs and liabilities as well as lower sales for the company. Unethical business practices or improper behaviour on the part of business partners could have a negative spill-over effect on the company's reputation, lead to higher costs or liabilities and disrupt business activities.

To mitigate business partner risks, adidas has implemented various measures. For example, we generally include clauses in contractual agreements with athletes, clubs and federations or other promotion partners that allow us to suspend or even terminate our partnership in case of improper or unethical conduct. In addition, we work with a broad portfolio of promotion partners, including individual athletes, club teams and federations or associations in numerous sports in order to reduce the dependence on the success and popularity of a few individual partners. To ensure strong relationships with retailers, adidas is committed to delivering outstanding customer service and providing our retail partners with the support and tools required to establish and maintain a mutually successful business relationship. Customer relationship management is not only a key activity for our sales force but also of utmost importance to our company's top executives and second-line management. We also utilise a broad distribution strategy which includes further expansion of our controlled space activities to reduce the risk of over-reliance on particular key customers. Specifically, no single customer accounted for more than 5% of the company's sales in 2016. To reduce the risk of business interruption in the supply chain, we work with suppliers who demonstrate reliability, quality and innovation. Furthermore, in order to minimise any potential negative consequences such as a violation of our Workplace Standards by our suppliers, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. see Sustainability, p. 78 In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to suppliers' premises. To reduce dependency on any particular supplier, the company follows a strategy of diversification. In this context, adidas works with a broad network of suppliers and, for the vast majority of its products, does not have a *single-sourcing model* see Glossary, p. 218.

IT risks

Theft or leakage of confidential and sensitive information or data (e.g. product data, employee data, consumer data) could lead to reputational damage, penalties and higher costs. Data leakage could trigger in-depth forensic investigation resulting in temporary unavailability of key systems and business interruption. Key business processes, including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting, are all dependent on IT systems. A significant systems outage or application failure could therefore result in considerable disruptions to our business. Virus or malware attacks could also lead to systems disruption and may result in the loss of business-critical and/or confidential information.

To mitigate these risks, our IT organisation proactively engages in system preventive maintenance, service continuity planning and adherence to applicable IT policies. Data security is managed by restricting user access based on job description and adhering to data protection regulations. We conduct security reviews of key systems and applications on a regular basis and have established monitoring and alert systems to detect and properly tackle IT security incidents. Additional security measures such as anti-virus software and firewalls are designed to further protect our systems and critical information. We perform multiple backups at alternating data centre locations for the company's core ERP system on a daily basis. In addition, for the ERP system, our contingency solution allows us to quickly switch to a remote site if necessary – without any loss of data. System security, controls and reliability are regularly reviewed and tested by the Internal Audit department. To increase awareness amongst employees with regard to information security and data privacy, we conduct various training programmes and regular information campaigns.

Inventory risks

As we place initial production orders up to nine months in advance of delivery, adidas is exposed to inventory risks relating to misjudging consumer demand at the time of production planning. Overestimating demand could result in inappropriate capacity utilisation at our suppliers' factories, lead to over-production and cause excess inventory for the company as well as in the marketplace. This can have negative implications for our financial performance, including product returns, inventory obsolescence and higher levels of clearance activity as well as reduced liquidity due to higher operating working capital requirements. Similarly, underestimating demand can lead to product shortfalls at the point of sale. In this situation, adidas faces the risk of missed sales opportunities and/or customer and consumer disappointment, which could lead to a reduction in brand loyalty and hurt our reputation as an On-Time In-Full supplier. see Global Operations, p. 62 In addition, the company faces potential profitability impacts from additional costs such as airfreight in efforts to speed up replenishment.

In order to mitigate these risks, we actively manage inventory levels, for example by continuous monitoring of stock levels as well as centralising stock holding and clearance activities. We also continuously strive to improve our forecasting and material planning processes. Our integrated business planning process ensures alignment of demand and supply planning on a monthly basis and thus facilitates inventory and order book management. see Internal Management System, p. 86 In addition, our Global Operations function is continuously improving the agility and flexibility of our planning environment in order to shorten order-to-delivery times and ensure availability of products while trying to avoid excess inventories. In this context, the company's strategic priority 'Speed' is an important driver, leveraging market and sell-through data in new ways. This, in turn, enables us to respond quickly to consumer demand and to deliver concepts that are fresh and desirable and made available when and where they are wanted by the consumer. see Corporate Strategy, p. 48

LEGAL & COMPLIANCE RISKS

Risks related to customs and tax regulations

Numerous laws and regulations regarding customs and taxes affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties.

To proactively manage such risks, we constantly seek expert advice from specialised law and tax advisory firms. We closely monitor changes in legislation in order to properly adopt regulatory requirements regarding customs and taxes. In addition, our internal legal, customs or tax departments advise our operational management teams to ensure appropriate and compliant business practices. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and import regulations and obtain the required clearance of products to fulfil sales demand. In order to reduce the financial risk, we also create provisions in our financial statements in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities.

FINANCIAL RISKS

Currency risks

Currency risks for adidas are a direct result of multi-currency cash flows within the company. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing our products versus the denominations of our sales. The vast majority of our sourcing expenses are in US dollars, while sales are denominated in other currencies to a large extent – most notably the euro. Exposures are presented in the respective table. see Table 06 The exposure from firm commitments and forecasted transactions was calculated on a one-year basis.

In line with IFRS 7 requirements, we have calculated the impact on net income and shareholders' equity based on changes in our most important currency exchange rates. The calculated impacts mainly result from changes in the fair value of our hedging instruments. The analysis does not include effects that arise from the translation of our 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 2015 and 2016.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2016 would have led to a € 7 million increase in net income. see Table 07 The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 277 million. A 10% weaker euro at December 31, 2016 would have led to a € 8 million decrease in net income. Shareholders' equity would have increased by € 355 million. The impacts of fluctuations of the US dollar against the Russian rouble and of the euro against the British pound and the Japanese yen on net income and shareholders' equity are also included in accordance with IFRS requirements.

However, many other financial and operational variables that could potentially reduce the effect of currency fluctuations are excluded from the analysis. For instance:

— Interest rates, commodity prices and all other exchange rates are assumed constant.
— Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which we utilise internally to better reflect both the seasonality of our business and intra-year currency fluctuations.
— The underlying forecasted 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.

Utilising a centralised currency risk management system, we hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-month horizon. see Treasury, p. 101 Our goal is to have the vast majority of our hedging volume secured six months prior to the start of a given season. The company also largely hedges balance sheet risks. Due to our strong global position, we are able to partly minimise currency risk by utilising natural hedges.

06 **EXPOSURE TO FOREIGN EXCHANGE RISK** BASED ON NOTIONAL AMOUNTS, € IN MILLIONS

	USD	GBP	JPY	RUB
As at December 31, 2016				
Exposure from firm commitments and forecasted transactions	(6,763)	985	615	252
Balance sheet exposure including intercompany exposure	(478)	(11)	(6)	28
Total gross exposure	**(7,241)**	**974**	**609**	**280**
Hedged with other cash flows	114			
Hedged with currency options	405		(54)	
Hedged with forward contracts	5,253	(985)	(578)	(53)
Net exposure	**(1,469)**	**(11)**	**(23)**	**227**
As at December 31, 2015				
Exposure from firm commitments and forecasted transactions	(5,849)	834	483	299
Balance sheet exposure including intercompany exposure	(429)	(47)	7	10
Total gross exposure	**(6,278)**	**787**	**490**	**309**
Hedged with other cash flows	110			
Hedged with currency options		(59)		
Hedged with forward contracts	4,135	(549)	(414)	(47)
Net exposure	**(2,033)**	**179**	**76**	**262**

07 **SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE RATE CHANGES** € IN MILLIONS

	USD	GBP	JPY	RUB
As at December 31, 2016				
	EUR +10%	**EUR +10%**	**EUR +10%**	**USD +10%**
Equity	(277)	85	53	–
Net income	7	1	1	5
	EUR – 10%	**EUR – 10%**	**EUR – 10%**	**USD – 10%**
Equity	355	(104)	(66)	–
Net income	(8)	(1)	(1)	(5)
As at December 31, 2015				
	EUR +10%	**EUR +10%**	**EUR +10%**	**USD +10%**
Equity	(225)	61	40	–
Net income	7	4	(1)	4
	EUR – 10%	**EUR – 10%**	**EUR – 10%**	**USD – 10%**
Equity	238	(61)	(41)	–
Net income	(9)	(5)	1	(4)

Our gross US dollar cash flow exposure after natural hedges calculated for 2017 was around € 7.2 billion at year-end 2016, which we hedged using forward exchange contracts, currency options and currency swaps. see Table 06 Our Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection from negative exchange rate fluctuations while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2017 hedging has almost been completed, it is foreseeable that the EUR/USD conversion rate will be less favourable compared to 2016. Volume forecast variances and currency volatility in countries such as Argentina or Russia will expose the company to currency effects in 2017. see Subsequent Events and Outlook, p. 115

Risks related to impairment of goodwill/other intangible assets

As a result of various acquisitions in the past, our balance sheet carries book values of approximately € 1.4 billion in goodwill and € 1.8 billion in other intangible assets (including trademarks). see Note 13, p. 162 see Note 14, p. 163 Deterioration in the business performance, and particularly in future business prospects, as well as significant exchange rate fluctuations could require corrections of these book values by incurring impairment charges. In addition, increases in market interest rates could trigger increases in discount rates used in our impairment test for goodwill/trademarks and require impairment charges. An impairment charge would be a purely accounting, non-cash effect impacting the company's operating result.

Credit risks

A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. see Note 30, p. 181 adidas is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and, to a lesser extent, from other third-party contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments. Without taking into account any collateral, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2016, there was no relevant concentration of credit risk by type of customer or geography. Our credit risk exposure is mainly influenced by individual customer characteristics. Under the company's credit policy, new customers are analysed 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 insurances, the sale of accounts receivable without recourse, and bank guarantees.

Objective evidence that financial assets are impaired includes, for instance, significant financial difficulty of the issuer or debtor, indications of the potential bankruptcy of the borrower and the disappearance of an active market for a financial asset because of financial difficulties. The company utilises allowance accounts for impairments that represent our estimate of incurred credit losses with respect to accounts receivable.

Allowance accounts are used as long as the company is satisfied that recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are directly written off against the financial asset. The allowance consists of two components:

— firstly, an allowance established for all receivables dependent on the ageing structure of receivables past due date and
— secondly, a specific allowance that relates to individually assessed risks for each specific customer – irrespective of ageing.

At the end of 2016, no customer accounted for more than 10% of accounts receivable.

The Treasury department arranges currency, commodity and interest rate hedges, and invests cash, with major banks of a high credit standing throughout the world. Group companies are authorised to work with banks rated BBB+ or higher. Only in exceptional cases are subsidiaries authorised to work with banks rated lower than BBB+. see Treasury, p. 101 To limit risk in these cases, restrictions are clearly stipulated, such as maximum cash deposit levels. In addition, the credit default swap premiums of our 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.

We believe our risk concentration is limited due to the broad distribution of our investment business with more than 20 globally operating banks. At December 31, 2016, no bank accounted for more than 10% of our investments. Including subsidiaries' short-term deposits in local banks, the average concentration was 1%. This leads to a maximum exposure of € 96 million in the event of default of any single bank. We have further diversified our investment exposure by investing into AAA-rated money market funds.

In addition, in 2016, we held derivatives with a positive fair market value in the amount of € 406 million. The maximum exposure to any single bank resulting from these assets amounted to € 92 million and the average concentration was 3%.

In accordance with IFRS 7, the following table includes further information about set-off possibilities of derivative financial assets and liabilities. see Table 08 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 recognised derivative financial instruments, which are subject to the mentioned agreements, are also presented in the following table. see Table 08

08 **SET-OFF POSSIBILITIES OF DERIVATIVE FINANCIAL ASSETS AND LIABILITIES** € IN MILLIONS

	2016	2015
Assets		
Gross amounts of recognised financial assets	383	228
Financial instruments which qualify for set-off in the statement of financial position	0	0
Net amounts of financial assets presented in the statement of financial position	**383**	**228**
Set-off possible due to master agreeements	(96)	(57)
Total net amount of financial assets	**287**	**171**
Liabilities		
Gross amounts of recognised financial liabilities	(112)	(61)
Financial instruments which qualify for set-off in the statement of financial position	0	0
Net amounts of financial liabilities presented in the statement of financial position	**(112)**	**(61)**
Set-off possible due to master agreeements	96	57
Total net amount of financial liabilities	**(16)**	**(4)**

Interest rate risks

Changes in global market interest rates affect future interest payments for variable-interest liabilities. As the company 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.

In 2016, the company did not use interest-rate derivatives to mitigate interest rate risks.

To reduce interest rate risks and maintain financial flexibility, a core tenet of our company's financial strategy is to continue to use surplus cash flow from operations to reduce gross borrowings. Beyond that, we may consider adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks. see Treasury, p. 101

In 2016, interest rates in Europe and North America remained at low levels. Given the central banks' current interest rate policies and macroeconomic uncertainty, we do not expect any major interest rate increases in Europe in 2017. Due to the positive macroeconomic development in the USA, however, we believe an increase in US interest rates is likely. At December 31, 2016, 77% of the company's financing was denominated in euros.

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 unfavourable financing terms due to

09 **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, 2016							
Bank borrowings	379						379
Private placements [1]							
Eurobond [1]	16	16	16	17	616	435	1,116
Convertible bond [2]							
Accounts payable	2,496						2,496
Other financial liabilities	90	16					107
Accrued liabilities [3]	704	9					713
Derivative financial liabilities	110	3	0	0	0	0	113
Total	**3,795**	**44**	**16**	**17**	**616**	**435**	**4,924**
As at December 31, 2015							
Bank borrowings	229						229
Private placements [1]	142						142
Eurobond [1]	16	16	16	16	16	1,053	1,133
Convertible bond	1	502					503
Accounts payable	2,024						2,024
Other financial liabilities	58	18					76
Accrued liabilities [3]	596						596
Derivative financial liabilities	60	0	0	0	0	0	60
Total	**3,126**	**536**	**16**	**16**	**16**	**1,053**	**4,763**

1 Including interest payments.
2 We do not expect cash outflow but conversions into adidas AG shares.
3 Accrued interest excluded.

liquidity restraints. Our Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2016, cash and cash equivalents together with marketable securities amounted to € 1.515 billion (2015: € 1.370 billion). Moreover, our company maintains € 2.403 billion (2015: € 2.134 billion) in bilateral credit lines, which are designed to ensure sufficient liquidity at all times. Of these, € 700 million consist of core committed lines. see Treasury, p. 101

Future cash outflows arising from financial liabilities that are recognised in the consolidated statement of financial position are presented in the table above. see Table 09 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.

We ended the year 2016 with net borrowings of € 103 million (2015: € 460 million). Thus, the ratio of net borrowings over EBITDA was 0.1 times at year-end, which is below the company's mid-term target corridor of below two times.

ILLUSTRATION OF OPPORTUNITIES

In this report, we focus on opportunities we deem to be relevant for adidas in 2017. The assessment is shown in the opportunities overview table. see Table 10

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Organic growth opportunities

Controlled space: The sporting goods retail environment is changing constantly. We therefore continue to adapt our distribution strategy to the constantly changing sporting goods retail environment and have made controlled space initiatives a strategic priority. see Corporate Strategy, p. 48 This includes retail space management with key retail partners, the further expansion of our e-commerce activities as well as the introduction of new own-retail store formats. We also continue to expand our direct-to-consumer activities in emerging markets such as South East Asia, the Middle East and North Africa. Successful results from these initiatives could enable us to accelerate top- and bottom-line growth.

10 **CORPORATE OPPORTUNITIES OVERVIEW**

	Potential impact	Change (2015 rating)	Likelihood	Change (2015 rating)
Strategic and operational opportunities				
Organic growth opportunities	High	↑ (Medium)	Possible	
Opportunities related to organisational and process improvements	Medium		Possible	
Financial opportunities				
Favourable financial market changes	Very High		Possible	

Marketing activation/promotion partnerships: Well-executed campaigns and marketing initiatives could increase brand desire and consumer appeal, which may drive full-price sell-through and result in higher-than-expected sales and profit. In addition, outstanding competitive performance of promotion partners, e.g. individual athletes, club teams or national teams, may further increase their popularity amongst consumers. As a result, adidas may generate higher sales of signature footwear or licensed apparel and accessories.

Opportunities related to organisational and process improvements

Process optimisation: Continued optimisation of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still significant opportunity to improve process efficiency and effectiveness and further streamline cost structures throughout our company. For example, more consistent, effective and efficient in-store execution could lead to an increase in *conversion* see Glossary, p. 216 and full-price sell-through. As a result, we may achieve higher-than-expected top- and bottom-line growth.

FINANCIAL OPPORTUNITIES

Favourable financial market changes

Favourable exchange and interest rate developments can potentially have a positive impact on the company's financial results. Our Treasury department closely monitors the financial markets to identify and exploit opportunities. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might positively impact our company's financial performance. see Treasury, p. 101

In addition to the above-mentioned opportunities, we have identified various other strategic and operational opportunities which are not considered to be relevant in 2017, however are considered to have a potential mid- to long-term positive impact on our top- and bottom-line performance. These opportunities include, amongst others:

Partnerships: adidas is constantly evolving its partnership network within sport and culture, such as with academic organisations and companies from other industries in research and development. These partnerships have generated multiple new growth avenues for adidas, as we have acquired product or process know-how and gained access to new distribution channels or markets. Partnerships, strategic alliances and collaborations may enable us to pursue further growth and efficiency opportunities.

Personnel opportunities: The recruitment of highly qualified talent as well as the training and development of our employees, in particular for our own-retail segment, may help us increase productivity, efficiency and employee engagement and generate better-than-expected top- and bottom-line results. In addition, the successful development of talents across the company may increase employee engagement and performance and thus contribute positively to sales and profitability improvements.

Macroeconomic, sociopolitical and regulatory opportunities: Since we are a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments, which support increased private consumption, can have a positive impact on our sales and profitability. In addition, legislative and regulatory changes, e.g. the elimination of trade barriers, can potentially open up new channels of distribution or create cost savings and, as a result, positively impact the company's profitability.

MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

ASSESSMENT OF PERFORMANCE VERSUS TARGETS

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2016, the company delivered a strong operational and financial performance. Sales development was favourably impacted by rising consumer spending on sporting goods, supported by the ongoing robust athleisure trend as well as increased health awareness and sports participation in most geographical areas. see Economic and Sector Development, p. 90 Major sporting events, such as the UEFA EURO 2016 or the Copa América, also provided a positive stimulus to sales. In light of the accelerating brand momentum, driven by the successful execution of the company's strategic business plan 'Creating the New', innovative and appealing product launches as well as inspiring marketing campaigns, we increased our top- and bottom-line guidance for the full year 2016 several times throughout the year, compared to our initial expectations. see Table 01

In 2016, revenues increased 18% on a currency-neutral basis, driven by strong growth at both the adidas and the Reebok brand. Currency-neutral sales grew at double-digit rates in nearly all market segments. As a result, revenues increased significantly above our initial guidance of 10% to 12% currency-neutral sales growth. Gross margin increased 0.3 percentage points to 48.6%, exceeding our initial forecast of 47.3% to 47.8%. This development was due to the significantly larger-than-expected positive effects from a better pricing, product and channel mix as well as lower input costs, which more than offset the severe headwinds from negative currency effects. The operating margin increased 1.3 percentage points excluding goodwill impairment losses in the prior year to 7.7%. This was above our initial guidance of an at least stable operating margin of 6.5% excluding goodwill impairment losses and a direct consequence of the gross margin increase, the positive effects from lower operating expenses as a percentage of sales as well as the non-recurring gain related to the early termination of the Chelsea F.C. contract. As a result, net income from continuing operations was up 41% excluding goodwill impairment losses in the prior year to € 1.019 billion and therefore well above our initial guidance of an improvement between 10% and 12% to around € 800 million. see Income Statement, p. 92

In 2016, we saw an improvement in operating working capital. While we had initially expected average operating working capital as a percentage of sales to be around the prior year level of 20.5%, average operating working capital as a percentage of sales ended the year 2016 at 20.2%, thus exceeding our initial expectations. Capital expenditure (excluding acquisitions) amounted to € 651 million in 2016, below our initial guidance of around € 750 million, reflecting fewer-than-expected net store openings throughout the year. Investments were mainly focused on controlled space initiatives of the adidas and Reebok brands, aimed at further strengthening our own-retail activities, franchise store presence and shop-in-shop presentations. Other areas of investments included logistics infrastructure and IT systems as well as the further development of our corporate headquarters in Herzogenaurach, Germany. see Statement of Financial Position and Statement of Cash Flows, p. 96

Beyond our financial performance, we also actively monitor non-financial KPIs. see Internal Management System, p. 86 In 2016, our Net Promoter Score (NPS) saw a strong improvement relative to our major competitor, reflecting the strong enhancement in the desirability of our brands and products throughout the year. We are confident that this positive trend will continue, as we project strong improvements in our NPS relative to our major competitor in 2017 as well. Also from a market share perspective, we continue to be very encouraged by our strong performance in key categories as well as key markets, as defined in the company's strategic business plan 'Creating the New'. In particular, Greater China, North America and Western Europe were notable standouts, as we improved our market share in these regions. In North America, we saw momentum accelerate considerably in the year, following significant investments in the region's organisational set-up, highly engaging consumer activation initiatives as well as innovative product launches. Our diligence and discipline in sustainability matters continues to yield strong recognition for our company. In 2016, adidas AG was again represented in a variety of high-profile sustainability indices. For the 17th consecutive time, adidas AG was selected to join the Dow Jones Sustainability Indices (DJSI). In the sector 'Textiles, Apparel & Luxury Goods', adidas AG was rated industry best in the criteria Brand

Management, Innovation Management, Risk & Crisis Management, Environmental Policy & Management Systems, Operational Eco-Efficiency, Corporate Citizenship & Philanthropy and Stakeholder Engagement. Furthermore, in 2016, adidas was ranked fifth among the Global 100 Most Sustainable Corporations in the World (Global 100 Index), making it to the Top Ten for the third consecutive year. see Sustainability, p. 78 Finally, while we maintained a strong level of on-time in-full (OTIF) deliveries to our customers and own-retail stores in 2016, the overall performance was slightly below the prior year level, reflecting the strong increase in volumes throughout the year. see Global Operations, p. 62

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities reported by different business units and functions through the quarterly risk and opportunity assessment process. In addition, the Executive Board discusses and assesses risks and opportunities on a regular basis. see Risk and Opportunity Report, p. 118 Taking into account the potential financial impact as well as the likelihood of materialising of the risks explained within this report, and considering the strong balance sheet as well as the current business outlook, we do not foresee any material jeopardy to the viability of the company as a going concern. This assessment is also supported by the historical response to our financing demands. adidas therefore has not sought an official rating by any of the leading rating agencies. see Treasury, p. 101 We remain confident that our earnings strength forms a solid basis for our future business development and provides the resources necessary to pursue the opportunities available to the company. Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. The partial changes in risk evaluation have no substantial impact on the overall adidas risk profile, which we believe has improved compared to the prior year.

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2015, adidas unveiled its 2020 strategic business plan named Creating the New, which defines strategies and objectives for the period up to 2020. The strategy aims at further accelerating growth by significantly increasing brand desirability. This, in turn, is expected to spur top- and bottom-line growth for the company in the years to come. With 2016 marking the first full year of 'Creating the New', our success in 2016 is the direct result of our strategic business plan introduced in 2015 and proof positive that our brands and products, as a result of the Brand Leadership approach, are resonating extremely well with the consumer. see adidas Brand Strategy, p. 55 Therefore, going forward we will focus on further executing the strategy, while at the same time fine-tuning it wherever needed and whenever necessary. This will ensure we continue our momentum in 2017 and beyond,

01 COMPANY TARGETS VERSUS ACTUAL KEY METRICS

	2015 Results [1]	2016 Targets [1]	2016 Results	2017 Outlook	2017 Outlook (in case of planned divestitures) [2]
Sales (year-over-year change, currency-neutral)	10%	to increase at a rate between 10% and 12%	18%	to increase at a rate between 11% and 13%	to increase at a rate between 12% and 14% [3]
Gross margin	48.3%	47.3% to 47.8%	48.6%	to increase up to 0.5pp to a level of up to 49.1%	to increase up to 0.3pp to a level of up to 49.5%
Other operating expenses (in % of net sales)	43.1%	below prior year level	42.8%	below prior year level	below prior year level
Operating profit (€ in millions)	1,094 [4]	n.a.	1,491	to increase at a rate between 18% and 20%	to increase at a rate between 13% and 15% [5]
Operating margin	6.5% [4]	remain at least stable versus prior year level	7.7%	to increase between 0.6pp and 0.8pp to a level between 8.3% and 8.5%	to increase between 0.2pp and 0.4pp to a level between 8.6% and 8.8%
Net income from continuing operations (€ in millions)	720 [4]	to increase at a rate between 10% and 12% to around € 800 million	1,019	to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion	to increase at a rate between 13% and 15% to a level between € 1.200 billion and € 1.225 billion
Basic earnings per share from continuing operations (in €)	3.54 [4]	n.a.	5.08	to increase at a rate between 18% and 20%	to increase at a rate between 13% and 15% [6]
Average operating working capital (in % of net sales)	20.5%	around prior year level	20.2%	modest increase	modest increase
Capital expenditure [7] (€ in millions)	513	around 750	651	around € 1.1 billion	around € 1.1 billion

1 As published on March 3, 2016. The outlook was updated several times over the course of the year.
2 In case of the planned divestiture of the TaylorMade business with the brands TaylorMade, Adams Golf and Ashworth as well as the CCM Hockey business; 2016 and 2017 adjusted.
3 Based on adjusted 2016 net sales of € 18,483 million.
4 Excluding goodwill impairment of € 34 million.
5 Based on adjusted operating profit of € 1,552 million.
6 Based on adjusted basic earnings per share from continuing operations of € 5.30.
7 Excluding acquisitions and finance leases.

resulting in strong top- and bottom-line improvements until 2020. We project currency-neutral revenues to increase at a rate of 10% to 12% on average per year until 2020 compared to the 2015 results. By outperforming the sporting goods industry, our brands will increase market share over the period. This, in combination with the expected gross margin improvement and our ability to generate operating leverage, will significantly increase our profitability. As a result, net income is expected to grow at a higher rate than the top line and is projected to expand by 20% to 22% on average per year during the five-year period. see Corporate Strategy, p. 48

For 2017, we also project strong revenue and profitability improvements which will be the result of our extensive pipeline of new and innovative products, increased brand-building activities, the tight control of inventory levels and stringent cost management. Our earnings position is expected to benefit from an expansion in gross margin as well as the positive effect of lower other operating expenses as a percentage of sales. see Subsequent Events and Outlook, p. 115 We believe that our outlook for 2017 is realistic within the scope of the current trading and economic environment.

Assuming no significant deterioration in the global economy, we are confident that we will significantly grow our top and bottom line in 2017. However, ongoing uncertainties regarding the economic outlook and consumer sentiment in both developed and emerging economies as well as persisting high levels of currency volatility represent risks to the achievement of our stated financial goals and aspirations. see Economic and Sector Development, p. 90 No other material event between the end of 2016 and the publication of this report has altered our view.

4

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	Note	Dec. 31, 2016	Dec. 31, 2015	Change in %
Assets				
Cash and cash equivalents	5	1,510	1,365	10.6
Short-term financial assets	6	5	5	2.5
Accounts receivable	7	2,200	2,049	7.4
Other current financial assets	8	729	367	98.7
Inventories	9	3,763	3,113	20.9
Income tax receivables	35	98	97	1.1
Other current assets	10	580	489	18.5
Assets classified as held for sale	11	–	12	(100.0)
Total current assets		**8,886**	**7,497**	**18.5**
Property, plant and equipment	12	1,915	1,638	16.9
Goodwill	13	1,412	1,392	1.4
Trademarks	14	1,680	1,628	3.2
Other intangible assets	14	167	188	(11.5)
Long-term financial assets	15	194	140	38.3
Other non-current financial assets	16	96	99	(2.6)
Deferred tax assets	35	732	637	14.9
Other non-current assets	17	94	124	(23.9)
Total non-current assets		**6,290**	**5,846**	**7.6**
Total assets		**15,176**	**13,343**	**13.7**

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

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	Note	Dec. 31, 2016	Dec. 31, 2015	Change in %
Liabilities and equity				
Short-term borrowings	18	636	366	73.7
Accounts payable		2,496	2,024	23.3
Other current financial liabilities	19	201	143	40.7
Income taxes	35	402	359	12.1
Other current provisions	20	573	456	25.6
Current accrued liabilities	21	2,023	1,684	20.1
Other current liabilities	22	434	331	31.1
Liabilities classified as held for sale	11	–	0	(100.0)
Total current liabilities		**6,765**	**5,364**	**26.1**
Long-term borrowings	18	982	1,463	(32.9)
Other non-current financial liabilities	23	22	18	23.6
Pensions and similar obligations	24	355	273	30.4
Deferred tax liabilities	35	387	368	5.2
Other non-current provisions	20	44	50	(11.1)
Non-current accrued liabilities	21	120	120	(0.2)
Other non-current liabilities	25	46	40	14.2
Total non-current liabilities		**1,957**	**2,332**	**(16.1)**
Share capital		201	200	0.6
Reserves		749	592	26.5
Retained earnings		5,521	4,874	13.3
Shareholders' equity	26	**6,472**	**5,666**	**14.2**
Non-controlling interests	28	(17)	(18)	4.0
Total equity		**6,455**	**5,648**	**14.3**
Total liabilities and equity		**15,176**	**13,343**	**13.7**

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

CONSOLIDATED INCOME STATEMENT

ADIDAS AG CONSOLIDATED INCOME STATEMENT (IFRS) € IN MILLIONS

	Note	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015	Change
Net sales	37	19,291	16,915	14.0%
Cost of sales		9,912	8,748	13.3%
Gross profit		**9,379**	**8,168**	**14.8%**
(% of net sales)		48.6%	48.3%	0.3pp
Royalty and commission income		109	119	(8.0%)
Other operating income	31	266	96	175.2%
Other operating expenses	12, 14, 32	8,263	7,289	13.4%
(% of net sales)		42.8%	43.1%	(0.3pp)
Goodwill impairment losses	13	-	34	(100.0%)
Operating profit		**1,491**	**1,059**	**40.7%**
(% of net sales)		7.7%	6.3%	1.5pp
Financial income	34	28	46	(40.1%)
Financial expenses	34	74	67	11.3%
Income before taxes		**1,444**	**1,039**	**39.0%**
(% of net sales)		7.5%	6.1%	1.3pp
Income taxes	35	426	353	20.6%
(% of income before taxes)		29.5%	34.0%	(4.5pp)
Net income from continuing operations		**1,019**	**686**	**48.5%**
(% of net sales)		5.3%	4.1%	1.2pp
Gains/(losses) from discontinued operations, net of tax	3	1	(46)	n.a.
Net income		**1,020**	**640**	**59.3%**
(% of net sales)		5.3%	3.8%	1.5pp
Net income attributable to shareholders		**1,017**	**634**	**60.5%**
(% of net sales)		5.3%	3.7%	1.5pp
Net income attributable to non-controlling interests		**2**	**6**	**(61.9%)**
Basic earnings per share from continuing operations (in €)	36	5.08	3.37	50.5%
Diluted earnings per share from continuing operations (in €)	36	4.99	3.37	47.9%
Basic earnings per share from continuing and discontinued operations (in €)	36	5.08	3.15	61.5%
Diluted earnings per share from continuing and discontinued operations (in €)	36	4.99	3.15	58.7%

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ADIDAS AG CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS) € IN MILLIONS

	Note	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Net income after taxes		**1,020**	**640**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans (IAS 19), net of tax[1]	24	(60)	8
Subtotal of items of other comprehensive income that are or will not be reclassified subsequently to profit or loss		**(60)**	**8**
Items of other comprehensive income that are or will be reclassified to profit or loss when specific conditions are met			
Net gain/(loss) on cash flow hedges, net of tax	30	87	(118)
Reclassification of foreign currency differences on loss of significant influence		(0)	5
Currency translation differences		71	129
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met		**158**	**16**
Other comprehensive income		**97**	**24**
Total comprehensive income		**1,117**	**664**
Attributable to shareholders of adidas AG		1,115	659
Attributable to non-controlling interests		2	5

1 Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ADIDAS AG CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS) € IN MILLIONS

	Note	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Other reserves[1]	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2014		**204**	**777**	**(257)**	**176**	**(117)**	**4,839**	**5,624**	**(7)**	**5,618**
Net income recognised directly in equity				134	(117)	8		25	(1)	24
Net income							634	634	6	640
Total comprehensive income				**134**	**(117)**	**8**	**634**	**659**	**5**	**664**
Repurchase of treasury shares	26	(4)					(297)	(301)		(301)
Dividend payment	26						(303)	(303)	(6)	(309)
Transactions with non-controlling interests	26					(13)		(13)	(10)	(24)
Balance at December 31, 2015		**200**	**777**	**(123)**	**59**	**(122)**	**4,874**	**5,666**	**(18)**	**5,648**
Net income recognised directly in equity				71	87	(60)		97	0	97
Net income							1,017	1,017	2	1,020
Total comprehensive income				**71**	**87**	**(60)**	**1,017**	**1,115**	**2**	**1,117**
Re-issuance of treasury shares due to the conversion of convertible bonds	26	3	60				178	240		240
Repurchase of treasury shares	26	(2)					(228)	(229)		(229)
Dividend payment	26						(320)	(320)	(2)	(322)
Equity-settled share-based payment	27						1	1		1
Balance at December 31, 2016		**201**	**838**	**(52)**	**146**	**(182)**	**5,521**	**6,472**	**(17)**	**6,455**

1 Reserves for remeasurements of defined benefit plans (IAS 19), option plans and acquisition of shares from non-controlling interest shareholders.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

ADIDAS AG CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS) € IN MILLIONS

	Note	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Operating activities:			
Income before taxes		1,444	1,039
Adjustments for:			
Depreciation, amortisation and impairment losses	12, 13, 14, 32, 34	397	393
Reversals of impairment losses	31	(2)	(1)
Unrealised foreign exchange (gains)/losses, net		(7)	36
Interest income	34	(21)	(20)
Interest expense	34	70	65
(Gains)/losses on sale of property, plant and equipment and intangible assets, net		(21)	15
Other non-cash income	31, 32	(0)	(1)
Operating profit before working capital changes		**1,859**	**1,527**
Increase in receivables and other assets		(411)	(183)
Increase in inventories		(621)	(639)
Increase in accounts payable and other liabilities		1,006	823
Cash generated from operations before interest and taxes		**1,834**	**1,527**
Interest paid		(46)	(55)
Income taxes paid		(439)	(386)
Net cash generated from operating activities – continuing operations		**1,348**	**1,086**
Net cash (used in)/generated from operating activities – discontinued operations		(1)	3
Net cash generated from operating activities		**1,348**	**1,090**
Investing activities:			
Purchase of trademarks and other intangible assets		(65)	(49)
Proceeds from sale of trademarks and other intangible assets		0	0
Purchase of property, plant and equipment		(586)	(464)
Proceeds from sale of property, plant and equipment		5	6
Proceeds from sale of assets held for sale	11	14	–
Proceeds from sale of a disposal group	11	29	–
Acquisition of subsidiaries and other business units net of cash acquired	4	–	(214)
Proceeds from disposal of discontinued operations net of cash disposed		–	164
Purchase of short-term financial assets		(0)	(0)
Purchase of investments and other long-term assets		(33)	(48)
Interest received		21	20
Net cash used in investing activities – continuing operations		**(614)**	**(584)**
Net cash used in investing activities – discontinued operations		–	(6)
Net cash used in investing activities		**(614)**	**(591)**
Financing activities:			
Repayments of long-term borrowings		–	(10)
Repayments of finance lease obligations		(3)	(2)
Dividend paid to shareholders of adidas AG	26	(320)	(303)
Dividend paid to non-controlling interest shareholders		(2)	(6)
Acquisition of non-controlling interests	28	(24)	–
Repurchase of treasury shares	26	(218)	(301)
Proceeds from short-term borrowings		150	35
Repayments of short-term borrowings	18	(138)	(103)
Net cash used in financing activities		**(553)**	**(691)**
Effect of exchange rates on cash		**(35)**	**(126)**
Increase/(decrease) of cash and cash equivalents		145	(318)
Cash and cash equivalents at beginning of year	5	1,365	1,683
Cash and cash equivalents at end of period	5	**1,510**	**1,365**

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

NOTES

adidas AG is a listed German stock corporation and parent of the adidas Group located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany, and is entered into the commercial register at the Local Court of Fürth (HRB 3868). adidas AG and its subsidiaries (collectively 'adidas', 'the Group' or 'the company') design, develop, produce and market a broad range of athletic and sports lifestyle products. As at December 31, 2016, the operating activities of adidas are divided into 13 operating segments: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses. Due to the divestiture of the Rockport operating segment on July 31, 2015, income and expenses of the Rockport operating segment were reported as discontinued operations as at December 31, 2015. see Note 03

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 and Reebok branded products include footwear, apparel and hardware, such as bags and balls.

The operating segment TaylorMade-adidas Golf includes the four brands TaylorMade, adidas Golf, Adams Golf and Ashworth. TaylorMade designs, develops and distributes primarily golf clubs, balls and accessories. adidas Golf branded products include footwear, apparel and accessories. Adams Golf designs and distributes mainly golf clubs as well as a small range of accessories. Ashworth designs and distributes men's and women's golf-inspired apparel and footwear.

CCM Hockey designs, produces and distributes ice hockey equipment such as sticks, skates and protection gear. In addition, CCM Hockey designs, produces and distributes apparel mainly under the brand name CCM.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

The operating segment Other centrally managed businesses primarily includes the business activities of the labels Y-3 and Porsche Design Sport by adidas as well as the business activities of the brand Five Ten in the outdoor action sports sector. Furthermore, the segment also comprises the own-retail activities of the adidas neo label as well as International Clearance Management.

01 — GENERAL

The consolidated financial statements of adidas AG as at December 31, 2016 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, 2016, and the additional requirements pursuant to § 315a section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations and amendments to existing standards and interpretations are effective for financial years beginning on January 1, 2016 and have been applied for the first time to the consolidated financial statements:

- **IFRS 10, IFRS 12 and IAS 28 Amendment – Investment Entities: Applying the Consolidation Exception (EU effective date: January 1, 2016):** This amendment addresses issues that arose in the context of applying the consolidation exception for investment entities. This amendment had no impact on the consolidated financial statements of adidas AG.
- **IFRS 11 Amendment – Accounting for Acquisitions of Interests in Joint Operations (EU effective date: January 1, 2016):** This amendment provides guidance for the accounting of the acquisition of an interest in a joint operation that is a business. This amendment had no impact on the consolidated financial statements of adidas AG.
- **IAS 1 Amendment – Disclosure Initiative (EU effective date: January 1, 2016):** This amendment clarifies guidance for disclosures regarding materiality, aggregation and disaggregation of line items of the consolidated statement of financial position and of the consolidated income statement, the presentation of subtotals, the structure of the financial statements, and the disclosure of accounting policies. This amendment had no material impact on the consolidated financial statements of adidas AG.
- **IAS 16 and IAS 38 Amendment – Clarification of Acceptable Methods of Depreciation and Amortisation (EU effective date: January 1, 2016):** This amendment clarifies when a depreciation method or amortisation method based on revenue may be appropriate. This amendment had no impact on the consolidated financial statements of adidas AG.
- **IAS 16 and IAS 41 Amendment – Agriculture: Bearer Plants (EU effective date: January 1, 2016):** This amendment distinguishes bearer plants from other biological assets, classifying and accounting for such plants as plant, property and equipment. This amendment had no impact on the consolidated financial statements of adidas AG.

- **IAS 19 Amendment – Defined Benefit Plans: Employee Contributions (EU effective date: February 1, 2015):** This amendment clarifies guidance relating to the method for attributing contributions from employees or third parties that are linked to service periods to the related periods of service. In addition, a practical expedient is introduced for contributions that are independent from the number of years of service. This amendment had no material impact on the consolidated financial statements of adidas AG.
- **IAS 27 Amendment – Equity Method in Separate Financial Statements (EU effective date: January 1, 2016):** This amendment reinstates the option to account for investments in subsidiaries, joint ventures and associates according to the equity method in an entity's separate financial statements. This amendment had no impact on the consolidated financial statements of adidas AG.
- **Improvements to IFRSs (2010-2012) (EU effective date: February 1, 2015):** These improvements make clarifications to several standards along with changes to disclosure requirements. The improvements required additional disclosures in the consolidated financial statements of adidas AG.
- **Improvements to IFRSs (2012-2014) (EU effective date: January 1, 2016):** The improvements make clarifications to several standards and interpretations. These improvements had no material impact on the consolidated financial statements of adidas AG.

New standards and interpretations as well as amendments to existing standards and interpretations are usually not applied by adidas before the EU effective date.

New standards and interpretations and amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU which will be effective for financial years beginning after January 1, 2016, and which have not been applied in preparing these consolidated financial statements are:

- **IFRS 9 Financial Instruments (EU effective date: January 1, 2018):** The new standard prescribes rules for the accounting of financial instruments, replacing the current guidelines in IAS 39 Financial Instruments: Recognition and Measurement. In particular, IFRS 9 prescribes new classification methods for financial assets, which are likely to have an effect on the classification and subsequent presentation of the company's financial assets. The new standard also introduces the 'expected loss model' for financial assets, which will require company-wide policy adjustments to the allowance for doubtful accounts relating to accounts receivable. According to the current status of the analysis, adidas expects to use the practical expedient to account for the allowance for doubtful accounts using lifetime expected credit losses. adidas also plans to make use of provision matrices in order to calculate lifetime expected credit losses of accounts receivable. This relates to historic information about default rates which, at the respective balance sheet date, are adjusted for current information and forecasts. Although the policy for allowances for doubtful accounts will change, due to the short-term nature of accounts receivable and the company's current approach to the allowance for doubtful accounts, a material quantitative impact on the consolidated financial statements is therefore not expected. According to the new standard, an entity can choose to either account for hedge instruments according to IFRS 9 or continue accounting for hedge instruments according to IAS 39. If accounted for according to IFRS 9, the timing of the effectiveness date for hedge instruments would change. The ability to use this accounting policy choice depends on the abilities of technical systems and is still being evaluated by adidas. IFRS 9 will not have a significant effect on the company's accounting for financial liabilities or on the derecognition of financial assets as the new guidelines are – to a large extent – adopted from IAS 39. The actual effects that IFRS 9 will have on the 2018 consolidated financial statements depends to a large extent on both the financial instruments which adidas holds and on the economic conditions at that point in time. Further analysis of the expected impact on the consolidated financial statements of adidas AG is ongoing.
- **IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 (EU effective date: January 1, 2018):** This new standard replaces the current guidance on recognising revenue in accordance with IFRS, in particular IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes and provides a holistic framework for all aspects of revenue recognition. IFRS 15 creates a centralised, single five-step model for recognising revenue arising from contracts with customers. adidas offers its Wholesale customers various customer incentives such as volume rebates, cooperative advertising allowances and slotting fees. These might create additional performance obligations under IFRS 15 and require the inclusion of elements of variable consideration in the transaction price. Under the current approach, customer incentives which are contractually agreed upon in the trade term agreements are accounted for as sales discounts and are accrued over the financial year. Customer incentives which are not contractually agreed upon in the trade term agreements are accounted for as expenditure for marketing investments. Under IFRS 15, the amount and timing of revenue recognition with regard to customer incentives might be affected. Variable consideration will be included in the transaction price and the evaluation of variable consideration will require judgement in many cases. Revenue might be recognised before all contingencies are resolved, i.e. earlier than under current practice.

In accordance with IAS 18, adidas accrues revenue related to estimated returns based on past experience by means of a return provision which is recorded in the statement of financial position with a corresponding debit entry in the income statement in form of a reduction of gross sales. The current adidas policy requires that the provision is calculated on a net basis in the amount of the standard margin (i.e. the difference between gross sales and cost of sales) for the products sold which are expected to be returned. IFRS 15 requires a gross correction of expected returns by correcting gross sales and cost of sales in the full amounts. In addition, an asset for the right to recover products from customers upon settling the refund liability has to be recognised. The new approach is expected to result in a reduction in revenues and a decrease in the equity ratio due to the higher provision amount, in particular for the first set of adjusted financial statements where IFRS 15 is applied. Revenue for contracts where no reliable estimate of the amount of returns can be made is recognised before the return period ends in accordance with IFRS 15, i.e earlier than under the current practice.

No significant changes are expected with regard to revenue from own-retail transactions and from the licensing-out of trademarks compared to the current practice in accordance with IAS 18.

In addition, the new standard is expected to significantly increase the extent of disclosures relating to revenue, thus necessitating modifications to reporting methods and IT systems in order to collect necessary information. Additionally, methods for estimating amounts whose inclusion will not result in a significant reversal of revenue when uncertainty has been resolved need to be developed and implemented. adidas has not yet decided which of the available transition methods and practical expedients will be applied. Further analysis of the expected impact on the consolidated financial statements of adidas AG is in progress.

The following new standards and interpretations as well as amendments to existing standards and interpretations were issued by the IASB. These are not yet effective in the EU and hence have not been applied in preparing these consolidated financial statements:

- **IFRS 2 Amendment – Classification and Measurement of Share-Based Payment Transactions (IASB effective date: January 1, 2018):** The amendment clarifies the accounting treatment for cash-settled share-based payment transactions that include a performance condition and the classification of share-based payment transactions with net settlement features. adidas does not have any cash-settled share-based payment transactions. This amendment is not expected to have any material impact on the consolidated financial statements of adidas AG.
- **IFRS 4 Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (IASB effective date: January 1, 2018):** The amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts. adidas does not have any insurance contracts accounted for under IFRS 4. Therefore, the amendment is not expected to have any impact on the consolidated financial statements of adidas AG.
- **IFRS 10 and IAS 28 Amendment – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: indefinitely postponed):** The amendment addresses an inconsistency between IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture. This amendment is not expected to have any material impact on the consolidated financial statements of adidas AG.
- **IFRS 15 Amendment – Clarifications to IFRS 15 (IASB effective date: January 1, 2018):** The amendment provides some transition relief for modified and completed contracts and adds guidance for identifying performance obligations, principal vs. agent considerations, and licensing. If the amendment is endorsed in the EU, the company expects to use the transition relief available for the transition method chosen by the company. The transition relief would reduce the workload necessary to analyse contracts with customers.
- **IFRS 16 Leases (IASB effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 Leases and the respective interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognise a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months. The new standard is expected to have a significant impact on the company's consolidated statement of financial position and the consolidated income statement, in particular upon initial application. adidas has a significant number of operating leases worldwide – mainly pertaining to more than 2,800 rented own-retail stores and rented warehouses. see Note 29 Under IFRS 16, these have to be accounted for as right-of-use assets with corresponding lease liabilities in the consolidated statement of financial position. In addition, the nature of the expenses relating to lease obligations is going to change: depreciation expenses for the right-of-use assets and interest expenses for the lease obligations are to be reported in the consolidated income statement instead of rent expenses, which under IAS 17 were expensed to the consolidated income statement on a straight-line basis over the lease term. adidas expects changes to key performance indicators (KPIs), in particular: an extension of the statement of financial position, a decrease in the equity ratio as well as an increase in EBITDA, EBIT, cash used in financing activities and cash generated from operating activities. The company does not expect any significant effects on its finance lease arrangements. According to the current status of the analysis, adidas expects to choose the modified retrospective method with optional practical expedients as the transition method. Further analysis of the expected impact on the company's consolidated financial statements is still in progress.

- **IAS 7 Amendment – Disclosure Initiative (IASB effective date: January 1, 2017):** This amendment introduces a new disclosure relating to changes in liabilities arising from financing activities. The amendment is not expected to have any material impact on the consolidated financial statements of adidas AG.
- **IAS 12 Amendment – Recognition of Deferred Tax Assets for Unrealised Losses (IASB effective date: January 1, 2017):** This amendment clarifies existing guidance for recognising deferred tax assets. The amendment is not expected to have any material impact on the company's consolidated financial statements.
- **IAS 40 Amendment – Transfers of Investment Property (IASB effective date: January 1, 2018):** This amendment clarifies guidance for transfers of property to – or from – investment property. adidas does not have investment property and therefore this amendment will not have an effect on the company's financial statements.
- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration (IASB effective date: January 1, 2018):** This new interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the transaction date, for the purpose of determining the exchange rate for a non-monetary prepayment asset or deferred income liability, is the date of the initial recognition of the non-monetary prepayment asset or deferred income liability. adidas already translates non-monetary items, such as prepayments, at the exchange rate as of the initial recognition date. Therefore, this interpretation is not expected to have an effect on the consolidated financial statements of adidas AG.
- **Improvements to IFRSs (2014–2016) – Amendments to IFRS 1 and IAS 28 (IASB effective date: January 1, 2018):** These improvements include amendments to IFRS 1 and IAS 28. The amendments to IFRS 1 eliminated the short-term transition exemptions and the amendments to IAS 28 made a clarification about the choice for qualifying entities (such as venture capital organisations) to apply either the equity method or fair value through profit and loss to the measurement of associates or joint ventures at initial recognition. These improvements are not expected to have a material effect on the consolidated financial statements of adidas AG.
- **Improvements to IFRSs (2014–2016) – Amendments to IFRS 12 (IASB effective date: January 1, 2017):** These improvements include amendments to IFRS 12 which clarify the scope of the standard with regard to disclosure requirements. The improvement clarifies that the scope of the standard applies to an entity's interests regardless of whether they are classified as held for sale, held for distribution or discontinued operations in accordance with IFRS 5. This amendment is not expected to have a material impact on the consolidated financial statements of adidas AG.

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 valued at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, plan assets and receivables, which are measured at fair value.

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.

02 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below.

Principles of consolidation

The consolidated financial statements include the financial statements of adidas AG and all its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles. An entity is considered a subsidiary if it is controlled by adidas AG. Control exists when adidas is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The number of consolidated subsidiaries developed as follows for the years ending December 31, 2016 and December 31, 2015, respectively:

NUMBER OF CONSOLIDATED SUBSIDIARIES

	2016	2015
January 1	**145**	**154**
First-time consolidated subsidiaries	2	2
Thereof: newly founded	2	–
Thereof: purchased	–	2
Deconsolidated/divested subsidiaries	(3)	(11)
Intercompany mergers	(1)	–
December 31	**143**	**145**

The subsidiaries are held either directly by adidas AG or indirectly via the two holding companies adidas Beteiligungsgesellschaft mbH in Germany or adidas International B.V. in the Netherlands.

A schedule of the shareholdings of adidas AG is shown in Attachment II to the consolidated financial statements. see Shareholdings of adidas AG, Herzogenaurach, p. 204 This schedule comprises information about the name, domicile, currency and equity of all consolidated subsidiaries as well as the respective share held in the capital of these subsidiaries. Furthermore, the schedule of the shareholdings of adidas AG will be published on the electronic platform of the German Federal Gazette.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognised 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 shown as goodwill. A credit difference is recorded in the income statement.

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 recognised. 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 unrealised 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

Item	Subsequent measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Short-term financial assets	At fair value through profit or loss
Accounts receivable	Amortised cost
Inventories	Lower of cost and net realisable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant and equipment	Amortised cost
Goodwill	Impairment-only approach
Intangible assets (except goodwill):	
With definite useful life	Amortised cost
With indefinite useful life	Impairment-only approach
Other financial assets (categories according to IAS 39):	
At fair value through profit or loss	At fair value through profit or loss
Held to maturity	Amortised cost
Loans and receivables	Amortised cost
Available-for-sale	At fair value in other comprehensive income or at amortised cost
Liabilities	
Borrowings	Amortised cost
Accounts payable	Amortised cost
Other financial liabilities	Amortised cost
Provisions:	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Accrued liabilities	Amortised cost

Currency translation

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

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

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

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

EXCHANGE RATES

€ 1 equals	Average rates for the year ending Dec. 31,		Spot rates at Dec. 31,	
	2016	2015	2016	2015
USD	1.1069	1.1101	1.0541	1.0887
GBP	0.8188	0.7259	0.8562	0.7340
JPY	120.4031	134.4180	123.4000	131.0700
CNY	7.3515	6.9721	7.3123	7.0696
RUB	74.2778	67.6825	63.9384	79.3474

Discontinued operations

A component of the company's business is classified as a discontinued operation if the operations and cash flows of the component can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company and if the component either has been disposed of or is classified as held for sale, and:

— represents a separate major line of business or geographic area of operations,
— is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations or
— is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as a discontinued operation, the comparative consolidated income statement and consolidated statement of cash flows are restated and presented as if the operation had been discontinued from the start of the comparative year.

Derivative financial instruments

adidas uses derivative financial instruments, such as currency options, forward exchange contracts, commodity futures as well as interest rate swaps and cross-currency interest rate swaps, to hedge its exposure to foreign exchange, commodity price and interest rate risks. In accordance with its Treasury Policy, adidas does not enter into transactions with derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised in the statement of financial position at fair value, and subsequently also measured at their fair value. The method of recognising 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 forecasted transaction (cash flow hedge) or a hedge of a net investment in a foreign operation.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges, and that are effective, as defined in IAS 39 'Financial instruments: recognition and measurement', are recognised in equity. When the effectiveness is not 100%, the ineffective portion of the change in the fair value is recognised in the income statement. Accumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecasted transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the company's risk management policies, may not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not meet these rules are recognised immediately in the income statement.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. If the hedging instrument is a derivative (e.g. a forward exchange contract) or a foreign currency borrowing, effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing, respectively, are recognised in equity.

adidas documents the relationship between hedging instruments and hedge objects at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific firm commitments and forecasted transactions. adidas also documents its assessment of whether the derivatives that are used in hedging transactions are highly effective by using different methods of effectiveness testing, such as the 'dollar offset method' or the 'hypothetical derivative method'.

The fair values of currency options, forward exchange contracts and commodity futures are determined on the basis of market conditions on the reporting dates. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair value of an option is influenced not only by the remaining term of the option but also by additional factors, such as the actual foreign exchange rate and the volatility of the underlying foreign currency base. Fair values are determined taking into consideration the counterparty risk. adidas has exercised the option to calculate the amounts on counterparty level according to IFRS 13 'Fair Value Measurement', paragraph 48.

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.

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.

Receivables and other financial assets

Receivables and other financial assets are recognised at fair value, which corresponds to the nominal value for current receivables and other financial assets. For non-current receivables and other financial assets, the fair value is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date. Subsequently, these are measured at amortised cost using the 'effective interest method'. Required allowances, if necessary, are determined on the basis of individual risk assessments, and on the ageing structure of receivables past due.

Inventories

Merchandise and finished goods are valued at the lower of cost or net realisable 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 labour 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 utilisation. The net realisable value allowances are computed consistently throughout the company based on the age and expected future sales of the items on hand.

Assets/liabilities and disposal groups classified as held for sale

Assets/liabilities and disposal groups classified as held for sale are primarily non-current assets and liabilities expected to be recovered principally through sale rather than through continuing use. These are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held for sale are not depreciated on a straight-line basis.

Property, plant and equipment

Property, plant and equipment are measured at amortised cost. This comprises any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management less any accumulated depreciation and accumulated impairment losses. Depreciation is recognised for those assets, with the exception of land and construction in progress, over the estimated useful life utilising 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 utilisation pattern. Parts of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately.

Land leases are measured at the lower of the fair value or the present value of minimum lease payments and are depreciated on a straight-line basis over the contractually agreed lease term.

Estimated useful lives are as follows:

ESTIMATED USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

	Years
Land	indefinite
Land leases	50 – 99
Buildings and leasehold improvements	20 – 50 [1]
Furniture and fixtures	3 – 5
Technical equipment and machinery as well as other equipment	2 – 10 [1]

1 Or, if shorter, the lease term/useful life (see Note 29).

Expenditures for repairs and maintenance are expensed as incurred. Renewals and improvements are capitalised and depreciated separately, if the recognition criteria are met.

Impairment losses

If facts and circumstances indicate that non-current assets (e.g. property, plant and equipment and intangible assets including goodwill) might be impaired, the recoverable amount is determined. It is measured at the higher of its fair value less costs of disposal and value in use. Non-financial items measured at the recoverable amount primarily relate to impaired property, plant and equipment being measured based on value in use or on fair value taking unobservable inputs (e.g. profit or cash flow planning) into account. The fair value is measured at Level 3 according to IFRS 13 'Fair Value Measurement'.

An impairment loss is recognised 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.

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 for impairment.

An impairment loss recognised in goodwill is not reversible. With respect to all other impaired assets, an impairment loss recognised in prior periods is reversed affecting the income statement if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) if no impairment loss had been recognised.

Impairment losses for financial assets are recognised when, as a result of one or more events that occurred after the initial recognition of the financial asset, there is objective evidence that a financial asset is impaired. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, or as the difference between amortised cost and the fair value considering previous impairment losses.

Leases

Under finance lease arrangements, the substantial risks and rewards associated with an asset are transferred to the lessee. At the beginning of the lease arrangement, the respective asset and a corresponding liability are recognised at the fair value of the asset or, if lower, the net present value of the minimum lease payments. For subsequent measurement, minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability. In addition, depreciation and any impairment losses for the associated assets are recognised. Depreciation is performed over the lease term or, if shorter, over the useful life of the asset.

Under operating lease agreements, rent expenses are recognised on a straight-line basis over the term of the lease.

Goodwill

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

Acquired goodwill is valued at cost and is tested for impairment on an annual basis and additionally when there are indications of potential impairment.

Intangible assets (except goodwill)

Intangible assets are valued at amortised cost. Amortisation is calculated on a straight-line basis taking into account any potential residual value.

Expenditures during the development phase of internally generated intangible assets are capitalised as incurred if they qualify for recognition under IAS 38 'Intangible Assets'.

Estimated useful lives are as follows:

ESTIMATED USEFUL LIVES OF INTANGIBLE ASSETS

	Years
Trademarks	indefinite
Software	5 – 7
Patents, trademarks and licences	5 – 15
Websites	2

Research and development

Research costs are expensed in full as incurred. Development costs are also expensed as incurred if they do not meet the recognition criteria of IAS 38 'Intangible Assets'.

Financial assets

All purchases and sales of financial assets are recognised on the trade date. Costs of purchases include transaction costs. Available-for-sale financial assets include non-derivative financial assets which are not allocable under another category of IAS 39. If their respective fair value can be measured reliably, they are subsequently carried at fair value. If this is not the case, these are measured at cost. Realised and unrealised gains and losses arising from changes in the fair value of financial assets are included in the income statement for the period in which they arise, except for available-for-sale financial assets where unrealised gains and losses are recognised in equity unless they are impaired.

Borrowings and other liabilities

Borrowings (e.g. Eurobonds) and other liabilities are recognised at fair value using the 'effective interest method', net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortised cost using the 'effective interest method'. Any difference between proceeds (net of transaction costs) and the redemption value is recognised 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 amortised 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.

Other provisions and accrued liabilities

Other provisions are recognised 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. Other non-current provisions are discounted if the effect of discounting is material.

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

Pensions and similar obligations

Provisions and expenses for pensions and similar obligations relate to the company's obligations for defined benefit and defined contribution plans. The obligations under defined benefit plans are determined separately for each plan by valuing the employee benefits accrued in return for their service during the current and prior periods. These benefit accruals are discounted to calculate their present value, and the fair value of any plan assets is deducted in order to determine the net liability. The discount rate is set on the basis of yields of high-quality corporate bonds at the balance sheet date provided there is a deep market for high-quality corporate bonds in a given currency. Otherwise, government bond yields are used as a reference. Calculations are performed by qualified actuaries using the 'projected unit credit method' in accordance with IAS 19 'Employee Benefits'. Obligations for contributions to defined contribution plans are recognised 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 recognised 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 recognised in the consolidated statement of financial position but are disclosed and explained in the Notes. see Note 39

Treasury shares

When treasury shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised 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 retained earnings.

Revenue

Revenue in terms of income derived from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and when adidas does not retain any continuing managerial involvement with the goods. The timing of the transfer of significant risks and rewards depends on the individual terms of the sales agreement (terms of delivery). In addition, revenue from the sale of goods is only recognised when the amount of revenue as well as associated costs can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the company.

Revenue is measured at the fair value of the consideration received or receivable, net of returns, early payment discounts and rebates.

Under certain conditions and in accordance with contractual agreements, customers of adidas have the right to return products and to either exchange them for similar or other products or to return the products against the issuance of a credit note. Revenue related to estimated returns is accrued based on past experience by means of a provision for returns, allowances and warranty. see Note 20

Provided that the customers meet certain pre-defined conditions, adidas grants its customers different types of globally aligned performance-based rebates. Examples are sales growth and loyalty as well as sell-out support, e.g. through retail space management/franchise stores. When it is assumed that the customer fulfils the requirements for being granted the rebate, this amount is accrued by means of an accrued liability for marketing and sales. see Note 21

In addition, adidas generates revenue from the licensing-out of the right to use the adidas, Reebok and TaylorMade brands as well as various other trademarks to third parties. The related royalty and commission income is recognised based on the contract terms on an accrual basis.

Advertising and promotional expenditures

Production costs for media campaigns are included in prepaid expenses (other current and non-current assets) until the services are received, and upon receipt expensed in full. Significant costs for media campaigns are expensed over their intended duration.

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 recognised 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 capitalised as part of the cost of the qualifying asset.

Government grants

adidas receives government grants related to income in the form of subsidies, subventions or premiums from local, national or international government authorities such as those of the Federal Republic of Germany, the European Union and the Free State of Bavaria.

Government grants related to income are recognised if there is reasonable assurance that the grants will be received and that adidas will comply with the conditions attached.

Grants related to income are reported in the consolidated income statement as a deduction from the related expenses.

Income taxes

Current income taxes are computed in accordance with the applicable taxation rules established in the countries in which adidas operates.

adidas computes deferred taxes for all temporary differences between the carrying amount and the tax base of its assets and liabilities and tax loss carry-forwards. As it is not permitted to recognise 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 recognised to the extent that it is probable that the entity concerned will generate sufficient taxable income to realise the associated benefit.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Share-based payment

The cost of equity-settled share-based payment transactions with employees is determined by the fair value at the grant date using an appropriate valuation model. see Note 27 That cost is recognised 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 recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the fair value of awards at the grant date, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. If the estimate would be 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 recognised 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.

Estimation uncertainties and judgements

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 Management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill see Note 13, trademarks see Note 14, other provisions see Note 20, pensions see Note 24, derivatives see Note 30, deferred taxes see Note 35 as well as litigation and other legal risks see Note 39.

Judgements have also been used in classifying leasing arrangements as well as in determining valuation methods for intangible assets.

03 — DISCONTINUED OPERATIONS

In July 2015, adidas completed the sale of the Rockport operating segment for a preliminary cash consideration of US $ 181 million plus fixed and contingent promissory notes. The net result of discontinued operations presented in the consolidated income statement mainly contains the fair value adjustment of the contingent consideration.

The fair value of the contingent consideration was estimated by applying the discounted cash flow method. As at December 31, 2016, the fair value increased by US $ 2 million since December 31, 2015.

The results of the former Rockport operating segment are shown as discontinued operations in the consolidated income statement:

DISCONTINUED OPERATIONS

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Net sales	–	159
Expenses	–	(173)
(Loss) from operating activities	**–**	**(14)**
Income taxes	–	0
(Loss) from operating activities, net of tax	**–**	**(13)**
Gain/(loss) from the sale of discontinued operations	1	(40)
Income taxes	–	7
Gain/(loss) from the sale of discontinued operations, net of tax	**1**	**(32)**
Gain/(loss) from discontinued operations, net of tax	**1**	**(46)**
Basic earnings per share from discontinued operations (€)	0.01	(0.23)
Diluted earnings per share from discontinued operations (€)	0.01	(0.23)

The gain from discontinued operations in an amount of € 1 million (2015: loss of € 46 million) was entirely attributable to the shareholders of adidas AG.

04 — ACQUISITION/DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES

As of June 30, 2016 (closing date), the company formally completed the divestiture of the Mitchell & Ness business. The purchase price amounts to US $ 75 million in total. According to the purchase agreement, the first half of the total purchase price was received in cash and for the other half a note was issued by the buyer. All contractually agreed closing assets were transferred by adidas at the closing date. This is followed by a transition service period which is expected to end no later than June 30, 2017.

adidas only has limited power to govern the core processes of the Mitchell & Ness business during the transition service period. Hence, adidas lost control over the Mitchell & Ness business at the closing date and has accounted for the sale. Consequently, all remaining assets and liabilities of the Mitchell & Ness business which are legally not yet transferred are not consolidated anymore and the subsidiary Refuel Limited is divested. A resulting gain from this transaction in an amount of € 39 million was accounted for as other operating income. Contrary to the initial plan at the time of sale, Refuel Limited was already sold again in 2016. see Notes 31 and 38

Effective August 5, 2015, adidas International B.V. completed the acquisition of runtastic GmbH ('Runtastic') and consequently owns 100% of the voting rights. Founded in 2009 and headquartered in Pasching near Linz/Austria, Runtastic is a health and fitness apps and related hardware company. Runtastic provides a comprehensive ecosystem for tracking and managing health and fitness data. With this acquisition, adidas intends to further expand its market position within the digital health and fitness space. Runtastic was acquired for a purchase price of € 213 million in cash plus earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. At the acquisition date, the amount recognised as earn-out components was equivalent to the fair value. Any changes in the fair value at December 31, 2016 relate to discounting effects.

At the acquisition date, the acquisition had the following effect on the Group's assets and liabilities, based on a purchase price allocation:

NET ASSETS OF RUNTASTIC GMBH AT THE ACQUISITION DATE

€ in millions	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	7	–	7
Accounts receivable	2	–	2
Inventories	0	–	0
Other current assets	1	–	1
Property, plant and equipment	1	–	1
Trademarks	0	31	31
Other intangible assets	0	21	21
Deferred tax assets	1	–	1
Accounts payable	(1)	–	(1)
Income taxes	(1)	–	(1)
Other current provisions	(1)	–	(1)
Current accrued liabilities	(3)	–	(3)
Other current liabilities	(2)	–	(2)
Deferred tax liabilities	–	(13)	(13)
Net assets	**3**	**39**	**42**
Goodwill arising on acquisition			192
Purchase price in consideration of contingent payments			**235**
Less: contingent payments in subsequent years			(21)
Purchase price settled in cash			**213**
Less: cash and cash equivalents acquired			(7)
Net cash outflow on acquisition			**207**

The fair value of intangible assets was measured by means of an independent valuation.

The following valuation methods for the acquired assets were applied:

— **Trademarks:** The 'relief-from-royalty method' was applied for the trademarks/brand names. The fair value was determined by discounting notional royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset.

— **Other intangible assets:** For the valuation of customer relationships, the 'multi-period-excess-earnings method' was used. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected net sales by deducting variable and sales-related imputed costs for the use of contributory assets. Subsequently, the outcome was discounted using the appropriate discount rate and adding a tax amortisation benefit. For the valuation of technology (internally generated software), the 'depreciated-replacement-cost method' was used. The replacement costs were determined by applying an index to the asset's historical cost. The replacement costs were then adjusted for the loss in value caused by depreciation.

The excess of the acquisition cost paid versus the net of the amounts of the fair values assigned to all assets acquired and liabilities assumed, taking into consideration the respective deferred taxes, was recognised as goodwill. It mainly arose from expected synergies. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognised as goodwill.

The goodwill arising on this acquisition was allocated to the groups of cash-generating units of the regional markets which are responsible for the joint distribution of adidas and Reebok based on the expected operating/contribution margin synergy potential. The goodwill is not deductible for tax purposes and is denominated in euro as the local functional currency.

The acquired subsidiary generated net sales in an amount of € 8 million as well as losses in an amount of € 0 million for the period from August 5 to December 31, 2015. If this acquisition had occurred on January 1, 2015, total adidas net sales would have been € 16.9 billion and net income attributable to shareholders would have been € 636 million for the year ending December 31, 2015.

Effective January 2, 2015, Reebok International Limited completed the acquisition of Refuel (Brand Distribution) Limited ('Refuel') and consequently owns 100% of the voting rights. Based in London (UK), Refuel mainly markets and distributes apparel of Mitchell & Ness. With this acquisition, adidas took over all distribution rights of Mitchell & Ness outside of North America. The entire business of Refuel was acquired for a purchase price of GBP 11 million in cash.

The acquisition had the following effect on the Group's assets and liabilities, based on a purchase price allocation:

NET ASSETS OF REFUEL (BRAND DISTRIBUTION) LIMITED AT THE ACQUISITION DATE

€ in millions	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	6	–	6
Accounts receivable	2	–	2
Inventories	1	0	2
Property, plant and equipment	0	–	0
Other intangible assets	–	7	7
Accounts payable	(1)	–	(1)
Income taxes	(0)	–	(0)
Deferred tax liabilities	(0)	(1)	(1)
Net assets	**8**	**6**	**14**
Goodwill arising on acquisition			–
Purchase price settled in cash			**14**
Less: cash and cash equivalents acquired			(6)
Net cash outflow on acquisition			**7**

The following valuation methods for the acquired assets were applied:

- **Inventories:** The 'pro rata basis valuation' was applied for estimating the fair value of acquired inventories. Realised margins were added to the carrying amount of acquired inventories. Subsequently, the costs for completion for selling, advertising and general administration as well as a reasonable profit allowance were deducted.
- **Other intangible assets:** For the valuation of customer relationships, the 'multi-period-excess-earnings method' was used. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected net sales by deducting variable and sales-related imputed costs for the use of contributory assets. Subsequently, the outcome was discounted using the appropriate discount rate and adding a tax amortisation benefit.

The acquired subsidiary generated net sales in an amount of € 11 million as well as profits in an amount of € 0 million for the period from January 2 to December 31, 2015.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

05 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at banks, cash on hand and short-term deposits. Short-term deposits are only shown as cash and cash equivalents if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

06 — SHORT-TERM FINANCIAL ASSETS

Short-term financial assets are classified 'at fair value through profit or loss'. Changes in the fair value are recognised in the income statement as they occur.

The majority of short-term financial assets are time deposits.

07 — ACCOUNTS RECEIVABLE

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

ACCOUNTS RECEIVABLE

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Accounts receivable, gross	2,377	2,198
Less: accumulated allowances for doubtful accounts	(177)	(149)
Accounts receivable, net	**2,200**	**2,049**

MOVEMENT IN ALLOWANCES FOR DOUBTFUL ACCOUNTS

€ in millions	2016	2015
Allowances at January 1	**149**	**139**
Additions	76	49
Reversals	(41)	(33)
Write-offs charged against the allowance accounts	(8)	(6)
Currency translation differences	0	0
Other changes	0	(1)
Allowances at December 31	**177**	**149**

ACCOUNTS RECEIVABLE PAST DUE BUT NOT IMPAIRED

€ in millions	Past due 1 – 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due 91 – 180 days	Past due > 180 days
Dec. 31, 2016	**164**	**63**	**11**	**5**	**6**
Dec. 31, 2015	189	70	9	5	3

With respect to accounts receivable as at the balance sheet date past due but not impaired, based on credit history and current credit ratings, there are no indications that customers will not be able to meet their obligations.

Further, no indications of default are recognisable for accounts receivable that are neither past due nor impaired.

For further information about credit risks see Risk and Opportunity Report, p. 118

08 — OTHER CURRENT FINANCIAL ASSETS

Other current financial assets consist of the following:

OTHER CURRENT FINANCIAL ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Currency options	20	5
Forward exchange contracts	348	202
Security deposits	81	67
Financial assets related to the early termination of promotion contracts	77	–
Promissory notes	15	–
Sundry	187	93
Other current financial assets	**729**	**367**

The line item 'Sundry' mainly relates to credit cards and similar receivables. For further information about the early termination of promotion contracts see Note 31

For further information about currency options and forward exchange contracts see Note 30

09 — INVENTORIES

Inventories by major classification are as follows:

INVENTORIES

€ in millions	Dec. 31, 2016			Dec. 31, 2015		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Merchandise and finished goods on hand	2,748	(170)	2,578	2,269	(126)	2,143
Goods in transit	1,151	–	1,151	936	–	936
Raw materials	35	(2)	34	35	(2)	33
Work in progress	1	–	1	1	–	1
Inventories	**3,935**	**(172)**	**3,763**	**3,241**	**(128)**	**3,113**

Goods in transit mainly relate to shipments of finished goods and merchandise from suppliers in Asia to subsidiaries in Europe, Asia, North America and Latin America.

10 — OTHER CURRENT ASSETS

Other current assets consist of the following:

OTHER CURRENT ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Prepaid expenses	311	218
Tax receivables other than income taxes	180	174
Sundry	97	106
Other current assets, gross	**588**	**497**
Less: accumulated allowances	(8)	(8)
Other current assets, net	**580**	**489**

Prepaid expenses relate mainly to promotion and service contracts as well as rents.

11 — ASSETS/LIABILITIES AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The sale of land of adidas AG was completed in January 2016 due to the fulfilment of outstanding conditions arising from a signed contract of sale. Consequently, assets classified as held for sale at December 31, 2015 amounting to € 11 million are derecognised from the consolidated statement of financial position.

12 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

PROPERTY, PLANT AND EQUIPMENT

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Land, land leases, buildings and leasehold improvements	1,395	1,319
Technical equipment and machinery	325	300
Other equipment as well as furniture and fixtures	1,710	1,502
	3,430	**3,121**
Less: accumulated depreciation and impairment losses	(1,733)	(1,583)
	1,697	**1,538**
Construction in progress, net	218	100
Property, plant and equipment, net	**1,915**	**1,638**

Depreciation expenses were € 303 million and € 279 million for the years ending December 31, 2016 and 2015, respectively. see Note 32

As a general principle, it is regularly assessed whether there are any indications that furniture and fixtures might be impaired. Irrespective of the existence of such indications, furniture and fixtures in own-retail stores are tested annually for impairment whereby the recoverable amount is calculated using the discounted cash flow method as part of determining the profitability of the respective own-retail stores. Impairment losses amounted to € 10 million and € 19 million for the years ending December 31, 2016 and 2015, respectively. see Note 32 These are related to other equipment, furniture and fixtures as well as buildings and leasehold improvements, mainly in the company's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits. In 2016, reversals of impairment losses were recorded in an amount of € 2 million (2015: € 1 million).

The increase in the line item 'Construction in progress, net' mainly relates to investments in the company's headquarters in Herzogenaurach and to the expansion of the warehouse in Rieste, Germany.

Additionally, borrowing costs in an amount of € 1 million (2015: € 0 million) related to the construction of qualifying assets at adidas AG were capitalised using a capitalisation rate of 1.3 % (2015: 1.3 %).

For details see Attachment I to the consolidated financial statements. see Statement of Movements of Intangible and Tangible Assets, p. 202

13 — GOODWILL

Goodwill primarily relates to the acquisitions of the Reebok, TaylorMade 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, 2016	Dec. 31, 2015
Goodwill, gross	1,908	1,879
Less: accumulated impairment losses	(496)	(487)
Goodwill, net	**1,412**	**1,392**

The majority of goodwill, which primarily relates to the acquisition of the Reebok business in 2006, is denominated in US dollars. A currency translation effect of positive € 20 million and positive € 65 million was recorded for the years ending December 31, 2016 and 2015, respectively.

adidas determines whether goodwill impairment is necessary at least on an annual basis. The impairment test for goodwill is performed based on groups of cash-generating units which represent the lowest level within the company at which goodwill is monitored for internal management purposes. This requires an estimation of the recoverable amount of the groups of cash-generating units to which the goodwill is allocated. The recoverable amount of a group of cash-generating units is determined on the basis of 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 in order to calculate the present value of those cash flows.

This calculation uses cash flow projections based on the financial planning covering a four-year period in total. The planning is based on long-term expectations of the company and reflects in total for the groups of cash-generating units an average annual mid-single- to low-double-digit sales increase with varying forecasted growth prospects for the different groups of cash-generating units. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning for capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual groups of cash-generating units. Cash flows beyond this four-year period are extrapolated using steady growth rates of 1.7% (2015: 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 each 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 each group of cash-generating units. The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant 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 TaylorMade-adidas Golf, CCM Hockey and Runtastic. The regional markets are: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea and Southeast Asia/Pacific. The number of groups of cash-generating units amounted to a total of twelve at the end of both 2016 and 2015.

In the course of the annual impairment test, adidas assessed whether goodwill impairment was required. In this context, there was no need for goodwill impairment for the year ending December 31, 2016 (2015: € 34 million).

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, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Western Europe	643	632	7.7%	7.7%
Greater China	231	226	7.5%	7.4%
TaylorMade-adidas Golf	293	292	6.5%	6.8%
Other	245	240	7.3 – 8.9%	6.7 – 10.5%
Total	**1,412**	**1,392**		

'Other' comprises the groups of cash-generating units for which the respective carrying amount of allocated goodwill is not significant in comparison with the company's total carrying amount of goodwill.

A change in the discount rate by up to approximately 1.6 percentage points or a reduction of planned free cash inflows by up to approximately 30% would not result in any additional impairment requirement.

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

For details see Attachment I to the consolidated financial statements. see Statement of Movements of Intangible and Tangible Assets, p. 202

The reconciliation of goodwill is as follows:

RECONCILIATION OF GOODWILL, NET

€ in millions	Western Europe	Greater China	TaylorMade-adidas Golf	Other	Total
January 1, 2016	**632**	**226**	**292**	**240**	**1,392**
Currency translation differences	11	5	1	5	20
Increase in companies consolidated	–	–	–	–	–
Impairment losses	–	–	–	–	–
December 31, 2016	**643**	**231**	**293**	**245**	**1,412**

14 — TRADEMARKS AND OTHER INTANGIBLE ASSETS

Trademarks and other intangible assets consist of the following:

TRADEMARKS AND OTHER INTANGIBLE ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Reebok	1,470	1,423
CCM Hockey	122	118
Runtastic	31	31
Other	57	55
Trademarks	**1,680**	**1,628**
Software, patents and licences	925	885
Less: accumulated amortisation and impairment losses	(758)	(697)
Other intangible assets	**167**	**188**
Trademarks and other intangible assets	**1,847**	**1,816**

At December 31, 2016, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 (trademarks Reebok and CCM Hockey) and runtastic GmbH in 2015, have indefinite useful lives. This is due to the expectation of permanent use of the acquired brand names.

adidas tests at least on an annual basis whether trademarks with indefinite useful lives are impaired. This requires an estimation of the fair value less costs to sell of the trademarks. As part of this estimation, adidas is required to make an estimate of the expected future trademark-specific sales and appropriate arm's length notional royalty rates and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

During the impairment test for trademarks, the recoverable amount is determined on the basis of fair value less costs to sell (costs to sell are calculated with 1% of the fair value). The fair value is determined by discounting notional royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset ('relief-from-royalty method'). These calculations use projections of net sales related royalty savings, based on financial planning which covers a period of four years in total. The level of the applied royalty rate for the determination of the royalty savings is based on contractual agreements between adidas and external licensees as well as publicly available royalty rate agreements for similar assets. The royalty rates applied are in a range between 3% and 5% of the respective trademark-specific sales. Notional royalty savings beyond this period are extrapolated using steady growth rates of 1.7% (2015: 1.7%). The growth rates do not exceed the long-term average growth rate of the business to which the trademarks are allocated.

The discount rate is based on a weighted average cost of capital calculation derived using a five-year average market-weighted debt/equity structure and financing costs referencing the company's major competitors. The discount rate used is an after-tax rate and reflects the specific equity and country risk. The applied discount rate depends on the respective intangible asset being valued and ranges between 6.5% and 9.0% (2015: between 6.8% and 8.4%).

adidas determined that there was no impairment necessary for any of its trademarks with indefinite useful lives in the years ending December 31, 2016 and 2015. In addition, an increase in the discount rate of up to approximately 1.7 percentage points or a reduction of cash inflows of up to approximately 27% would not result in any impairment requirement. However, future changes in expected cash flows and discount rates may lead to impairments of the accounted trademarks in the future. All other trademarks are part of the respective groups of cash-generating units.

As part of the goodwill impairment test, the Reebok and the Five Ten trademarks are allocated on a pro rata basis to the groups of cash-generating units. Thereof, the major shares relate to Western Europe (€ 364 million), North America (€ 344 million), Russia/CIS (€ 205 million) and Latin America (€ 171 million).

Amortisation expenses for intangible assets with definite useful lives were € 70 million and € 60 million for the years ending December 31, 2016 and 2015, respectively. In 2016, impairment losses on other intangible assets amounted to € 10 million. see Note 32

For details see Attachment I to the consolidated financial statements. see Statement of Movements of Intangible and Tangible Assets, p. 202

15 — LONG-TERM FINANCIAL ASSETS

Long-term financial assets primarily include an 8.33% investment in FC Bayern München AG (2015: 8.33%) of € 81 million (2015: € 81 million). This investment is classified as 'fair value through profit or loss' and recorded at fair value. This equity security does not have a quoted market price in an active market. Therefore, existing contractual arrangements were used in order to calculate the fair value as at December 31, 2016.

The line item 'Investments and loans' comprises investments which are mainly invested in insurance products and are measured at fair value as well as other loans. The line item 'Other financial assets' includes the shares in Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG as well as other minority shareholdings amounting to € 50 million (2015: € 22 million) which are classified as 'available-for-sale' and measured at amortised cost as a reliable determination of the fair value is impossible without having concrete negotiations regarding a sale. These shares are unlisted and do not have an active market. There is no intention to sell these shares.

LONG-TERM FINANCIAL ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Investment in FC Bayern München AG	81	81
Investments and loans	49	38
Other financial assets	64	22
Long-term financial assets	**194**	**140**

Other financial assets mainly include unquoted equity instruments.

16 — OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets consist of the following:

OTHER NON-CURRENT FINANCIAL ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Currency options	18	20
Forward exchange contracts	13	2
Security deposits	34	26
Promissory notes	30	42
Sundry	0	10
Other non-current financial assets	**96**	**99**

For further information about currency options and forward exchange contracts see Note 30 For information about promissory notes see Note 03

17 — OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

OTHER NON-CURRENT ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Prepaid expenses	94	122
Sundry	0	2
Other non-current assets	**94**	**124**

Prepaid expenses mainly include prepayments for long-term promotion contracts and rents. see Notes 39 and 29

18 — BORROWINGS AND CREDIT LINES

Borrowings are denominated in a variety of currencies in which adidas conducts its business. The largest portions of effective gross borrowings (before liquidity swaps for cash management purposes) as at December 31, 2016 are denominated in euros (2016: 77%; 2015: 80%) and US dollars (2016: 10%; 2015: 15%).

The weighted average interest rate on the Group's gross borrowings decreased to 2.3% in 2016 (2015: 2.4%).

As at December 31, 2016, adidas had cash credit lines and other long-term financing arrangements totalling € 3.6 billion (2015: € 3.7 billion); thereof unused credit lines accounted for € 2.0 billion (2015: € 1.9 billion). In addition, as at December 31, 2016, adidas had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.2 billion (2015: € 0.2 billion).

The Group's outstanding financings are unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. These legal covenants may include limits on the disposal of fixed assets, the maximum amount of debt secured by liens, cross default provisions and change of control.

As at December 31, 2016, and December 31, 2015, shareholders' equity and the equity ratio were well above the agreed minimum values. Likewise, the relevant amount of net income clearly exceeded net loss covenants.

The amounts disclosed as gross borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

GROSS BORROWINGS AS AT DECEMBER 31, 2016

€ 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	379	–	–	–	379
Eurobond	–	–	595	387	982
Convertible bond	257	–	–	–	257
Total	**636**	**–**	**595**	**387**	**1,618**

The above table includes two Eurobonds amounting to € 1 billion in total issued on October 1, 2014. The seven-year Eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year Eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. The Eurobonds have denominations of € 1,000 each and were priced with a spread of 68 basis points and 100 basis points, respectively, above the corresponding euro mid-swap rate. The issue price was fixed at 99.145% and 99.357%, respectively.

In addition, gross borrowings include the outstanding portion of the convertible bond for an aggregate nominal amount of € 260 million (2015: € 500 million) divided into denominations of € 200,000 which was issued on March 21, 2012. The bond has a maximum maturity (including prolongation options) until June 14, 2019. The coupon of the bond amounts to 0.25% and is payable annually, commencing on June 14, 2013. The bond is, at the option of the respective holder, convertible at any time from and including May 21, 2012, up to and including June 5, 2019, into up to 3.2 million new or existing adidas AG shares. In 2016, the bondholders converted an aggregate nominal amount of € 240 million of the convertible bond into 2,947,127 adidas AG shares. see Note 26

The convertible bond initially had a conversion premium of 40% above the reference price of € 59.61, which resulted in an initial conversion price of € 83.46 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 82.00 to € 81.57 (2015: € 82.56 to € 82.00) per share. This adjustment became effective on May 13, 2016. On June 14, 2017, the bondholders have the right to call the bond from adidas AG at nominal value plus interest accrued on the nominal amount. adidas AG is entitled to redeem the remaining bonds in whole if, at any time, the aggregate principal amount of bonds outstanding falls below 15% of the aggregate principal amount of the bonds that were initially issued. Furthermore, as of July 14, 2017, adidas AG is entitled to redeem the bonds in whole if on 20 of 30 consecutive trading days, the share price of adidas AG exceeds the current conversion price of € 81.57 by at least 30%.

According to IAS 32 'Financial Instruments: Presentation', the conversion right represented in the convertible bond constitutes a financial instrument which is covered in the capital reserve in an amount of € 55 million after deduction of the issuance cost. The initial liability component amounted to € 441 million after deduction of the issuance cost and is shown within short-term borrowings. The initial difference of € 59 million compared to the nominal amount of € 500 million is accrued as interest expense of the financial liability over the expected maturity of the convertible bond using the 'effective interest method'. As at December 31, 2016, the financial liability amounted to € 257 million (2015: € 483 million).

GROSS BORROWINGS AS AT DECEMBER 31, 2015

€ 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	229	–	–	–	229
Private placements	138	–	–	–	138
Eurobond	–	–	–	981	981
Convertible bond	–	483	–	–	483
Total	**366**	**483**	**–**	**981**	**1,830**

For further details on future cash outflows see Risk and Opportunity Report, p. 118

19 — OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities consist of the following:

OTHER CURRENT FINANCIAL LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Currency options	1	2
Forward exchange contracts	109	59
Finance lease obligations	3	3
Sundry	88	79
Other current financial liabilities	**201**	**143**

The line item 'Sundry' mainly relates to payables due to customs duties. In 2015, it also includes purchase price obligations for non-controlling interests. For further information about currency options, forward exchange contracts and commodity futures see Note 30 For further information about finance lease obligations see Note 29

20 — OTHER PROVISIONS

Other provisions consist of the following:

OTHER PROVISIONS

€ in millions	Jan. 1, 2016	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2016	Thereof non-current
Marketing	21	0	(19)	(2)	26	–	28	–
Personnel	59	1	(39)	(4)	81	1	99	3
Returns, allowances and warranty	189	1	(158)	(3)	201	–	230	–
Taxes, other than income taxes	29	(1)	(7)	(1)	15	1	36	0
Sundry	207	1	(118)	(18)	162	(11)	224	41
Other provisions	**506**	**2**	**(340)**	**(28)**	**485**	**(8)**	**617**	**44**

Marketing provisions mainly consist of provisions for promotion contracts.

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, allowances and warranty primarily arise due to bonus agreements with customers and 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, allowances 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 customs risks as well as for dismantling costs.

The reversal of sundry provisions in 2016 is mainly related to the completion of customs audits.

Management follows past experience from similar transactions when assessing the recognition and the measurement of other provisions; in particular external legal opinions are considered for provisions for customs risks and for litigation and other legal risks. All evidence from events until the preparation of the consolidated financial statements is taken into account.

21 — ACCRUED LIABILITIES

Accrued liabilities consist of the following:

ACCRUED LIABILITIES

€ in millions	Jan. 1, 2016	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2016	Thereof non-current
Goods and services not yet invoiced	604	1	(492)	(15)	610	–	708	9
Marketing and sales	688	(11)	(429)	(25)	523	–	748	2
Personnel	470	7	(369)	(12)	538	(1)	633	102
Sundry	42	0	(25)	(0)	37	–	54	7
Accrued liabilities	**1,805**	**(3)**	**(1,314)**	**(52)**	**1,708**	**(1)**	**2,143**	**120**

Marketing accrued liabilities mainly consist of accruals for distribution, such as discounts, rebates and sales commissions.

Accrued liabilities for personnel mainly consist of accruals for outstanding salary payments, such as bonuses and overtime, as well as outstanding vacation.

Sundry accrued liabilities mainly include accruals for promotion contracts as well as accruals for interest.

22 — OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

OTHER CURRENT LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Tax liabilities other than income taxes	131	111
Liabilities due to personnel	65	57
Liabilities due to social security	24	21
Deferred income	43	33
Customers with credit balances	85	54
Sundry	86	55
Other current liabilities	**434**	**331**

The line item ‘Sundry’ mainly consists of liabilities relating to franchise store openings and advance payments from customers.

23 — OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities consist of the following:

OTHER NON-CURRENT FINANCIAL LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Currency options	1	0
Forward exchange contracts	2	0
Finance lease obligations	4	6
Sundry	16	12
Other non-current financial liabilities	**22**	**18**

For further information about currency options and forward exchange contracts see Note 30 For information about finance lease obligations see Note 29 For further further information about earn-out components see Note 04

24 — PENSIONS AND SIMILAR OBLIGATIONS

adidas has recognised 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, 2016	Dec. 31, 2015
Liability arising from defined benefit pension plans	338	246
Similar obligations	17	26
Pensions and similar obligations	**355**	**273**

Defined contribution pension plans

The total expense for defined contribution plans amounted to € 66 million in 2016 (2015: € 59 million).

Defined benefit pension plans

Given the diverse Group structure, different defined benefit pension plans exist, comprising a variety of post-employment benefit arrangements. The Group'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. In general, German pension plans operate under the legal framework of the German Company Pensions Act ('Betriebsrentengesetz') and under the German Labour Act. A large proportion of the pension plans are closed to new entrants. New employees are entitled to benefits in accordance with the adidas Pension Plan or the adidas Management Pension Plan. The adidas Pension Plan is a matching contribution plan; the contributions to this pension plan are partly paid by the employee and partly paid by the employer. The contributions are transferred into benefit building blocks. The benefits are paid out in the form of a pension, a lump sum or instalments. The pension plans in Germany are financed using book reserves, a contractual trust arrangement (CTA) and a pension fund ('Pensionsfonds') in combination with a reinsured provident fund ('Unterstützungskasse') for certain current and former members of the Executive Board of adidas AG. Further details about the pension entitlements of members of the Executive Board of adidas AG are contained in the Compensation Report. see Compensation Report, p. 32

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.

The subsidiaries in South Korea grant a final pay pension plan to certain employees. This plan is closed to new entrants. The benefits are paid out in the form of a lump sum. The pension plan operates under the Employee Retirement Benefit Security Act (ERSA). This regulation requires a minimum funding amounting to 80% of the present value of the vested benefit obligation. Both subsidiaries annually contribute 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, 2016			Dec. 31, 2015
	Germany	UK	South Korea	Germany	UK	South Korea
Active members	211	–	17	177	–	14
Former employees with vested rights	76	69	–	52	52	–
Pensioners	86	4	–	73	4	–
Total	**375**	**73**	**17**	**302**	**56**	**14**

The Group's pension plans are subject to risks from changes in actuarial assumptions, such as the discount rate, salary and pension increase rates, and risks from changes in longevity. A lower discount rate results in a higher defined benefit obligation and/or in higher contributions to the pension funds. Lower than expected performance of the plan assets could lead to an increase in required contributions or to a decline of the funded status.

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

AMOUNTS FOR DEFINED BENEFIT PENSION PLANS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Present value of funded obligation from defined benefit pension plans	485	394
Fair value of plan assets	(178)	(173)
Funded status	**307**	**221**
Present value of unfunded obligation from defined benefit pension plans	31	25
Asset ceiling effect	0	0
Net defined benefit liability	**338**	**246**
Thereof: liability	338	247
Thereof: adidas AG	275	206
Thereof: asset	(0)	(0)
Thereof: adidas AG	–	–

The determination of assets and liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as the discount rates or future increases in salaries) and demographic variables (such as mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows.

WEIGHTED AVERAGE ACTUARIAL ASSUMPTIONS

in %	Dec. 31, 2016	Dec. 31, 2015
Discount rate	2.1	2.8
Expected rate of salary increases	3.1	3.1
Expected pension increases	1.7	1.7

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

The actuarial assumptions for withdrawal and mortality rates are based on statistical information available in the various countries. In Germany, the Heubeck 2005 G mortality tables are used. In the UK, assumptions are based on the S1NA base table with modified improvement of the life expectancy mortality tables. In South Korea, the KIDI 2015 tables from the Korean Insurance Development Institute are used.

As in the previous year, the calculation of the pension liabilities in Germany is based on a discount rate determined using the 'Mercer Yield Curve (MYC)' approach.

Remeasurements, such as gains or losses arising from changes in the actuarial assumptions for defined benefit pension plans during the financial year or a return on the plan assets exceeding the interest income, are immediately recognised 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, 2016	Year ending Dec. 31, 2015
Current service cost	17	15
Net interest expense	6	6
Thereof: interest cost	11	10
Thereof: interest income	(5)	(4)
Past service (credit)/cost	(0)	0
Gain on plan settlements	(1)	(4)
Expenses for defined benefit pension plans (recognised in the consolidated income statement)	**23**	**17**
Actuarial losses/(gains)	89	(12)
Thereof: due to changes in financial assumptions	70	(23)
Thereof: due to changes in demographic assumptions	(1)	(1)
Thereof: due to experience adjustments	21	12
Return on plan assets (not included in net interest income)	(6)	(1)
Asset ceiling effect	(0)	(0)
Remeasurements for defined benefit pension plans (recognised as decrease/(increase) in other reserves in the consolidated statement of comprehensive income)	**84**	**(13)**
Total	**106**	**4**

Of the total pension expenses recorded in the consolidated income statement, an amount of € 16 million (2015: € 14 million) relates to employees of adidas AG, € 0.2 million (2015: € 0.5 million) relates to employees in the UK and € 3 million (2015: € 3 million) relates to employees in South Korea. The gain on plan settlements in 2015 in an amount of € 4 million derives from the closure of the defined benefit plan in Japan effective as of March 31, 2015 and the relating introduction of a new defined contribution plan. The pension expense is mainly recorded within other operating expenses. The production-related part of the pension expenses is recognised within cost of sales.

PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

€ in millions	2016	2015
Present value of the obligation from defined benefit pension plans as at January 1	**419**	**427**
Currency translation differences	(8)	8
Current service cost	17	15
Interest cost	11	10
Contribution by plan participants	0	0
Pensions paid	(11)	(14)
Payments for plan settlements	(2)	(12)
Actuarial losses/(gains)	89	(12)
Thereof: due to changes in financial assumptions	70	(23)
Thereof: due to changes in demographic assumptions	(1)	(1)
Thereof: due to experience adjustments	21	12
Past service (credit)/cost	(0)	0
Gain on plan settlements	(1)	(4)
Business combinations/transfers/divestitures	1	0
Present value of the obligation from defined benefit pension plans as at December 31	**516**	**419**

The payments for plan settlements in 2015 in an amount of € 12 million result from the changes in the pension plans in Japan as described above.

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 analysed. In addition, for Germany, the UK and South Korea the average duration of the obligation is shown.

SENSITIVITY ANALYSIS OF THE OBLIGATION FROM DEFINED BENEFIT PENSION PLANS

€ in millions			Dec. 31, 2016			Dec. 31, 2015
	Germany	UK	South Korea	Germany	UK	South Korea
Present value of the obligation from defined benefit pension plans	375	73	17	302	56	14
Increase in the discount rate by 0.5%	344	63	16	277	49	14
Reduction in the discount rate by 0.5%	412	85	18	330	65	15
Average duration of the obligations (in years)	18	30	8	18	28	8

Since many pension plans are closed to future accrual or are not dependent on the salary, the salary trend plays a minor role in determining pension obligations. Due to the fact that about half of the benefits of the German pension plans are paid as lump sums or instalment payments, the pension increase rate and the mortality assumption have significantly less impact than the discount rate when calculating the pension obligations.

FAIR VALUE OF PLAN ASSETS

€ in millions	2016	2015
Fair value of plan assets at January 1	**173**	**157**
Currency translation differences	(7)	4
Pensions paid	(3)	(4)
Contributions by the employer	6	11
Contributions paid by plan participants	0	0
Interest income from plan assets	5	4
Return on plan assets (not included in net interest income)	6	1
Settlement payments	(1)	–
Fair value of plan assets at December 31	**178**	**173**

Approximately 92% (2015: 92%) of the total plan assets are allocated to plan assets in the UK (2016: 28%, 2015: 30%), Germany (2016: 57%, 2015: 56%) and South Korea (2016: 8%, 2015: 6%).

Part of the plan assets in Germany is held by a trustee under a Contractual Trust Arrangement (CTA) for the purpose of funding the pension obligations of adidas AG and insolvency insurance with regard to part of the pension obligations of adidas AG. The trustee is the registered association adidas Pension Trust e.V. The investment committee of the adidas Pension Trust determines the investment strategy with the goal to match the pension liabilities as far as possible and to generate a sustainable return. In August 2014, an amount of € 65 million in cash was transferred to the trustee. The plan assets in the registered association are mainly invested in equity index funds, hybrid bonds, fixed and variable interest rate bonds and money market funds. Another part of the plan assets in Germany is invested in insurance contracts via pension funds or provident funds. For this portion, an insurance entity is responsible for the determination and the implementation of the investment strategy.

In the UK, the plan assets are held under trust within the pension fund. The investment strategy is aligned with the structure of the pension obligations in these countries. In the rest of the world, the plan assets consist predominantly of insurance contracts.

The expected payments for the 2017 financial year amount to € 48 million. Thereof, € 8 million relates to benefits directly paid to pensioners by the subsidiaries and € 39 million to employer contributions paid into the plan assets. In 2016, the actual return on plan assets was € 10 million (2015: € 5 million).

COMPOSITION OF PLAN ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	28	45
Equity instruments	59	57
Bonds	34	29
Real estate	13	0
Pension plan reinsurance	44	29
Insurance policies	0	13
Other assets	0	1
Fair value of plan assets	**178**	**173**

All equities and bonds are traded freely and have a quoted market price in an active market.

At each balance sheet date, the company analyses the over- or underfunding and, where appropriate, adjusts the composition of plan assets.

25 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

OTHER NON-CURRENT LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Liabilities due to personnel	5	6
Deferred income	41	34
Sundry	0	1
Other non-current liabilities	**46**	**40**

26 — SHAREHOLDERS' EQUITY

The nominal capital of adidas AG has remained unchanged since December 31, 2015. As at the balance sheet date, and in the period beyond, up to and including February 17, 2017, it amounted to € 209,216,186 divided into 209,216,186 registered no-par-value shares and is fully paid in.

Each share grants one vote and is entitled to dividends starting from the beginning of the year it was issued. Treasury shares held directly or indirectly are not entitled to dividend payment in accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG). As at the balance sheet date, adidas AG held 7,726,876 treasury shares, corresponding to a notional amount of € 7,726,876 in the nominal capital and consequently 3.69% of the nominal capital. As at February 17, 2017, adidas AG holds 8,072,349 treasury shares, corresponding to a notional amount of € 8,072,349 in the nominal capital and consequently 3.86% of the nominal capital.

Authorised Capital

The Executive Board of adidas AG did not utilise the existing amount of authorised capital of up to € 99 million in the 2016 financial year or in the period beyond the balance sheet date up to and including February 17, 2017.

The authorised capital of adidas AG, which is set out in § 4 sections 2, 3, 4 and 5 of the Articles of Association as at the balance sheet date, entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital

until June 30, 2018

— 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 (Authorised Capital 2013/I);

until June 2, 2018

— by issuing new shares against contributions in kind once or several times by no more than € 25 million and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorised Capital 2015);

until June 30, 2018

— by issuing new shares against contributions in cash once or several times by no more than € 20 million and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to exclude shareholders' subscription rights when issuing the new shares at a value not essentially below the stock market price of shares with the same features; this exclusion of subscription rights can also be associated with the listing of the entity's shares on a foreign stock exchange (Authorised Capital 2013/III). The authorisation 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 the entity since May 8, 2013, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorised capital or following a repurchase, or for which conversion or subscription rights or conversion or subscription obligations were granted after May 8, 2013, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded in accordance with § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of the entry of this authorisation into the commercial register or – if this amount is lower – as of the respective date on which the authorisation is used;

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. Shareholders' subscription rights shall be excluded (Authorised Capital 2016). Any repurchased treasury shares of the entity which are used by the entity for employee stock purchase plans during the term of this authorisation shall be attributed to the maximum number of 4,000,000 shares. The new shares may only be issued to (current or former) employees of the entity and its affiliated companies as well as to (current and former) members of management bodies of the entity's affiliated companies.

Contingent Capital

The following description of the Contingent Capital is based on § 4 sections 6 and 7 of the Articles of Association of adidas AG as well as on the underlying resolutions of the Annual General Meeting held on May 6, 2010 and May 8, 2014. Additional contingent capital does not exist.

Contingent Capital 2010 and Convertible Bond

The nominal capital of adidas AG is conditionally increased by up to € 36 million (Contingent Capital 2010). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued up to May 5, 2015 based on the resolution of the Annual General Meeting on May 6, 2010 subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds. The new shares shall be issued at the respective option or conversion price to be established in accordance with the aforementioned authorisation resolution. The new shares shall carry dividend rights from the commencement of the financial year in which the shares are issued.

On March 14, 2012, the Executive Board, with the approval of the Supervisory Board, made partial use of the authorisation of the Annual General Meeting from May 6, 2010, and on March 21, 2012 issued a convertible bond due on June 14, 2019 (including a prolongation option) in a nominal value of € 500 million via an offer to institutional investors outside the USA excluding shareholders' subscription rights. In principle, the conversion rights are exercisable at any time between May 21, 2012 and June 5, 2019, subject to lapsed conversion rights as set out under § 6 section 3 or to the excluded periods as defined by § 6 section 4 of the bond terms and conditions, and (subject to an adjustment to the conversion rights resulting from the dilution adjustment regulations set out under § 10 or a change of control in accordance with § 13 of the bond terms and conditions) based on a conversion price of € 81.57 per share are convertible into 6,129,671 shares of adidas AG. The conversion price currently amounts to € 81.57 per share. The convertible bond bears an interest rate of 0.25% per annum. Bondholders are entitled to demand early redemption of the bonds as of June 14, 2017. As of July 14, 2017, adidas AG may conduct an early redemption of the bond, if, on 20 of 30 consecutive trading days, the share price of adidas AG exceeds the current conversion price of € 81.57 by at least 30%. The bonds are listed on the Open Market segment of the Frankfurt Stock Exchange. For details regarding the servicing of the convertible bond with treasury shares see Repurchase and use of treasury shares, p. 175

Moreover, the authorisation to issue bonds with warrants and/or convertible bonds granted on May 6, 2010 was cancelled by resolution of the Annual General Meeting on May 8, 2014.

The Executive Board of adidas AG did not issue shares from the Contingent Capital 2010 in the period up to the balance sheet date and in the period beyond the balance sheet date up to and including February 17, 2017.

Contingent Capital 2014

At the balance sheet date, the nominal capital is conditionally increased by up to € 12.5 million divided into not more than 12,500,000 shares (Contingent Capital 2014). 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 option or conversion duties based on bonds issued by the entity or a subordinated Group company, pursuant to the authorisation of the Executive Board granted by the resolution adopted by the Annual General Meeting on May 8, 2014 (Agenda Item 7), up to May 7, 2019 and guaranteed by the entity, exercise their option or conversion rights or, if they are obliged to exercise the option or conversion duties, meet their obligations to exercise the warrant or convert the bond, or to the extent that the entity exercises its rights to choose to deliver shares in the entity 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 publicly listed company are used to serve these rights. The new shares will be issued at the respective option or conversion price to be established in accordance with the aforementioned authorisation resolution. The new shares will carry dividend rights from the commencement of the financial year in which the shares are issued. The Executive Board is authorised, subject to Supervisory Board approval, to stipulate any additional details concerning the implementation of the contingent capital increase.

The Executive Board of adidas AG did not issue shares from the Contingent Capital 2014 in the 2016 financial year or in the period beyond the balance sheet date up to and including February 17, 2017.

Repurchase and use of treasury shares

Against the background of the introduction of an employee stock purchase plan, the Annual General Meeting of May 12, 2016 cancelled the authorisation of the Executive Board to repurchase treasury shares granted on May 8, 2014, which was used in 2014 and 2015. At the same time, the Annual General Meeting granted the Executive Board a new authorisation to repurchase treasury shares up to an amount totalling 10% of the nominal capital until May 11, 2021. The authorisation may be used by adidas AG but also by its subordinated Group companies or by third parties on account of adidas AG or its subordinated Group companies or third parties assigned by adidas AG or one of its subordinated Group companies.

Based on the authorisation to repurchase treasury shares granted by the Annual General Meeting on May 8, 2014, the adidas AG Executive Board commenced a share buyback programme on November 7, 2014.

Under the granted authorisation, adidas AG repurchased a total of 4,889,142 shares for a total price of € 299,999,987 (excluding incidental purchasing costs), i.e. for an average price of € 61.36 per share, in a first tranche between November 7, 2014 and December 12, 2014 inclusive. This corresponded to a notional amount of € 4,889,142 in the nominal capital and consequently to 2.34% of the nominal capital. The shares were repurchased for cancellation (capital reduction) or otherwise used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond.

Under the granted authorisation, adidas AG repurchased a total of 4,129,627 shares for a total price of € 299,999,992 (excluding incidental purchasing costs), i.e. for an average price of € 72.65 per share, in a second tranche between March 6, 2015 and June 15, 2015 inclusive. This corresponded to a notional amount of € 4,129,627 in the nominal capital and consequently to 1.97% of the nominal capital. The shares were repurchased for cancellation (capital reduction) or otherwise used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond.

Based on the authorisation granted by the Annual General Meeting on May 12, 2016, the share buyback programme was continued in a third tranche between November 8, 2016 and January 31, 2017 inclusive. The repurchased shares may either be cancelled, thus reducing the nominal capital, or may be used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond and other admissible purposes under the authorisation granted by the Annual General Meeting on May 12, 2016.

In November 2016, 1,143,103 shares were repurchased for an average price of € 136.47, corresponding to a notional amount of € 1,143,103 in the nominal capital and consequently to 0.55% of the nominal capital. In December 2016, 512,131 shares were repurchased for an average price of € 143.31, corresponding to a notional amount of € 512,131 in the nominal capital and consequently to 0.24% of the nominal capital. In January 2017, 472,966 shares were repurchased for an average price of € 149.29, corresponding to a notional amount of € 472,966 in the nominal capital and consequently to 0.23% of the nominal capital. On January 31, 2017, the third tranche of the share buyback programme was concluded. Under the granted authorisation, adidas AG repurchased a total of 2,128,200 shares for a total price of € 299,999,851 (excluding incidental purchasing costs), i.e. for an average price of € 140.96 per share, in a third tranche between November 8, 2016 and January 31, 2017 inclusive. This corresponded to a notional amount of € 2,128,200 in the nominal capital and consequently to 1.02% of the nominal capital. adidas AG reserves the right to continue with or to resume the share buyback programme in the future in alignment with the published parameters. For details see Disclosures Pursuant to § 315 Section 4 and § 289 Section 4 HGB, p. 107

In the 2016 financial year, a total of 2,947,127 treasury shares were used to meet obligations arising from the conversion of adidas AG's convertible bond. In the 2017 financial year up to and including February 17, 2017, a total of 127,493 treasury shares were used to meet obligations arising from the conversion of adidas AG's convertible bond. Up to the balance sheet date and in the period beyond the balance sheet date up to and including February 17, 2017, adidas AG used a total of 3,074,620 treasury shares.

Employee stock purchase plan

In the 2016 financial year, adidas introduced an employee stock purchase plan in favour of employees. For details on the employee stock purchase plan see Disclosures Pursuant to § 315 Section 4 and § 289 Section 4 HGB, p. 107 and see Notes 02 and 27

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 § 21 section 1 or section 1a German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The following table reflects reportable shareholdings in adidas AG, Herzogenaurach, as at the balance sheet date and up to and including February 17, 2017 which have each been notified to adidas AG in written form. The respective details are taken from the most recent voting rights notification received by adidas AG. All voting rights notifications disclosed by adidas AG in the year under review and up to and including February 17, 2017 are available on the adidas website. www.adidas-group.com/s/voting-rights-notifications The details on the percentage of shareholdings and voting rights may no longer be up to date.

NOTIFIED REPORTABLE SHAREHOLDINGS AS AT FEBRUARY 17, 2017

Notifying party	Date of reaching, exceeding or falling below	Reporting threshold	Attributions in accordance with WpHG	Shareholdings in %	Number of voting rights
Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands [1]	December 16, 2016	Exceeding 5%	§§ 22, 25 sec. 1 no. 2	5.71	11,950,482
BlackRock, Inc., Wilmington, DE, USA [2]	November 25, 2016	Exceeding 5%	§§ 22, 25 sec. 1 no. 1 and § 25 sec.1 no. 2	5.29	11,069,462
Fidelity Mt. Vernon Street Trust, Boston, MA, USA [3]	October 31, 2016	Exceeding 3%	§ 21	3.01	6,291,822
FMR LLC, Wilmington, DE, USA [4]	May 12, 2016	Exceeding 5%	§ 22	5.31	11,117,704
O. Mason Hawkins, USA [5]	April 27, 2016	Falling below 3%	§ 22	2.94	6,160,627
Albert Frère / Desmarais Family Trust, Montréal, Canada [6]	January 14, 2016	Exceeding 5%	§ 22	5.0001	10,461,000
Capital Research and Management Company, Los Angeles, CA, USA [7]	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 [8]	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
adidas AG, Herzogenaurach, Germany [9]	April 9, 2015	Exceeding 3%		3.002	6,281,429

1 See adidas AG's disclosure dated December 22, 2016.
2 See adidas AG's disclosure dated December 2, 2016.
3 See adidas AG's disclosure dated November 4, 2016.
4 See adidas AG's disclosure dated May 19, 2016.
5 See adidas AG's disclosure dated May 2, 2016.
6 See adidas AG's disclosure dated January 22, 2016.
7 See adidas AG's disclosure dated July 29, 2015.
8 See adidas AG's disclosure dated July 28, 2015.
9 See adidas AG's disclosure dated April 10, 2015.

Capital management

The company's policy is to maintain a strong capital base so as to uphold investor, creditor and market confidence and to sustain future development of the business.

adidas seeks to maintain a balance between a higher return on equity that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The company further aims to maintain net debt below two times EBITDA over the long term.

Financial leverage amounts to 1.6% (2015: 8.1%) and is defined as the ratio between net borrowings (short- and long-term borrowings less cash and cash equivalents as well as short-term financial assets) in an amount of € 103 million (2015: € 460 million) and shareholders' equity in an amount of € 6.472 billion (2015: € 5.666 billion). EBITDA (continuing operations) amounted to € 1.883 billion for the financial year ending December 31, 2016 (2015: € 1.475 billion). The ratio between net borrowings and EBITDA (continuing operations) amounted to 0.1 for the financial year ending December 31, 2016 (2015: 0.3).

Reserves

Reserves within shareholders' equity are as follows:

- **Capital reserve:** primarily comprises the paid premium for the issuance of share capital as well as the equity component of the issued convertible bond.
- **Cumulative currency translation differences:** comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
- **Hedging reserve:** comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred as well as of hedges of net investments in foreign subsidiaries.
- **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 as well as expenses recognised for share option plans and effects from the acquisition of non-controlling interests.
- **Retained earnings:** comprises both amounts which are required by the Articles of Association and voluntary amounts that have been set aside by adidas. The reserve includes the unappropriated accumulated profits less dividends paid and consideration paid for the repurchase of treasury shares exceeding the nominal value. In addition, the item includes the effects of the employee stock purchase plan.

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 2016 Annual General Meeting, the dividend for 2015 was € 1.60 per share (total amount: € 320 million). The Executive Board of adidas AG will propose to use retained earnings of adidas AG in an amount of € 629 million as reported in the 2016 financial statements of adidas AG for a dividend payment of € 2.00 per dividend-entitled share and to allocate € 200 million to other revenue reserves. The subsequent remaining amount will be carried forward.

As at December 31, 2016, 201,489,310 dividend-entitled shares exist, resulting in a dividend payment of € 403 million.

27 — SHARE-BASED PAYMENT

In 2016, adidas announced the introduction of an open-ended employee stock purchase plan (the 'plan'). The plan will be operated on a quarterly basis, with each calendar quarter referred to as an 'investment quarter'. The first investment quarter went from October 1 to December 31, 2016. 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 ten other subsidiaries can participate in the plan. Up to two weeks before the start of an investment quarter each eligible employee can enrol for the plan. The company accepts enrolment requests on the first day of the relevant investment quarter. This is the grant date for the investment and matching shares. The fair value at the vesting date is equivalent to the fair value of the granted equity instruments at this date. The employees invest an amount up to 10% of their gross base salary per quarter in the plan. A few days after the end of the investment quarter the shares are purchased on the market at fair market value and transferred to the employees. Thereby the amount invested during the quarter plus the step-up from adidas is used. These shares can be sold at any time by the employee. If the shares are held for a period of one year after the last day of an investment quarter, employees will receive one-time free matching shares (one matching share for every six adidas AG shares acquired). This plan currently constitutes an equity-settled share-based payment for both elements. For the specific period of service of the matching shares an appropriate discount is taken into account.The effects for 2016 are presented in the following table:

STOCK PURCHASE PLAN

	Dec. 31, 2016
Grant date	October 1, 2016
Share price at grant date (in €)	157.40
Share price as at December 31, 2016 (in €)	150.15
Number of granted investment shares based on the share price as at December 31, 2016	24,665
Outstanding granted matching shares based on the share price as at December 31, 2016	4,110
Expenses recognised relating to investment shares (€ in millions)	0.6
Expenses recognised relating to vesting of matching shares (€ in millions)	0.1
Average remaining vesting period in months as at December 31	12

As at December 31, 2016, a total amount of € 3 million was invested by the participants in the stock purchase plan and has been included in 'Other current financial liabilities'. see Note 19

28 — NON-CONTROLLING INTERESTS

This line item within equity comprises the non-controlling interests in several subsidiaries which are not directly or indirectly attributable to adidas AG.

Non-controlling interests are assigned to two and six subsidiaries as at December 31, 2016 and 2015, respectively. see Attachment II to the Consolidated Financial Statements (see Shareholdings of adidas AG, Herzogenaurach, p. 204) These subsidiaries were partly acquired in connection with the acquisition of Reebok and partly through purchases or foundations in the last years.

With respect to the consolidated financial statements of adidas AG, on a single basis, no subsidiary has a material non-controlling interest.

As at December 31, 2015, signed purchase agreements which became effective as of January 2016 existed for the non-controlling interests of Life Sport Ltd. and adidas Levant Limited. adidas acquired 34% of Life Sport Ltd. and 45% of adidas Levant Limited. In accordance with the requirements of IAS 32, financial liabilities were recognised in the amount of the purchase prices. The difference between the purchase prices and the non-controlling interests was directly recognised in shareholders' equity as at December 31, 2015. The purchase price was actually paid in 2016 and as a result included in the consolidated statement of cash flows.

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

SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

Legal entity name	Principle place of business	Ownership interests held by non-controlling interests (in %)	
		Dec. 31, 2016	Dec. 31, 2015
adidas Levant Limited	Lebanon	0%	45%
adidas Levant Limited – Jordan	Jordan	0%	45%
Life Sport Ltd.	Israel	15%	49%
Reebok India Company	India	6.85%	6.85%

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

FINANCIAL INFORMATION ON SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

€ in millions	Non-controlling interests	
	Dec. 31, 2016	Dec. 31, 2015
Net sales (third parties)	168	173
Net income	**15**	**10**
Net income/(loss) attributable to non-controlling interests	**2**	**6**
Other comprehensive income	(1)	(20)
Total comprehensive income	**15**	**(10)**
Total comprehensive income attributable to non-controlling interests	**2**	**5**
Current assets	85	98
Non-current assets	16	17
Current liabilities	(55)	(76)
Non-current liabilities	(1)	(1)
Net assets	**44**	**38**
Net assets attributable to non-controlling interests	**(17)**	**(8)**
Reclassification of non-controlling interests in accordance with IAS 32	**–**	**(10)**
Net assets attributable to non-controlling interests according to the consolidated statement of financial position	**(17)**	**(18)**
Net cash generated from/(used in) operating activities	18	7
Net cash used in investing activities	(8)	(4)
Net cash generated from financing activities	0	1
Net increase of cash and cash equivalents	**10**	**4**
Dividends paid to non-controlling interests during the year [1]	2	6

1 Included in net cash generated from financing activities.

29 — LEASING AND SERVICE ARRANGEMENTS

Operating leases

adidas leases primarily retail stores as well as offices, warehouses and equipment. The contracts regarding these leases with expiration dates of between 1 and 21 years partly include renewal options and escalation clauses. Rent expenses (continuing operations), which partly depend on net sales, amounted to € 729 million and € 680 million for the years ending December 31, 2016 and 2015, respectively.

Future minimum lease payments for minimum lease durations on a nominal basis are as follows:

MINIMUM LEASE PAYMENTS FOR OPERATING LEASES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Within 1 year	688	516
Between 1 and 5 years	1,289	1,143
After 5 years	523	540
Total	**2,501**	**2,199**

Finance leases

adidas also leases various premises for administration and warehousing which are classified as finance leases.

The net carrying amount of these assets of € 6 million and € 8 million was included in property, plant and equipment as at December 31, 2016 and 2015, respectively. For the year ending December 31, 2016, interest expenses (continuing operations) were € 0 million (2015: € 0 million) and depreciation expenses (continuing operations) were € 4 million (2015: € 4 million).

Minimum lease payments for finance leases in 2016 include land leases with a remaining lease term of 96 years. The minimum lease payments under these contracts amount to € 12 million. The estimated amount representing interest is € 10 million and the present value amounts to € 2 million.

The net present values and the minimum lease payments under these contracts over their remaining terms up to 2019 and the land leases with a remaining lease term of 96 years are as follows:

MINIMUM LEASE PAYMENTS FOR FINANCE LEASES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Lease payments falling due:		
Within 1 year	3	3
Between 1 and 5 years	1	3
After 5 years	12	12
Total minimum lease payments	**16**	**18**
Less: estimated amount representing interest	(10)	(9)
Present value of minimum lease payments	**6**	**9**
Thereof falling due:		
Within 1 year	3	3
Between 1 and 5 years	1	3
After 5 years	2	3

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, 2016	Dec. 31, 2015
Within 1 year	134	97
Between 1 and 5 years	233	253
After 5 years	0	0
Total	**366**	**349**

30 — FINANCIAL INSTRUMENTS

Additional disclosures on financial instruments

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2016, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions	Category according to IAS 39	Carrying amount Dec. 31, 2016	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2016
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,510	1,510				1,510
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,200	2,200				2,200
Other current financial assets							
Derivatives being part of a hedge	n.a.	325		325			325
Derivatives not being part of a hedge	FAHfT	44			44		44
Promissory notes	AfS	15			15		15
Other financial assets	LaR	345	345				345
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	102	64	39			102
Loans	LaR	10	10				10
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	15		15			15
Derivatives not being part of a hedge	FAHfT	17			17		17
Promissory notes	AfS	30			30		30
Other financial assets	LaR	34	34				34
Assets classified as held for sale	LaR	–	–				–
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	379	379				379
Private placements	FLAC	–	–				–
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	257	257				476
Accounts payable	FLAC	2,496	2,496				2,496
Current accrued liabilities	FLAC	704	704				704
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	87		87			87
Derivatives not being part of a hedge	FLHfT	24			24		24
Earn-out components	n.a.	7			7		7
Other financial liabilities	FLAC	81	81				81
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	982	982				1,048
Convertible bond	FLAC	–	–				–
Non-current accrued liabilities	FLAC	9	9				9
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	2		2			2
Derivatives not being part of a hedge	FLHfT	1			1		1
Earn-out components	n.a.	15			15		15
Other financial liabilities	FLAC	0	0				0
Finance lease obligations	n.a.	4				4	4
Liabilities classified as held for sale	FLAC	–	–				–
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		148					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		148					
Loans and Receivables (LaR)		2,590					
Available-for-Sale Financial Assets (AfS)		148					
Financial Liabilities Measured at Amortised Cost (FLAC)		4,909					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		24					

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2015, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions	Category according to IAS 39	Carrying amount Dec. 31, 2015	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2015
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,365	1,365				1,365
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,049	2,049				2,049
Other current financial assets							
Derivatives being part of a hedge	n.a.	179		179			179
Derivatives not being part of a hedge	FAHfT	28			28		28
Other financial assets	LaR	160	160				160
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	58	22	36			58
Loans	LaR	1	1				1
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	2		2			2
Derivatives not being part of a hedge	FAHfT	20			20		20
Promissory notes	AfS	42			42		42
Other financial assets	LaR	36	36				36
Assets classified as held for sale	LaR	0	0				0
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	229	229				229
Private placements	FLAC	138	138				138
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	–	–				–
Accounts payable	FLAC	2,024	2,024				2,024
Current accrued liabilities	FLAC	596	596				596
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	36		36			36
Derivatives not being part of a hedge	FLHfT	25			25		25
Other financial liabilities	FLAC	79	79				79
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	981	981				997
Convertible bond	FLAC	483	483				629
Non-current accrued liabilities	FLAC	14	14				14
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	–					–
Derivatives not being part of a hedge	FLHfT	0			0		0
Finance lease obligations	n.a.	6				6	6
Earn-out components	n.a.	21			21		21
thereof: other financial liabilities	n.a.	12			12		12
Liabilities classified as held for sale	FLAC	0	0				0
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		133					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		133					
Loans and Receivables (LaR)		2,246					
Available-for-Sale Financial Assets (AfS)		100					
Financial Liabilities Measured at Amortised Cost (FLAC)		4,543					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		26					

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 13 AS AT DECEMBER 31, 2016

€ in millions	Fair value Dec. 31, 2016	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	339		339	
Derivatives not being part of a hedge	62		62	
Long-term financial assets	184		39	145
Promissory notes	45			45
Financial assets	**636**		**445**	**190**
Short-term borrowings	855		855	
Derivative financial instruments				
Derivatives being part of a hedge	89		89	
Derivatives not being part of a hedge	24		24	
Long-term borrowings	1,048	1,048		
Earn-out components	22			22
Financial liabilities	**2,039**	**1,048**	**969**	**22**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 13 AS AT DECEMBER 31, 2015

€ in millions	Fair value Dec. 31, 2015	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	181		181	
Derivatives not being part of a hedge	47		47	
Long-term financial assets	139		36	102
Promissory notes	42			42
Financial assets	**414**		**269**	**145**
Short-term borrowings	366		366	
Derivative financial instruments				
Derivatives being part of a hedge	36		36	
Derivatives not being part of a hedge	26		26	
Long-term borrowings	1,626	1,626		
Earn-out components	21			21
Financial liabilities	**2,075**	**1,626**	**428**	**21**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3 IN 2016

€ in millions		Fair value Jan. 1, 2016	Additions	Disposals	Gains	Losses	Currency translation	Fair value Dec. 31, 2016
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	81	–	–	1	–	–	81
Promissory notes	On January 23, 2015, adidas signed a definitive agreement to sell the Rockport operating segment which was divested on July 31, 2015. The transaction included contingent promissory notes. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	42	–	–	2	–	1	45
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting due to one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	22	47	–	–	(5)	–	64
Earn-out components	The acquisition of Runtastic includes earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. The fair value adjustment refers to accretion and is recognised in interest result.	21	–	–	–	1	–	22

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3 IN 2015

€ in millions		Fair value Jan. 1, 2015	Additions	Disposals	Gains	Losses	Fair value Dec. 31, 2015
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	80	–	–	1	–	81
Promissory notes	On January 23, 2015, adidas signed a definitive agreement to sell the Rockport operating segment which was divested on July 31, 2015. The transaction included contingent promissory notes. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	–	42	–	–	–	42
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting due to one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	–	23	–	–	(1)	22
Earn-out components	The acquisition of Runtastic includes earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. The fair value adjustment refers to accretion and is recognised in interest result.	–	21	–	–	–	21

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 classified as 'Available-for-sale' are based on quoted market prices in an active market or are calculated as present values of expected future cash flows.

The fair values of currency options, forward exchange contracts and commodity futures are determined on the basis of market conditions at the balance sheet date. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair market value of an option is influenced not only by the remaining term of the option, but also by other determining factors such as the actual foreign exchange rate and the volatility of the underlying foreign currency base.

In accordance with IFRS 13, the following tables show the valuation methods used in measuring Level 1, Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

FINANCIAL INSTRUMENTS LEVEL 1 NOT MEASURED AT FAIR VALUE

Type	Valuation method	Significant unobservable inputs	Category
Convertible bond	The fair value is based on the market price of the convertible bond as at December 31, 2016.	Not applicable	FLAC
Eurobond	The fair value is based on the market price of the Eurobond as at December 31, 2016.	Not applicable	FLAC

FINANCIAL INSTRUMENTS LEVEL 2 MEASURED AT FAIR VALUE

Type	Valuation method	Significant unobservable inputs	Category
Short-term financial assets	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. Due to their short-term maturities, it is assumed that their respective fair value is equal to the notional amount.	Not applicable	FAHfT
Available-for-sale financial assets	The fair value is based on the market price of the assets as at December 31, 2016.	Not applicable	AfS
Forward exchange contracts	For EUR/USD, EUR/CNH, USD/CNH, EUR/GBP, GBP/USD, EUR/JPY and USD/JPY adidas applies the par method, which uses actively traded forward rates. For the other currency pairs, the zero coupon method is applied. The zero method is a model for the determination of forward rates based on deposit and swap interest rates.	Not applicable	n.a. respectively FAHfT
Currency options	adidas applies the Garman-Kohlhagen model, which is an extended version of the Black-Scholes model.	Not applicable	n.a. respectively FAHfT
Commodity futures	The fair value is determined based on commodity forward curves, discounted by deposit and swap interest rates.	Not applicable	n.a. respectively FAHfT

FINANCIAL INSTRUMENTS LEVEL 2 NOT MEASURED AT FAIR VALUE

Type	Valuation method	Significant unobservable inputs	Category
Private placements	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate.	Not applicable	FLAC

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, 2016.	See column 'Valuation method'		FAHfT
Promissory notes	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. The expected payments are determined by considering the possible scenarios of forecasted dividends, the amount to be paid under each scenario and the probability of each scenario.	Risk-adjusted discount rate	The estimated fair value would increase (decrease) if the dividends were higher (lower) or the risk-adjusted discount rate was lower (higher).	AfS
Investments in other equity instruments	These equity instruments do not have a quoted market price in an active market. Existing contractual arrangements are used in order to calculate the fair value as at December 31, 2016.	See column 'Valuation method'		AfS
Earn-out components	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate.	Risk-adjusted discount rate	The estimated fair value would increase (decrease) if EBITDA were higher (lower) or the risk-adjusted discount rate were lower (higher).	n.a.

NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Financial assets or financial liabilities at fair value through profit or loss	1	1
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	1	1
Loans and receivables	(35)	(16)
Available-for-sale financial assets	(3)	(1)
Financial liabilities measured at amortised cost	15	10

Net gains or losses on financial assets or financial liabilities held for trading 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 payments.

Net gains or losses on loans and receivables comprise mainly impairment losses and reversals.

Net gains or losses on financial liabilities measured at amortised cost include effects from early settlement and reversals of accrued liabilities.

The disclosures required by IFRS 7 'Financial Instruments: Disclosures', paragraphs 13A to 13F ('Offsetting financial assets and financial liabilities') as well as 31 to 42 ('Nature and Extent of Risks arising from Financial Instruments') can be found in Note 07 and the Group Management Report. see Risk and Opportunity Report, p. 118

Financial instruments for the hedging of foreign exchange risk

adidas uses natural hedges and arranges forward exchange contracts, currency options and currency swaps to protect against foreign exchange risk. As at December 31, 2016, adidas had outstanding currency options with premiums paid totalling an amount of € 15 million (2015: € 0 million). The effective part of the currency hedges is directly recognised in hedging reserves and as part of the acquisition costs of inventories, respectively, and posted into the income statement at the same time as the underlying secured transaction is recorded. An amount of positive € 9 million after taxes (2015: negative € 1 million) for currency options and an amount of positive € 226 million after taxes (2015: positive € 112 million) for forward exchange contracts were recorded in hedging reserves. Currency option premiums impacted net income in the amount of € 2 million in 2016 (2015: € 1 million).

The total time value of the currency options not being part of a hedge in an amount of positive € 7 million (2015: positive € 0 million) was recorded in the income statement in 2016. In 2016, due to a change in the exposure, some of the currency hedges were terminated and consequently an amount of negative € 1 million was reclassified from hedging reserves to the income statement.

In the years ending December 31, 2016 and 2015, hedging instruments related to product sourcing were bought to hedge a total net amount of US $ 6.5 billion and US $ 6.2 billion, respectively.

The notional amounts of all outstanding currency hedging instruments, which are mainly related to cash flow hedges, are summarised in the following table:

NOTIONAL AMOUNTS OF ALL OUTSTANDING CURRENCY HEDGING INSTRUMENTS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Forward exchange contracts	11,750	8,926
Currency options	459	59
Total	**12,209**	**8,985**

The comparatively high amount of forward exchange contracts is primarily due to currency swaps for liquidity management purposes and hedging transactions.

Of the total amount of outstanding hedges, the following contracts related to the US dollar (i.e. the biggest single exposure of product sourcing):

NOTIONAL AMOUNTS OF OUTSTANDING US DOLLAR HEDGING INSTRUMENTS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Forward exchange contracts	6,156	4,286
Currency options	405	0
Total	**6,561**	**4,286**

The fair value of all outstanding currency hedging instruments is as follows:

FAIR VALUES

€ in millions	Dec. 31, 2016		Dec. 31, 2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward exchange contracts	362	(112)	204	(59)
Currency options	19	(1)	0	(1)
Total	**381**	**(113)**	**204**	**(60)**

A total net fair value of positive € 240 million (2015: positive € 146 million) for forward exchange contracts related to hedging instruments falling under hedge accounting as per definition of IAS 39 'Financial Instruments: Recognition and Measurement' was recorded in the hedging reserve. The remaining net fair value of positive € 18 million (2015: negative € 2 million), mainly related to currency swaps for liquidity management purposes and to forward exchange contracts hedging intercompany dividend receivables, was recorded in the income statement. The total fair value of positive € 18 million (2015: negative € 1 million) for outstanding currency options related to cash flow hedges. This consists of a positive time value of € 9 million (2015: positive € 1 million) and of a negative time value of € 1 million (2015: negative € 0 million) and furthermore includes an intrinsic value of the options in an amount of € 10 million.

The fair value adjustments of outstanding cash flow hedges for forecasted sales are reported in the income statement when the forecasted sales transactions are recorded. The vast majority of these transactions are forecasted to occur in 2017. At the balance sheet date, inventories were adjusted without affecting the consolidated income statement by positive € 12 million (2015: positive € 26 million) which will be recognised in the consolidated income statement at the expected realisation of the hedged item in 2017.

In the hedging reserve, a negative amount of € 92 million (2015: negative € 56 million) is included for hedging the currency risk of net investments in foreign entities, mainly for the subsidiaries LLC "adidas, Ltd." and adidas Sports (China) Co. Ltd. This reserve will remain until the investment in the foreign entity has been sold. As at December 31, 2016, no ineffective part of the hedges was recorded in the income statement.

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.

In 2016, the fair values of the most material currency pairs (EUR/USD, EUR/CNH, USD/CNH, EUR/GBP, GBP/USD, EUR/JPY and USD/JPY) were determined applying the 'par method', which uses actively traded forward rates. For the other currency pairs the zero coupon method is applied.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

All figures related to the 2016 and 2015 financial years in the 'Notes to the consolidated income statement' refer to the company's continuing operations unless otherwise stated.

31 — OTHER OPERATING INCOME

Other operating income consists of the following:

OTHER OPERATING INCOME

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Income from release of accrued liabilities and other provisions	55	50
Income from accounts receivable previously written off	3	4
Gains from disposal of fixed assets	4	1
Reversals of impairment losses for intangible and tangible assets	2	1
Income from the early termination of promotion and advertising contracts	69	–
Income from the divestiture of the Mitchell & Ness business	39	–
Sundry income	94	42
Other operating income	**266**	**96**

For further information about the line item 'Income from the divestiture of the Mitchell & Ness business' see Note 04

Sundry income mainly relates to income from cost reimbursements.

32 — OTHER OPERATING EXPENSES

Other operating expenses include expenses for sales, marketing, research and development, as well as for logistics and central administration less any income from government grants, if applicable. In addition, other operating expenses include impairment losses as well as depreciation of tangible assets and amortisation of intangible assets (except goodwill impairment losses), with the exception of depreciation and amortisation which is included in the cost of sales.

Expenditure for marketing investments is a material component of other operating expenses. The expenditure for marketing investments consists of promotion and communication spending such as promotion contracts, advertising, events and other communication activities. However, it does not include marketing overhead expenses, which are presented in marketing overheads. In 2016, expenditure for marketing investments accounted for 24% (2015: 26%) of the total other operating expenses.

Expenses for central administration include the functions IT, Finance, Legal, Human Resources, Facilities & Services as well as General Management.

Depreciation and amortisation expense for tangible and intangible assets (except goodwill impairment losses) and impairment losses were € 392 million and € 357 million for the years ending December 31, 2016 and 2015, respectively. Thereof, € 4 million and € 3 million were recorded within the cost of sales as they are directly assigned to the production costs.

Income from government grants is reported as a deduction from the related expenses and amounted to € 23 million in 2016 (2015: € 5 million).

OTHER OPERATING EXPENSES

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Expenditure for marketing investments	1,981	1,886
Expenditure for point-of-sale investments	540	462
Marketing overhead [1]	684	554
Sales force [1]	2,237	2,040
Logistics [1]	967	859
Research and development [1]	164	139
Central administration [1]	1,690	1,350
Other operating expenses	**8,263**	**7,289**
Thereof: depreciation, amortisation and impairment losses	388	354

1 Including personnel and administration expenses.

33 — COST BY NATURE

Expenses are presented by function according to the 'cost of sales method' in the income statement. Supplementary information on the expenses by nature is detailed below.

Cost of materials

The total cost of materials relating to the amount of inventories recognised as an expense during the period was € 9.776 billion and € 8.602 billion for the years ending December 31, 2016 and 2015, respectively.

Personnel expenses

Personnel expenses were as follows:

PERSONNEL EXPENSES

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Wages and salaries	2,238	1,921
Social security contributions	206	187
Pension expenses	89	76
Personnel expenses	**2,532**	**2,184**

Personnel expenses are primarily included within other operating expenses. Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

34 — FINANCIAL INCOME/FINANCIAL EXPENSES

Financial result consists of the following:

FINANCIAL INCOME

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Interest income from financial instruments measured at amortised cost	21	19
Interest income from financial instruments at fair value through profit or loss	0	1
Interest income from non-financial assets	0	0
Net foreign exchange gains	5	25
Other	1	1
Financial income	**28**	**46**

FINANCIAL EXPENSES

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Interest expense on financial instruments measured at amortised cost	70	65
Interest expense on financial instruments at fair value through profit or loss	0	0
Interest expense on other provisions and non-financial liabilities	0	0
Other	4	1
Financial expenses	**74**	**67**

Interest income from financial instruments, measured at amortised 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. Unrealised 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 amortised cost mainly includes interest on borrowings and effects from using the 'effective interest method'.

Interest expense on other provisions and non-financial liabilities particularly includes effects from measurement of other provisions at present value and interest on non-financial liabilities such as tax payables.

Other financial expenses include impairment losses on other financial assets amounting to € 4 million for the year ending December 31, 2016 (2015: € 1 million).

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes.

see Notes 06, 15, 18 and 30

35 — INCOME TAXES

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2016 and 2015, the statutory corporate income tax rate of 15% plus a surcharge of 5.5% thereon is applied to earnings. The municipal trade tax is approximately 11.4% of taxable income.

For non-German subsidiaries, deferred taxes are calculated based on tax rates that have been enacted or substantively enacted by the closing date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if they relate to the same fiscal authority. The following deferred tax assets and liabilities, determined after appropriate offsetting, are presented in the consolidated statement of financial position:

DEFERRED TAX ASSETS/LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets	732	637
Deferred tax liabilities	(387)	(368)
Deferred tax assets, net	**345**	**269**

The movement of deferred taxes is as follows:

MOVEMENT OF DEFERRED TAXES

€ in millions	2016	2015
Deferred tax assets, net as at January 1	**269**	**186**
Deferred tax income	56	86
Change in consolidated companies [1]	1	(14)
Change in deferred taxes on assets classified as held for sale [2]	0	7
Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income [3]	21	(3)
Change in deferred taxes attributable to the change in the effective portion of the fair value of qualifying hedging instruments recorded in other comprehensive income [4]	(2)	30
Currency translation differences	0	(23)
Deferred tax assets, net as at December 31	**345**	**269**

1 See Note 04.
2 See Notes 03 and 11.
3 See Note 24.
4 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, 2016	Dec. 31, 2015
Non-current assets	202	216
Current assets	193	183
Accrued liabilities and provisions	334	276
Accumulated tax loss carry-forwards	76	56
Deferred tax assets	**805**	**731**
Non-current assets	346	348
Current assets	68	80
Accrued liabilities and provisions	46	34
Deferred tax liabilities	**460**	**462**
Deferred tax assets, net	**345**	**269**

Deferred tax assets are recognised only to the extent that the realisation 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 realisation of the related tax benefits is not probable increased from € 653 million to € 731 million for the year ending December 31, 2016. These amounts mainly relate to tax losses carried forward and unused foreign tax credits of the US tax group, which begin to expire in 2026. The remaining unrecognised deferred tax assets relate to subsidiaries operating in markets where the realisation of the related tax benefit is not considered probable.

adidas does not recognise 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, 2016	Year ending Dec. 31, 2015
Current tax expenses	482	439
Deferred tax income	(56)	(86)
Income tax expenses	**426**	**353**

The deferred tax income includes tax income of € 29 million in total (2015: € 111 million) related to the origination and reversal of temporary differences.

The company's effective tax rate differs from an assumed tax rate of 30% for the year ending December 31, 2016 as follows:

TAX RATE RECONCILIATION

	Year ending Dec. 31, 2016		Year ending Dec. 31, 2015	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	434	30.0	312	30.0
Tax rate differentials	(160)	(11.0)	(139)	(13.4)
Non-deductible expenses	48	3.3	35	3.4
Goodwill impairment losses	0	0.0	10	1.0
Losses for which benefits were not recognisable and changes in valuation allowances	51	3.5	95	9.2
Changes in tax rates	(8)	(0.5)	(21)	(2.0)
Other, net	0	0.0	2	0.1
	365	**25.3**	**294**	**28.3**
Withholding tax expenses	61	4.2	59	5.7
Income tax expenses	**426**	**29.5**	**353**	**34.0**

For 2016 the effective tax rate is 29.5%. For 2015, the effective tax rate was affected by non-tax-deductible goodwill impairment losses. Excluding the goodwill impairment losses, the effective tax rate in 2015 was 32.9%.

For 2016, the line item 'Losses for which benefits were not recognisable and changes in valuation allowances' mainly relates to changes in valuation allowances for Brazil. For 2015, this line item mainly related to changes in valuation allowances of the US tax group.

For 2016 and 2015, the line item 'Changes in tax rates' mainly reflects a UK tax rate reduction effective in 2016 and 2015, respectively.

36 — EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income from continuing operations attributable to shareholders by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by adidas and held as treasury shares.

It is necessary to include 6.0 million potential dilutive shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share in 2016 as due to the potential dilutive shares a dilutive effect resulted as at the balance sheet date. see Note 18 The average share price reached € 124.57 per share during 2016 and thus exceeded the conversion price of € 81.57 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 82.00 to € 81.57 per share. This adjustment became effective on May 13, 2016.

EARNINGS PER SHARE

	Continuing operations		Discontinued operations		Total	
	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Net income from continuing operations (€ in millions)	1,019	686	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	2	6	–	–	–	–
Net income attributable to shareholders (€ in millions)	**1,016**	**680**	**1**	**(46)**	**1,017**	**634**
Weighted average number of shares	200,188,276	201,536,418	200,188,276	201,536,418	200,188,276	201,536,418
Basic earnings per share (in €)	**5.08**	**3.37**	**0.01**	**(0.23)**	**5.08**	**3.15**
Net income attributable to shareholders (€ in millions)	1,016	680	1	(46)	1,017	634
Interest expense on convertible bond, net of taxes (€ in millions)	12	–	–	–	12	–
Net income used to determine diluted earnings per share (€ in millions)	**1,028**	**680**	**1**	**(46)**	**1,029**	**634**
Weighted average number of shares	200,188,276	201,536,418	200,188,276	201,536,418	200,188,276	201,536,418
Weighted assumed conversion of the convertible bond	5,958,632	–	5,958,632	–	5,958,632	-
Weighted average number of shares for diluted earnings per share	**206,146,908**	**201,536,418**	**206,146,908**	**201,536,418**	**206,146,908**	**201,536,418**
Diluted earnings per share (in €)	**4.99**	**3.37**	**0.01**	**(0.23)**	**4.99**	**3.15**

For further information on basic and diluted earnings per share from discontinued operations see Note 03

ADDITIONAL INFORMATION

37 — SEGMENTAL INFORMATION

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

As at December 31, 2016, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments', 13 operating segments were identified: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses. Due to the divestiture of the Rockport operating segment on July 31, 2015, income and expenses of the Rockport operating segment were reported as discontinued operations as at December 31, 2015. see Note 03 The markets Middle East, South Korea and Southeast Asia/Pacific were aggregated to the segment MEAA ('Middle East, Africa and other Asian markets'). According to the criteria of IFRS 8 for reportable segments, the business segments Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan and MEAA are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality. Historic and estimated future economic indicators that have been assessed in determining that the aggregated operating segments share similar characteristics were profitability characteristics on net margin and contribution level, Gross Domestic Product (GDP) growth rates as well as consumer price inflation.

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.

The operating segment TaylorMade-adidas Golf comprises the brands TaylorMade, adidas Golf, Adams Golf and Ashworth.

CCM Hockey designs, produces and distributes ice hockey equipment such as sticks, skates and protection gear. In addition, CCM Hockey designs, produces and distributes apparel mainly under the brand name CCM.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

Other centrally managed businesses primarily includes the business activities of the labels Y-3 and Porsche Design Sport by adidas as well as the business activities of the brand Five Ten in the outdoor action sports sector. Furthermore, the segment also comprises International Clearance Management.

Certain centralised Group functions do not meet the definition of IFRS 8 for an operating segment. This includes functions such as Global Brands and Global Sales (central brand and distribution management for the brands adidas and Reebok), central treasury, global sourcing as well as other headquarter functions. Assets, liabilities, income and expenses relating to these corporate functions are presented together with other non-allocable items and intersegment eliminations in the reconciliations.

The chief operating decision maker for adidas has been defined as the entire Executive Board of adidas AG.

There are no intersegment sales between the reportable segments. Accounting and valuation policies applied for reporting segmental information are the same as those used for the adidas Group. see Note 02

The results of the operating segments are reported in the line item 'Segmental operating profit'. This is defined as gross profit minus other operating expenses plus royalty and commission income and other operating income attributable to the segment or group of segments, however without considering headquarter costs and central expenditure for marketing investments.

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, amortisation, impairment losses (except for goodwill) and reversals of impairment losses as well as capital expenditures for tangible and intangible assets are part of the segmental reporting, even though segmental assets do not contain tangible and intangible assets. Depreciation and amortisation as well as impairment losses and reversals of impairment losses not directly attributable to a segment or a group of segments are presented under HQ/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]		Segmental operating profit[1]		Segmental assets[2]		Segmental liabilities[2]	
	2016	2015	2016	2015	2016	2015	2016	2015
Western Europe	5,291	4,539	951	909	1,595	1,327	200	145
North America	3,412	2,753	214	69	1,273	891	117	96
Greater China	3,010	2,469	1,060	866	507	465	167	146
Russia/CIS	679	739	105	85	284	204	6	6
Latin America	1,731	1,783	227	235	757	619	73	63
Japan	1,007	776	207	147	218	233	38	34
MEAA	2,685	2,388	722	664	751	633	90	77
Other Businesses (continuing operations)	1,475	1,467	(14)	(89)	594	684	143	117
Other Businesses (discontinued operations)	–	159	–	(18)	–	0	–	0
Other Businesses (total)	1,475	1,627	(14)	(107)	594	684	143	117
Total	**19,291**	**17,075**	**3,471**	**2,869**	**5,978**	**5,056**	**834**	**683**

1 Year ending December 31.
2 At December 31.

SEGMENTAL INFORMATION II

€ in millions	Capital expenditure[1]		Depreciation and amortisation[1]		Impairment losses and reversals of impairment losses[1]	
	2016	2015	2016	2015	2016	2015
Western Europe	76	63	40	33	1	4
North America	87	32	21	21	2	7
Greater China	97	76	52	43	2	1
Russia/CIS	47	16	21	24	0	2
Latin America	48	30	22	22	0	2
Japan	14	13	13	10	1	0
MEAA	60	35	31	27	1	1
Other Businesses (continuing operations)	12	18	26	20	1	1
Other Businesses (discontinued operations)	–	4	–	4	–	(0)
Other Businesses (total)	12	22	26	24	1	1
Total	**442**	**287**	**225**	**204**	**8**	**18**

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, 2016	Year ending Dec. 31, 2015
Reportable segments	17,816	15,448
Other Businesses	1,475	1,627
Reclassification to discontinued operations	–	(159)
Total	**19,291**	**16,915**

OPERATING PROFIT

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Operating profit for reportable segments	3,485	2,975
Operating profit for Other Businesses	(14)	(107)
Segmental operating profit	**3,471**	**2,869**
HQ/Consolidation	(1,278)	(1,172)
Central expenditure for marketing investments	(703)	(621)
Goodwill impairment losses	–	(34)
Reclassification to discontinued operations	–	18
Operating profit	**1,491**	**1,059**
Financial income	28	46
Financial expenses	(74)	(67)
Income before taxes	**1,444**	**1,039**

Operating profit of centralised functions which do not represent a segment, such as Global Brands and Global Sales (central brand and distribution management for the brands adidas and Reebok), central treasury and global sourcing as well as other headquarter departments, is shown under HQ/Consolidation.

CAPITAL EXPENDITURE

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Reportable segments	430	265
Other Businesses	12	22
Reclassification to discontinued operations	–	(4)
HQ/Consolidation	209	230
Total	**651**	**513**

DEPRECIATION AND AMORTISATION

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Reportable segments	199	181
Other Businesses	26	24
Reclassification to discontinued operations	–	(4)
HQ/Consolidation	147	138
Total	**373**	**338**

IMPAIRMENT LOSSES AND REVERSALS OF IMPAIRMENT LOSSES

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Reportable segments	7	16
Other Businesses	1	1
Reclassification to discontinued operations	–	0
HQ/Consolidation	9	35
Total	**18**	**52**

ASSETS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Accounts receivable and inventories of reportable segments	5,385	4,372
Accounts receivable and inventories of Other Businesses	594	684
Segmental assets	**5,978**	**5,056**
Non-segmental accounts receivable and inventories	(15)	106
Current financial assets	2,245	1,737
Other current assets	678	598
Non-current assets	6,290	5,846
Reclassification to assets classified as held for sale	–	(0)
Total	**15,176**	**13,343**

LIABILITIES

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Accounts payable of reportable segments	691	566
Accounts payable of Other Businesses	143	117
Segmental liabilities	**834**	**683**
Non-segmental accounts payable	1,662	1,342
Current financial liabilities	837	509
Other current liabilities	3,432	2,831
Non-current liabilities	1,957	2,332
Reclassification to liabilities classified as held for sale	–	0
Total	**8,721**	**7,696**

Product information

NET SALES (THIRD PARTIES)

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Footwear	10,135	8,519
Apparel	7,476	6,970
Hardware	1,681	1,585
Reclassification to discontinued operations	–	(159)
Total	**19,291**	**16,915**

Geographical information

Net sales (third parties) are shown in the geographic market in which the net sales are realised. Non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary independent of the segmental structure and consist of tangible assets, goodwill, trademarks, other intangible assets and other non-current assets.

GEOGRAPHICAL INFORMATION

€ in millions	Net sales (third parties)		Non-current assets	
	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Western Europe	5,728	4,937	2,056	1,960
North America	4,131	3,620	1,197	1,177
Greater China	3,028	2,491	515	462
Russia/CIS	680	757	369	363
Latin America	1,741	1,797	288	282
Japan	1,187	947	280	193
MEAA	2,795	2,525	563	533
HQ/Consolidation	–	–	–	–
Reclassification to discontinued operations	–	(159)	–	–
Total	**19,291**	**16,915**	**5,268**	**4,970**

With regard to Germany, Western Europe contains net sales (third parties) (continuing operations) amounting to € 1,093 million and € 936 million as well as non-current assets amounting to € 1,015 million and € 846 million for the years 2016 and 2015, respectively. With regard to the USA, North America contains net sales (third parties) (continuing operations) amounting to € 3,654 million and € 3,091 million as well as non-current assets amounting to € 1,062 million and € 967 million for the years 2016 and 2015, respectively.

38 — ADDITIONAL CASH FLOW INFORMATION

In 2016, the increase in cash generated from operating activities compared to the prior year was primarily due to an increase in income before taxes which was partly offset by higher operating working capital requirements as well as by an increase in income taxes paid.

Net cash outflow from investing activities in 2016 mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of own-retail stores, in new office buildings and IT systems.

Cash outflows from financing activities mainly related to the dividend paid to shareholders of adidas AG and to the repurchase of treasury shares.

As of July 31, 2015, the Rockport operating segment was divested. The following assets and liabilities were consequently derecognised from the consolidated statement of financial position as of July 31, 2015:

IMPACT OF DIVESTITURE ON ITEMS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ in millions	July 31, 2015
Cash and cash equivalents	(1)
Current assets	(138)
Non-current assets	(123)
Liabilities	62
Net assets	**(201)**
Consideration received in cash	165
Less: cash and cash equivalents disposed of	(1)
Net cash inflow	**164**

NET CASH (USED IN)/GENERATED FROM DISCONTINUED OPERATIONS

€ in millions	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Net cash (used in)/generated from operating activities	(1)	3
Net cash (used in) investing activities	–	(6)
Net cash (used in)/generated from financing activities	–	–
Net cash (used in) discontinued operations	**(1)**	**(3)**

As of June 30, 2016, the company formally completed the divestiture of the Mitchell & Ness business see Note 04 The following assets and liabilities were consequently derecognised from the consolidated statement of financial position as of June 30, 2016:

IMPACT OF DIVESTITURE ON ITEMS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ in millions	June 30, 2016
Cash and cash equivalents	(2)
Current assets	(22)
Non-current assets	(8)
Liabilities	7
Net assets	**(25)**
Consideration received in cash	31
Less: cash and cash equivalents disposed of	(2)
Net cash inflow	**29**

39 — COMMITMENTS AND CONTINGENCIES

Other financial commitments

adidas has other financial commitments (continuing operations) for promotion and advertising contracts, which mature as follows:

FINANCIAL COMMITMENTS FOR PROMOTION AND ADVERTISING

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Within 1 year	988	982
Between 1 and 5 years	2,585	2,593
After 5 years	2,070	2,204
Total	**5,643**	**5,779**

Commitments with respect to promotion and advertising contracts maturing after five years have remaining terms of up to 14 years from December 31, 2016.

Compared to December 31, 2015, commitments for promotion and advertising contracts decreased mainly due to the early termination of the existing partnership with Chelsea F.C.

Information regarding commitments under lease and service contracts is also included in these Notes. see Note 29

Litigation and other legal risks

The company is currently engaged in various lawsuits resulting from the normal course of business, mainly in connection with distribution agreements as well as intellectual property rights. The risks regarding these lawsuits are covered by provisions when a reliable estimate of the amount of the obligation can be made. see Note 20 In the opinion of Management, the ultimate liabilities resulting from such claims will not materially affect the assets, liabilities, financial position and profit or loss of the Group.

In connection with the financial irregularities at Reebok India Company in 2012, various legal uncertainties were identified. The 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.

40 — RELATED PARTY DISCLOSURES

According to the definitions of IAS 24 'Related Party Disclosures', the Supervisory Board and the Executive Board of adidas AG have been identified as related parties who solely receive remuneration in connection with their function as key management personnel. For information about the remuneration of the Supervisory Board and the Executive Board of adidas AG see Note 41 and see Compensation Report, p. 32

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 24 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.

41 — OTHER INFORMATION

Employees

The average numbers of employees (continuing operations) are as follows:

EMPLOYEES

	Year ending Dec. 31, 2016	Year ending Dec. 31, 2015
Own retail	33,478	32,249
Sales	4,243	3,955
Logistics	6,225	6,023
Marketing	5,179	4,536
Central administration	5,068	4,660
Production	1,441	1,366
Research and development	1,073	984
Information technology	1,169	1,147
Total	**57,876**	**54,921**

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 2016, the expenses for the professional audit service fees for the auditor KPMG AG amounted to € 1.3 million (2015: € 1.3 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 (2015: € 0.0 million), € 0.0 million (2015: € 0.5 million) and € 0.1 million (2015: € 0.1 million), respectively.

Remuneration of the Supervisory Board and the Executive Board of adidas AG

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board members' fixed annual payment amounted to € 1.3 million (2015: € 1.2 million).

Members of the Supervisory Board were not granted any loans in 2016.

Executive Board

In 2016, the overall expenditure-based compensation of the members of the Executive Board totalled € 21.2 million (2015: € 12.0 million), € 11.3 million thereof relates to short-term benefits (2015: € 7.4 million) and € 9.9 million to long-term benefits (2015: € 4.6 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board as well as a follow-up bonus for 2016 for a resigned member of the Executive Board) totalled € 4.8 million (2015: € 1.8 million).

In 2016, former members of the Executive Board and their survivors received pension payments totalling € 3.6 million (2015: € 3.5 million).

Pension obligations relating to former members of the Executive Board and their survivors amount in total to € 75.3 million (2015: € 55.4 million).

The benefits confirmed to a former member of the Executive Board in 2016 due to the termination of the Executive Board mandate were recognised in the consolidated income statement and amounted to € 2.6 million.

Members of the Executive Board were not granted any loans in 2016.

Further information on disclosures according to § 314 section 1 no. 6a HGB is provided in the Compensation Report. see Compensation Report, p. 32

42 — INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)

On March 3, 2016, the Executive Board and Supervisory Board of adidas AG made an intra-year change to the Declaration of Compliance in accordance with § 161 AktG issued on February 15, 2016 and made it permanently available to the shareholders. On February 13, 2017, the Executive Board and Supervisory Board issued the annually 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.

43 — EVENTS AFTER THE BALANCE SHEET DATE

Company-specific subsequent events

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

Date of preparation

The Executive Board of adidas AG prepared and approved the consolidated financial statements for submission to the Supervisory Board on February 17, 2017. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorisation for issue.

Herzogenaurach, February 17, 2017

The Executive Board of adidas AG

STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS

STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS € IN MILLIONS

	Goodwill	Trademarks	Software, patents and concessions
Acquisition cost			
January 1, 2015	**1,588**	**1,432**	**730**
Currency effect	99	164	36
Additions	–	–	49
Increase in companies consolidated	192	31	16
Transfers	–	–	37
Disposals	–	(0)	(2)
December 31, 2015/January 1, 2016	**1,879**	**1,628**	**865**
Currency effect	29	53	12
Additions	–	–	65
Transfers to assets held for sale	–	–	(6)
Transfers	–	0	(2)
Disposals	(0)	–	(29)
December 31, 2016	**1,908**	**1,681**	**904**
Accumulated depreciation, amortisation and impairment			
January 1, 2015	**419**	**0**	**592**
Currency effect	34	0	29
Additions	–	0	56
Impairment losses	34	–	0
Reversals of impairment losses	–	–	(0)
Transfers	–	(0)	16
Disposals	–	–	(2)
December 31, 2015/January 1, 2016	**487**	**0**	**691**
Currency effect	9	0	13
Additions	–	0	64
Impairment losses	–	–	10
Reversals of impairment losses	–	–	(0)
Transfers to assets held for sale	–	–	(1)
Transfers	–	–	(4)
Disposals	(0)	–	(25)
December 31, 2016	**496**	**1**	**748**
Net carrying amount			
January 1, 2015	1,169	1,432	138
December 31, 2015	1,392	1,628	173
December 31, 2016	1,412	1,680	157

Attachment I

Internally generated software	Total intangible assets	Land, land leases, buildings and leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Total tangible assets
41	**3,792**	**1,074**	**268**	**1,323**	**159**	**2,823**
–	299	53	5	13	(0)	71
–	49	156	31	237	41	464
12	252	–	0	1	–	1
(33)	4	47	4	41	(96)	(4)
(0)	(3)	(11)	(7)	(113)	(3)	(134)
20	**4,392**	**1,319**	**300**	**1,502**	**100**	**3,221**
–	93	28	10	33	1	73
–	65	87	27	272	201	586
–	(6)	(0)	(0)	(1)	–	(1)
–	(2)	(8)	13	79	(82)	2
–	(29)	(31)	(25)	(175)	(2)	(233)
20	**4,513**	**1,395**	**325**	**1,710**	**218**	**3,648**
17	**1,029**	**320**	**122**	**926**	**0**	**1,369**
–	63	19	3	10	(0)	31
4	60	51	35	193	–	279
–	34	8	0	11	–	19
–	(0)	(0)	–	(0)	–	(1)
(15)	0	–	0	0	–	0
(0)	(2)	(9)	(5)	(100)	–	(114)
5	**1,184**	**389**	**155**	**1,039**	**0**	**1,583**
–	22	6	8	28	(0)	42
5	70	56	35	213	–	303
–	10	2	0	8	–	10
–	(0)	(1)	–	(1)	–	(2)
–	(1)	(0)	(0)	(0)	–	(0)
–	(4)	(1)	6	0	–	4
–	(25)	(26)	(23)	(158)	–	(207)
10	**1,255**	**425**	**180**	**1,128**	**0**	**1,733**
24	2,763	753	145	397	159	1,454
15	3,208	930	145	463	100	1,638
10	3,259	970	145	582	218	1,915

SHAREHOLDINGS

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH AT DECEMBER 31, 2016

Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by [1]	in %
	Germany					
1	adidas Insurance & Risk Consultants GmbH[2]	Herzogenaurach (Germany)	EUR	26	directly	100
2	adidas Beteiligungsgesellschaft mbH[2]	Herzogenaurach (Germany)	EUR	681,990	directly	100
3	adidas CDC Immobilieninvest GmbH	Herzogenaurach (Germany)	EUR	11,541	14	100
4	adidas Verwaltungsgesellschaft mbH[3]	Herzogenaurach (Germany)	EUR	4,328	89	100
5	adidas anticipation GmbH[2]	Herzogenaurach (Germany)	EUR	25	directly	100
	Europe (incl. Middle East and Africa)					
6	adidas sport gmbh	Cham (Switzerland)	CHF	6,249	directly	100
7	adidas Austria GmbH	Klagenfurt (Austria)	EUR	6,955	directly	95.89
					6	4.11
8	runtastic GmbH	Pasching (Austria)	EUR	5,055	10	100
9	adidas France S.a.r.l.	Landersheim (France)	EUR	188,185	directly	100
10	adidas International B.V.	Amsterdam (Netherlands)	EUR	6,992,628	directly	93.97
					9	6.03
11	adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	823,032	10	100
12	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	51,759	10	100
13	adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	54,597	10	100
14	adidas International Property Holding B.V.	Amsterdam (Netherlands)	EUR	48,200	100	100
15	adidas Infrastructure Holding B.V.	Amsterdam (Netherlands)	EUR	(23)	10	100
16	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	6,272	directly	100
17	Hydra Ventures B.V.	Amsterdam (Netherlands)	EUR	(10,108)	10	100
18	adidas (UK) Limited	Stockport (Great Britain)	GBP	43,356	10	100
19	Refuel (Brand Distribution) Limited[4]	Aylesbury (Great Britain)	GBP	–	20	100
20	Reebok International Limited[8]	London (Great Britain)	EUR	372,916	87	100
21	Trafford Park DC Limited	London (Great Britain)	GBP	786	15	100
22	RBK Holdings Limited[3, 8]	London (Great Britain)	GBP	–	87	89
					81	11
23	Reebok Pensions Management Limited[3, 8]	London (Great Britain)	GBP	–	20	100
24	Reebok Europe Holdings	London (Great Britain)	GBP	26,248	20	100
25	Luta Limited[3, 8]	London (Great Britain)	GBP	–	20	100
26	Taylor Made Golf Limited[10]	Basingstoke (Great Britain)	GBP	(9,064)	10	100
27	Ashworth U.K. Ltd.[3, 10]	Bristol (Great Britain)	GBP	–	26	100
28	adidas (Ireland) Limited	Dublin (Ireland)	EUR	2,793	10	100
29	adidas International Re DAC	Dublin (Ireland)	EUR	19,649	10	100
30	Reebok Ireland Limited[3]	Dublin (Ireland)	EUR	56	28	100
31	Five Ten Europe NV[3]	Lasne (Belgium)	EUR	(163)	90	100
32	adidas España S.A.U.	Zaragoza (Spain)	EUR	38,229	2	100
33	adidas Finance Spain S.A.U.	Zaragoza (Spain)	EUR	36,226	87	100
34	Global Merchandising, S.L.	Madrid (Spain)	EUR	4,261	10	100
35	adidas Italy S.p.A.	Monza (Italy)	EUR	51,328	10	100
36	adidas Portugal - Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	5,344	10	100
37	adidas Business Services Lda.	Morea de Maia (Portugal)	EUR	1,412	10	98
					directly	2
38	adidas Norge AS	Lillestrøm (Norway)	NOK	27,999	directly	100
39	Reebok-CCM Hockey AS	Lillestrøm (Norway)	NOK	6,998	38	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement
3 Company with no active business
4 Legal owner of the shares with loss of control effective July 1, 2016
5 Sub-group Taylor Made Golf Co., Inc.
6 Sub-group Sports Licensed Division of the adidas Group, LLC
7 Sub-group Reebok-CCM Hockey U.S., Inc.
8 Sub-group Reebok International Limited
9 Sub-group Reebok International Ltd.
10 Sub-group Taylor Made Golf Limited

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH AT DECEMBER 31, 2016

Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by [1]	in %
40	adidas Sverige AB	Solna (Sweden)	SEK	78,678	directly	100
41	adidas Finance Sverige AB	Solna (Sweden)	SEK	271,486	89	100
42	Reebok-CCM Hockey AB	Solna (Sweden)	SEK	60,434	40	100
43	adidas Suomi Oy	Helsinki (Finland)	EUR	1,397	10	100
44	Reebok-CCM Hockey Oy	Espoo (Finland)	EUR	3,068	10	100
45	adidas Danmark A/S	Copenhagen (Denmark)	DKK	21,905	10	100
46	adidas CR s.r.o.	Prague (Czech Republic)	CZK	130,979	directly	100
47	adidas Budapest Kft.	Budapest (Hungary)	HUF	525,592	directly	100
48	adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	13,401	directly	100
49	LLC 'adidas, Ltd.'	Moscow (Russia)	RUB	27,380,926	7	100
50	adidas Poland Sp.z o.o.	Warsaw (Poland)	PLN	53,362	directly	100
51	adidas Finance Poland S.A.	Warsaw (Poland)	PLN	97,876	87	100
52	adidas Romania S.R.L.	Bucharest (Romania)	RON	26,157	10	100
53	adidas Baltics SIA	Riga (Latvia)	EUR	2,399	10	100
54	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	EUR	1,018	directly	100
55	adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	514	directly	100
56	SC 'adidas-Ukraine'	Kiev (Ukraine)	UAH	825,945	directly	100
57	adidas LLP	Almaty (Republic of Kazakhstan)	KZT	4,481,584	directly	100
58	adidas Serbia d.o.o.	Belgrade (Serbia)	RSD	409,384	10	100
59	adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	34,915	10	100
60	adidas Hellas A.E.	Athens (Greece)	EUR	16,894	directly	100
61	adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	601	directly	100
62	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	316,031	10	100
63	adidas Emerging Markets L.L.C	Dubai (United Arab Emirates)	USD	18,470	indirectly	51
					9	49
64	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	92,103	10	100
65	adidas Levant Limited	Dubai (United Arab Emirates)	JOD	2,955	64	100
66	adidas Levant Limited – Jordan	Amman (Jordan)	JOD	881	65	100
67	adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	(14,573)	68	100
68	adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	181,815	10	90
					11	10
69	adidas Egypt Ltd.[3]	Cairo (Egypt)	USD	(1,831)	directly	100
70	Reebok Israel Ltd.	Holon (Israel)	ILS	15,030	directly	100
71	Life Sport Ltd.	Holon (Israel)	ILS	106,880	10	85
72	adidas Morocco LLC	Casablanca (Morocco)	MAD	15,157	directly	100
73	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	251,160	directly	100
	North America					
74	adidas North America, Inc.	Portland, Oregon (USA)	USD	5,168,243	10	100
75	adidas America, Inc.	Portland, Oregon (USA)	USD	155,451	74	100
76	adidas International, Inc.	Portland, Oregon (USA)	USD	75,824	74	100
77	adidas Team, Inc.[3]	Portland, Oregon (USA)	USD	(1,013)	74	100
78	Taylor Made Golf Co., Inc.[5]	Carlsbad, California (USA)	USD	345,859	74	100
79	Ashworth, LLC[3, 5]	Carlsbad, California (USA)	USD	–	78	100
80	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	17,075	87	100
81	Reebok Securities Holdings LLC[9]	Wilmington, Delaware (USA)	USD	–	87	100
82	Textronics, Inc.	Wilmington, Delaware (USA)	USD	11,987	76	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement
3 Company with no active business
4 Legal owner of the shares with loss of control effective July 1, 2016
5 Sub-group Taylor Made Golf Co., Inc.
6 Sub-group Sports Licensed Division of the adidas Group, LLC
7 Sub-group Reebok-CCM Hockey U.S., Inc.
8 Sub-group Reebok International Limited
9 Sub-group Reebok International Ltd.
10 Sub-group Taylor Made Golf Limited

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH AT DECEMBER 31, 2016

Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by [1]	in %
83	Ashworth Acquisition Corp. [3, 5]	Wilmington, Delaware (USA)	USD	–	79	100
84	Putter, LLC [3, 5]	Montgomery, Alabama (USA)	USD	–	83	100
85	Onfield Apparel Group, LLC [3, 6]	Dover, Delaware (USA)	USD	–	87	99
					86	1
86	Reebok Onfield, LLC [3, 6]	Dover, Delaware (USA)	USD	–	87	100
87	Reebok International Ltd. [9]	Canton, Massachusetts (USA)	USD	(1,071,318)	74	100
88	Sports Licensed Division of the adidas Group, LLC [6]	Boston, Massachusetts (USA)	USD	76,481	87	99
					81	1
89	Reebok-CCM Hockey U.S., Inc. [7]	Montpelier, Vermont (USA)	USD	46,654	87	100
90	Stone Age Equipment, Inc.	Redlands, California (USA)	USD	11,006	75	100
91	Spartanburg DC, Inc.	Spartanburg, South Carolina (USA)	USD	11,367	75	100
92	adidas Canada Ltd.	Woodbridge, Ontario (Canada)	CAD	117,830	10	100
93	Sport Maska Inc.	New Brunswick (Canada)	CAD	180,861	10	100
	Asia					
94	adidas Sourcing Limited	Hong Kong (China)	USD	490,123	11	100
95	adidas Services Limited	Hong Kong (China)	USD	12,062	10	100
96	adidas Hong Kong Limited	Hong Kong (China)	HKD	362,938	2	100
97	Smedley Industries (Hong Kong) Limited [3, 7]	Hong Kong (China)	HKD	–	89	100
98	Reebok Trading (Far East) Limited	Hong Kong (China)	USD	31,176	87	100
99	adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	227,446	2	100
100	adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	11,988,206	2	100
101	adidas (China) Ltd.	Shanghai (China)	CNY	750,510	10	100
102	Zhuhai adidas Technical Services Limited	Zhuhai (China)	CNY	47,334	94	100
103	adidas Logistics (Tianjin) Co., Ltd.	Tianjin (China)	CNY	141,095	15	100
104	adidas Business Services (Dalian) Limited	Dalian (China)	CNY	8,789	10	100
105	adidas Japan K.K.	Tokyo (Japan)	JPY	12,863,253	10	100
106	Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	4,094,743	10	100
107	adidas Korea Ltd.	Seoul (Korea)	KRW	207,148,674	directly	100
108	Taylor Made Korea Ltd.	Seoul (Korea)	KRW	436,747	directly	100
109	adidas Korea Technical Services Limited	Pusan (Korea)	KRW	4,158,769	94	100
110	adidas India Private Limited	New Delhi (India)	INR	4,630,379	directly	10.68
					10	89.32
111	adidas India Marketing Private Limited	New Delhi (India)	INR	4,778,682	110	98.99
					10	1.01
112	adidas Technical Services Private Limited	New Delhi (India)	USD	3,346	94	100
113	Reebok India Company	New Delhi (India)	INR	(22,152,801)	123	93.15
114	PT adidas Indonesia	Jakarta (Indonesia)	IDR	222,914,721	10	99
					directly	1
115	adidas (Malaysia) Sdn. Bhd.	Petaling Jaya (Malaysia)	MYR	52,260	directly	60
					10	40
116	adidas Philippines Inc.	Pasig City (Philippines)	PHP	653,787	directly	100
117	adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	12,472	directly	100
118	adidas Taiwan Limited	Taipei (Taiwan)	TWD	1,493,263	10	100
119	adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	1,185,847	directly	100
120	adidas Australia Pty Limited	Mulgrave (Australia)	AUD	75,074	10	100
121	adidas New Zealand Limited	Auckland (New Zealand)	NZD	10,075	directly	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement
3 Company with no active business
4 Legal owner of the shares with loss of control effective July 1, 2016
5 Sub-group Taylor Made Golf Co., Inc.
6 Sub-group Sports Licensed Division of the adidas Group, LLC
7 Sub-group Reebok-CCM Hockey U.S., Inc.
8 Sub-group Reebok International Limited
9 Sub-group Reebok International Ltd.
10 Sub-group Taylor Made Golf Limited

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH AT DECEMBER 31, 2016

Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by [1]	in %
122	adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	92,441,962	10	100
123	Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,194	87	99
					80	1
	Latin America					
124	adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	1,137,171	10	51.73
					2	48.27
125	Reebok Argentina S.A.	Buenos Aires (Argentina)	ARS	179,998	11	96.25
					10	3.75
126	ASPA do Brasil Ltda.[3]	São Paulo (Brazil)	BRL	75	94	100
127	adidas do Brasil Ltda.	São Paulo (Brazil)	BRL	(25,513)	2	100
128	adidas Franchise Brasil Servicos Ltda.	São Paulo (Brazil)	BRL	19,966	127	100
129	Reebok Produtos Esportivos Brasil Ltda.	Jundiaí (Brazil)	BRL	9,368	10	100
130	adidas Chile Limitada	Santiago de Chile (Chile)	CLP	102,653,569	directly	99
					1	1
131	adidas Colombia Ltda.	Bogotá (Colombia)	COP	(42,585,326)	directly	100
132	adidas Perú S.A.C.	Lima (Peru)	PEN	90,607	directly	99.21
					130	0.79
133	adidas de Mexico, S.A. de C.V.	Mexico City (Mexico)	MXN	286,931	directly	100
134	adidas Industrial, S.A. de C.V.	Mexico City (Mexico)	MXN	167,406	directly	100
135	Reebok de Mexico, S.A. de C.V.[3]	Mexico City (Mexico)	MXN	(537,589)	directly	100
136	adidas Latin America, S.A.	Panama City (Panama)	USD	(80,139)	directly	100
137	Concept Sport, S.A.	Panama City (Panama)	USD	1,622	10	100
138	adidas Market LAM, S.A.[3]	Panama City (Panama)	USD	–	10	100
139	3 Stripes S.A. (adidas Uruguay)[3]	Montevideo (Uruguay)	UYU	(436)	directly	100
140	Tafibal S.A.	Montevideo (Uruguay)	UYU	22,570	directly	100
141	Raelit S.A.	Montevideo (Uruguay)	UYU	40,629	directly	100
142	Reebok Central America S.A.[9]	San Pedro Sula (Honduras)	HNL	–	87	99.6
					80	0.4
143	adidas Corporation de Venezuela, S.A.[3]	Caracas (Venezuela)	VEF	(17)	directly	100
144	adisport Corporation	San Juan (Puerto Rico)	USD	(2,851)	10	100

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8 Sub-group Reebok International Limited
9 Sub-group Reebok International Ltd.
10 Sub-group Taylor Made Golf Limited

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 17, 2017

KASPER RORSTED
CEO

ROLAND AUSCHEL
Global Sales

GLENN BENNETT
Global Operations

ERIC LIEDTKE
Global Brands

ROBIN J. STALKER
CFO

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by adidas AG, Herzogenaurach, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes, together with the management report of the Company and the Group for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch – 'German Commercial Code') is the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and profit or loss of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 17, 2017
KPMG AG
Wirtschaftsprüfungsgesellschaft

(Original German version signed by:)

Braun	Wolper
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

5 ADDITIONAL INFORMATION

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TEN-YEAR OVERVIEW

TEN-YEAR OVERVIEW

	2016	2015	2014
Income Statement Data (€ in millions)			
Net sales[2]	19,291	16,915	14,534
Gross profit[2]	9,379	8,168	6,924
Royalty and commission income[2]	109	119	102
Other operating income[2]	266	96	138
Other operating expenses[2]	8,263	7,289	6,203
EBITDA[2]	1,883	1,475	1,283
Operating profit[2, 3, 4, 5, 6]	1,491	1,094	961
Net financial result	(46)	(21)	(48)
Income before taxes[2, 3, 4, 5, 6]	1,444	1,073	913
Income taxes[2]	426	353	271
Net income attributable to non-controlling interests	2	6	6
Net income attributable to shareholders[3, 4, 5, 6, 7]	1,017	668	568
Income Statement Ratios			
Gross margin[2]	48.6%	48.3%	47.6%
Operating margin[2, 3, 4, 5, 6]	7.7%	6.5%	6.6%
Interest coverage[2]	30.8	23.8	19.3
Effective tax rate[2, 3, 4, 5, 6]	29.5%	32.9%	29.7%
Net income attributable to shareholders in % of net sales[3, 4, 5, 6, 7]	5.3%	4.0%	3.9%
Net Sales by Brand (€ in millions)			
adidas brand	16,334	13,939	11,774
Reebok brand	1,770	1,751	1,578
TaylorMade-adidas Golf	892	902	913
CCM Hockey	271	317	269
Net Sales by Product Category (€ in millions)			
Footwear[2]	10,135	8,360	6,658
Apparel[2]	7,476	6,970	6,279
Hardware[2]	1,681	1,585	1,597
Balance Sheet Data (€ in millions)			
Total assets	15,176	13,343	12,417
Inventories	3,763	3,113	2,526
Receivables and other current assets	3,607	3,003	2,861
Working capital	2,121	2,133	2,970
Net cash/(net borrowings)	(103)	(460)	(185)
Shareholders' equity	6,472	5,666	5,624

1 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.
3 2015 excluding goodwill impairment of € 34 million.
4 2014 excluding goodwill impairment of € 78 million.
5 2013 excluding goodwill impairment of € 52 million.
6 2012 excluding goodwill impairment of € 265 million.
7 Includes continuing and discontinued operations.
8 Figures adjusted for 1:4 share split conducted on June 6, 2006.
9 Subject to Annual General Meeting approval.

2013	2012	2011[1]	2010	2009	2008	2007
14,203	14,883	13,322	11,990	10,381	10,799	10,299
7,001	7,103	6,329	5,730	4,712	5,256	4,882
103	105	93	100	86	89	102
142	127	98	110	100	103	80
6,013	6,150	5,567	5,046	4,390	4,378	4,115
1,496	1,445	1,199	1,159	780	1,280	1,165
1,233	1,185	953	894	508	1,070	949
(68)	(69)	(84)	(88)	(150)	(166)	(135)
1,165	1,116	869	806	358	904	815
340	327	261	238	113	260	260
3	(2)	(5)	(1)	0	(2)	(4)
839	791	613	567	245	642	551
49.3%	47.7%	47.5%	47.8%	45.4%	48.7%	47.4%
8.7%	8.0%	7.2%	7.5%	4.9%	9.9%	9.2%
24.0	14.6	12.2	10.1	3.9	7.4	6.8
29.2%	29.3%	30.0%	29.5%	31.5%	28.8%	31.8%
5.9%	5.3%	4.6%	4.7%	2.4%	5.9%	5.4%
11,059	11,344	9,867	8,714	7,520	7,821	7,113
1,599	1,667	1,940	1,913	1,603	1,717	1,831
1,285	1,344	1,044	909	831	812	804
260	243	210	200	177	188	210
6,587	6,922	6,242	5,389	4,642	4,919	4,751
5,811	6,290	5,733	5,380	4,663	4,775	4,426
1,806	1,671	1,347	1,221	1,076	1,105	1,121
11,599	11,651	11,237	10,618	8,875	9,533	8,325
2,634	2,486	2,502	2,119	1,471	1,995	1,629
2,583	2,444	2,431	2,324	2,038	2,523	2,048
2,125	2,504	1,990	1,972	1,649	1,290	1,522
295	448	90	(221)	(917)	(2,189)	(1,766)
5,489	5,304	5,137	4,616	3,771	3,386	3,023

TEN-YEAR OVERVIEW CONTINUED

	2016	2015	2014
Balance Sheet Ratios			
Net borrowings/EBITDA[2]	0.1	0.3	0.1
Average operating working capital in % of net sales[2]	20.2%	20.5%	22.4%
Financial leverage	1.6%	8.1%	3.3%
Equity ratio	42.6%	42.5%	45.3%
Equity-to-fixed-assets ratio	102.9%	96.9%	110.9%
Asset coverage I	134.0%	136.8%	158.7%
Asset coverage II	83.8%	89.3%	105.9%
Fixed asset intensity of investments	41.4%	43.8%	40.8%
Current asset intensity of investments	58.6%	56.2%	59.2%
Liquidity I	22.4%	25.5%	38.6%
Liquidity II	54.9%	63.7%	83.0%
Liquidity III	110.6%	121.8%	140.7%
Working capital turnover[2]	9.1	7.9	4.9
Return on equity[7]	15.7%	11.2%	8.7%
Return on capital employed[7]	24.2%	16.5%	13.8%
Data Per Share[8]			
Share price at year-end (in €)	150.15	89.91	57.62
Basic earnings[3, 4, 5, 6, 7] (in €)	5.08	3.32	2.72
Diluted earnings[3, 4, 5, 6, 7] (in €)	4.99	3.32	2.72
Price/earnings ratio at year-end[3, 4, 5, 6, 7]	30.1	27.1	21.2
Market capitalisation at year-end (€ in millions)	30,254	18,000	11,773
Net cash generated from operating activities[7] (in €)	6.73	5.41	3.36
Dividend (in €)	2.00[9]	1.60	1.50
Dividend payout ratio[3, 4, 5, 6, 7] (in %)	39.6	47.9	53.9
Number of shares outstanding at year-end (in thousands)	201,489	200,197	204,327
Employees			
Number of employees at year-end[2]	60,617	55,555	53,731
Personnel expenses[2] (€ in millions)	2,532	2,184	1,842

1 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2 2016, 2015, 2014 and 2013 reflect continuing operations as a result of the divestiture of the Rockport business.
3 2015 excluding goodwill impairment of € 34 million.
4 2014 excluding goodwill impairment of € 78 million.
5 2013 excluding goodwill impairment of € 52 million.
6 2012 excluding goodwill impairment of € 265 million.
7 Includes continuing and discontinued operations.
8 Figures adjusted for 1:4 share split conducted on June 6, 2006.
9 Subject to Annual General Meeting approval.

2013	2012	2011 [1]	2010	2009	2008	2007
(0.2)	(0.3)	(0.1)	0.2	1.2	1.7	1.5
21.3%	20.0%	20.4%	20.8%	24.3%	24.5%	25.2%
(5.4%)	(8.5%)	(1.8%)	4.8%	24.3%	64.6%	58.4%
47.3%	45.5%	45.7%	43.5%	42.5%	35.5%	36.3%
115.8%	111.1%	104.6%	97.4%	85.9%	73.6%	72.2%
145.0%	152.7%	140.7%	141.5%	137.4%	127.7%	136.1%
93.2%	100.4%	93.2%	97.7%	102.9%	89.1%	98.0%
40.9%	41.0%	43.7%	44.6%	49.5%	48.2%	50.3%
59.1%	59.0%	56.3%	55.4%	50.5%	51.8%	49.7%
34.4%	44.3%	31.6%	35.5%	30.0%	10.5%	14.5%
72.6%	82.9%	68.3%	78.2%	80.4%	55.1%	70.3%
128.3%	139.7%	126.0%	132.4%	132.2%	109.8%	132.6%
6.7	5.9	6.7	6.1	6.3	8.4	6.8
14.3%	9.9%	11.9%	12.3%	6.5%	18.9%	18.2%
23.6%	19.3%	19.9%	20.2%	11.3%	19.8%	20.2%
92.64	67.33	50.26	48.89	37.77	27.14	51.26
4.01	3.78	2.93	2.71	1.25	3.25	2.71
4.01	3.78	2.93	2.71	1.22	3.07	2.57
23.1	17.8	17.1	18.0	31.0	8.8	19.9
19,382	14,087	10,515	10,229	7,902	5,252	10,438
3.03	4.50	3.86	4.28	6.11	2.52	3.83
1.50	1.35	1.00	0.80	0.35	0.50	0.50
37.4	35.7	34.1	29.5	29.8	15.1	18.0
209,216	209,216	209,216	209,216	209,216	193,516	203,629
49,808	46,306	46,824	42,541	39,596	38,982	31,344
1,833	1,872	1,646	1,521	1,352	1,283	1,186

GLOSSARY

/ A

ATHLEISURE

The term is composed of the words athletic and leisure. It describes a fashion trend of sportswear no longer being just meant for training but increasingly shaping everyday clothing.

/ B

BACKLOGS

Also called order backlogs. The value of orders received for future delivery. Most retailers' orders are received six to nine months in advance.

/ C

CALL AND PUT OPTIONS

A call (put) option is a contractual agreement that gives the owner the right, not the obligation, to buy (sell) an underlying financial asset at a specified price within a specific period of time.

CAPITAL EXPENDITURE

Total cash expenditure used for the purchase of tangible and intangible assets, excluding acquisitions and finance leases.

CASH POOLING

A cash management technique for physical concentration of cash. Cash pooling allows adidas to combine credit and debit positions from various accounts and several subsidiaries into one central account. This technique supports our in-house bank concept where advantage is taken of any surplus funds of subsidiaries to cover cash requirements of other subsidiaries, thus reducing external financing needs and optimising our net interest expenses.

COMPARABLE (COMP) STORE SALES

Sales generated in stores which have been open for the entire prior financial year and are currently operating. Remodelled stores are included if the store format and store size have remained unchanged. Comparable store sales therefore show the organic growth of the retail business and do not include sales generated from new store openings.

CONCESSION CORNERS

Retail space that is fully operated by one of the company's brands and is part of a larger sales area operated by a retail partner.

CONTROLLED SPACE

Includes own-retail business, mono-branded franchise stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

CONVERSION RATE

A key ratio in retail business describing the number of buying customers compared to those who entered the store without buying something; i.e. a 25% conversion rate means that 100 persons entered a store with 25 of them buying something.

/ D

DROP RATE

Share of articles that are dropped because they do not meet the demand or strategic direction for a given season, despite being created initially. These articles are excluded from the range, do not go into serial production and are not sold to customers.

/ F

FINANCIAL LEVERAGE

Ratio reflecting the role of borrowings within the financing structure of a company.

$$\textit{Financial leverage} = \frac{\textit{net borrowings}}{\textit{shareholders' equity}} \times 100$$

FRANCHISE

Type of licence that is acquired by one party (the franchisee) to have access rights to another party's (the franchisor's) intellectual property, processes and trademarks in order to allow the franchisee to sell a product or provide a service under the franchisor's name.

/ G

GENDERDAX

An industry- and science-based gender and diversity project, including a ranking of German companies which are committed to actively supporting highly qualified and career-oriented women within their human resource and diversity management.

GERMAN CO-DETERMINATION ACT (MITBESTIMMUNGSGESETZ – MITBESTG)

An act that governs the form of co-determination of employees in corporations employing more than 2,000 employees. It stipulates, among other things, that such a corporation's Supervisory Board must be composed of an equal number of employee and shareholder representatives.

GOODWILL

Intangible asset that quantifies the price that a buyer of a company has paid for the reputation, know-how and market position of the acquired company. Goodwill is the excess of the amount paid over the fair value of the net assets acquired at the purchase date. It is stated at cost and tested for impairment annually or on such other occasions that events or changes in circumstances indicate that it might be impaired.

/ H

HARDWARE

A product category which comprises equipment that is used rather than worn by the consumer, such as bags, balls, fitness equipment, golf clubs and hockey sticks.

/ L

LICENSED APPAREL

Apparel products which are produced and marketed under a licence agreement. adidas has licence agreements with several associations (e.g. FIFA, UEFA), leagues (e.g. NBA, NHL), teams (e.g. Bayern Munich, Manchester United, Real Madrid) and universities (e.g. Arizona State University, University of Miami).

LICENSEES

Companies that have the authorisation to use the name of a brand or business for the production and sale of products. For example, for the adidas brand, licensed products include cosmetics, watches and eyewear, for Reebok, fitness equipment.

LIQUIDITY I, II, III

The liquidity ratio indicates how quickly a company can liquidate its assets to pay for current liabilities.

$$\text{Liquidity I} = \frac{\text{Cash + short-term financial assets}}{\text{current liabilities}} \times 100$$

$$\text{Liquidity II} = \frac{\text{Cash + short-term financial assets + accounts receivable}}{\text{current liabilities}} \times 100$$

$$\text{Liquidity III} = \frac{\text{Cash + short-term financial assets + accounts receivable + inventories}}{\text{current liabilities}} \times 100$$

/ M

MARKETING INVESTMENTS

Promotion and communication spending including sponsorship contracts with teams and individual athletes, as well as advertising, events and other communication activities, but excluding marketing overhead expenses.

/ N

NET CASH/NET BORROWINGS

Net cash is when the sum of cash and short-term financial assets exceeds gross borrowings. Net borrowings is the portion of gross borrowings not covered by the sum of cash and short-term financial assets.

Net cash/net borrowings = *cash and cash equivalents*
\+ *short-term financial assets*
– *short-term borrowings*
– *long-term borrowings*

NET PROMOTER SCORE (NPS)

A survey-based measure of how likely people are to recommend a brand. The survey is based on one single question to consumers: 'How likely are you to recommend this brand to your friends?', which can be answered within a scale from 0 to 10. Promoters are consumers giving the brand a 9 or 10 rating, while detractors are those between a 0 and 6 rating. The NPS is the difference between promoters and detractors measured in percentage points.

NON-CONTROLLING INTERESTS

Part of net income or equity which is not attributable to the shareholders of the reporting company as it relates to outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

/ O

OMNI-CHANNEL SALES APPROACH

Describes the ambition to achieve a globally consistent product offer, brand communication, availability and service across all sales channels (wholesale, retail and e-commerce) and consumer touchpoints.

OPERATING CASH FLOW

Comprises operating profit, change in operating working capital and net investments.

			operating profit
		+/–	*change in operating working capital*
Operating cash flow	=	*+/–*	*net investments (capital expenditure less depreciation and amortisation)*

OPERATING OVERHEAD EXPENSES

Expenses which are not directly attributable to the products or services sold, such as costs for distribution, marketing overhead costs, logistics, research and development, as well as general and administrative costs, but not including costs for promotion, advertising and communication.

OPERATING WORKING CAPITAL

A company's short-term disposable capital which is used to finance its day-to-day business. In comparison to working capital, operating working capital does not include non-operational items such as financial assets and taxes.

			accounts receivable
Operating working capital	=	+	*inventories*
		–	*accounts payable*

/ P

PERFORMANCE BUSINESS

In the sporting goods industry, performance business relates to technical footwear and apparel used primarily in doing sports.

POINT-OF-SALE INVESTMENTS

Expenditures that relate to advertising and promotion initiatives at the point of sale as well as to store fittings and furniture.

PRICE POINTS

Specific selling prices, normally using 'psychological' numbers, e.g. a product price of US $ 99.99 instead of US $ 100.

PROMOTION PARTNERSHIPS

Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the company's brands, the party is provided with products and/or cash and/or promotional materials.

/ R

ROLLING FORECAST

A projection about the future that is updated at regular intervals, keeping the forecasting period constant (e.g. twelve months).

/ S

SEGMENT

Also called business segment. adidas is currently divided into 13 business segments: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses.

SHARE TURNOVER

The total value of all shares traded in the share price currency over a specific period of time (normally daily). It is calculated by multiplying the number of shares traded by the respective price.

SINGLE-SOURCING MODEL

Supply chain activities limited to one specific supplier. Due to the dependency on only one supplier, a company can face disadvantages during the sourcing process.

SPEEDFACTORY

Robotic technology is used in a smart, decentralised and flexible manufacturing process to bring production to where the consumer is.

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TOP AND BOTTOM LINE

A company's bottom line is its net income attributable to shareholders. More specifically, the bottom line is a company's income after all expenses have been deducted from revenues. The top line refers to a company's sales or revenues.

TOP-DOWN, BOTTOM-UP

A specific concept for information and knowledge processing. In a first step, information and empowerment of management decisions is delegated from top to bottom. After going into more detail on the bottom level, the final information and decision are then transported back to the top.

TREND SCOUTING

Identification and commercialisation of future trends, particularly lifestyle trends.

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VERTICAL RETAILER

A retail company that (vertically) controls the entire design, production and distribution processes of its products.

DECLARATION OF SUPPORT

adidas AG declares support, except in the case of political risk, that the below-mentioned companies are able to meet their contractual liabilities. This declaration replaces the declaration dated February 15, 2016, which is no longer valid. The declaration of support automatically ceases from the time that a company no longer is a subsidiary of adidas AG.

adidas (China) Ltd., Shanghai, China
adidas (Cyprus) Limited, Nicosia, Cyprus
adidas (Ireland) Limited, Dublin, Ireland
adidas (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia
adidas (South Africa) (Pty) Ltd., Cape Town, South Africa
adidas (Suzhou) Co. Ltd., Suzhou, China
adidas (Thailand) Co., Ltd., Bangkok, Thailand
adidas (UK) Limited, Stockport, Great Britain
adidas America, Inc., Portland, Oregon, USA
adidas anticipation GmbH, Herzogenaurach, Germany
adidas Argentina S.A., Buenos Aires, Argentina
adidas Australia Pty Limited, Mulgrave, Australia
adidas Austria GmbH, Klagenfurt, Austria
adidas Baltics SIA, Riga, Latvia
adidas Benelux B.V., Amsterdam, Netherlands
adidas Budapest Kft., Budapest, Hungary
adidas Bulgaria EAD, Sofia, Bulgaria
adidas Business Services (Dalian) Limited, Dalian, China
adidas Business Services Lda., Morea de Maia, Portugal
adidas Canada Ltd., Woodbridge, Ontario, Canada
adidas CDC Immobilieninvest GmbH, Herzogenaurach, Germany
adidas Chile Limitada, Santiago de Chile, Chile
adidas Colombia Ltda., Bogotá, Colombia
adidas CR s.r.o., Prague, Czech Republic
adidas Croatia d.o.o., Zagreb, Croatia
adidas Danmark A/S, Copenhagen, Denmark
adidas de Mexico, S.A. de C.V., Mexico City, Mexico
adidas do Brasil Ltda., São Paulo, Brazil
adidas Emerging Markets FZE, Dubai, United Arab Emirates
adidas Emerging Markets L.L.C, Dubai, United Arab Emirates
adidas España S.A.U, Zaragoza, Spain
adidas France S.a.r.l., Landersheim, France
adidas Hellas A.E., Athens, Greece
adidas Hong Kong Limited, Hong Kong, China
adidas Imports & Exports Ltd., Cairo, Egypt
adidas India Marketing Private Limited, New Delhi, India
adidas Industrial, S.A. de C.V., Mexico City, Mexico
adidas Insurance & Risk Consultants GmbH, Herzogenaurach, Germany
adidas International B.V., Amsterdam, Netherlands
adidas International Finance B.V., Amsterdam, Netherlands
adidas International Marketing B.V., Amsterdam, Netherlands
adidas International Property Holding B.V., Amsterdam, Netherlands
adidas International Re DAC, Dublin, Ireland
adidas International Trading B.V., Amsterdam, Netherlands
adidas International, Inc., Portland, Oregon, USA
adidas Italy S.p.A, Monza, Italy
adidas Japan K.K., Tokyo, Japan
adidas Korea Ltd., Seoul, Korea
adidas Latin America, S.A., Panama City, Panama
adidas LLP, Almaty, Republic of Kazakhstan
adidas Logistics (Tianjin) Co., Ltd., Tianjin, China
adidas Morocco LLC, Casablanca, Morocco
adidas New Zealand Limited, Auckland, New Zealand
adidas Norge AS, Lillestrøm, Norway
adidas North America, Inc., Portland, Oregon, USA
adidas Perú S.A.C., Lima, Peru
adidas Philippines Inc., Pasig City, Philippines
adidas Poland Sp.z o.o., Warsaw, Poland
adidas Portugal – Artigos de Desporto, S.A., Lisbon, Portugal
adidas Romania S.R.L., Bucharest, Romania
adidas Serbia d.o.o., Belgrade, Serbia
adidas Services Limited, Hong Kong, China
adidas Singapore Pte. Ltd., Singapore, Singapore
adidas Slovakia s.r.o., Bratislava, Slovak Republic
adidas Sourcing Limited, Hong Kong, China
adidas Spor Malzemeleri Satis ve Pazarlama A.S., Istanbul, Turkey
adidas sport gmbh, Cham, Switzerland
adidas Sporting Goods Ltd., Cairo, Egypt
adidas Sports (China) Co. Ltd., Suzhou, China
adidas Suomi Oy, Helsinki, Finland
adidas Sverige AB, Solna, Sweden
adidas Taiwan Limited, Taipei, Taiwan
adidas Trgovina d.o.o., Ljubljana, Slovenia
adidas Vietnam Company Limited, Ho Chi Minh City, Vietnam
adisport Corporation, San Juan, Puerto Rico
Concept Sport, S.A., Panama City, Panama
Global Merchandising, S.L., Madrid, Spain
Hydra Ventures B.V., Amsterdam, Netherlands
LLC 'adidas, Ltd.', Moscow, Russia
PT adidas Indonesia, Jakarta, Indonesia
Raelit S.A., Montevideo, Uruguay
Reebok Argentina S.A., Buenos Aires, Argentina
Reebok International Limited, London, Great Britain
Reebok International Ltd., Canton, Massachusetts, USA
Reebok Produtos Esportivos Brasil Ltda., Jundiaí, Brazil
Reebok-CCM Hockey AB, Solna, Sweden
Reebok-CCM Hockey AS, Lillestrøm, Norway
Reebok-CCM Hockey Oy, Espoo, Finland
Reebok-CCM Hockey U.S., Inc., Montpelier, Vermont, USA
Reebok Israel Ltd., Holon, Israel
SC 'adidas-Ukraine', Kiev, Ukraine
Spartanburg DC, Inc., Spartanburg, South Carolina, USA
Sport Maska Inc., New Brunswick, Canada
Sports Licensed Division of the adidas Group, LLC, Boston, Massachusetts, USA
Stone Age Equipment, Inc., Redlands, California, USA
Tafibal S.A., Montevideo, Uruguay
Taylor Made Golf Co., Inc., Carlsbad, California, USA
Taylor Made Golf Co., Ltd., Tokyo, Japan
Taylor Made Golf Limited, Basingstoke, Great Britain
Taylor Made Korea Ltd., Seoul, Korea
Textronics, Inc., Wilmington, Delaware, USA
Trafford Park DC Limited, London, Great Britain

2017 FINANCIAL CALENDAR

MARCH 8

FULL YEAR 2016 RESULTS

Press conference in Herzogenaurach, Germany / Press release / Conference call and webcast / Publication of 2016 Annual Report

MARCH 14

INVESTOR DAY

Press release / Management presentations and webcast

MAY 4

FIRST QUARTER 2017 RESULTS

Press release / Conference call and webcast / Publication of First Quarter Report

MAY 11

ANNUAL GENERAL MEETING

Fuerth (Bavaria), Germany / Webcast

MAY 16

DIVIDEND PAYMENT

(Subject to Annual General Meeting approval)

AUGUST 3

FIRST HALF 2017 RESULTS

Press release / Conference call and webcast / Publication of First Half Report

NOVEMBER 9

NINE MONTHS 2017 RESULTS

Press release / Conference call and webcast / Publication of Nine Months Report

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