

CONSOLIDATED FINANCIAL STATEMENTS

| | | | | | |
|---|------------|---|------------|---|------------|
| Consolidated Statement of Financial Position _____ | 150 | Notes _____ | 157 | Statement of Movements of Intangible and Tangible Assets _____ | 213 |
| Consolidated Income Statement _____ | 152 | Notes to the Consolidated Statement of Financial Position _____ | 169 | Shareholdings _____ | 215 |
| Consolidated Statement of Comprehensive Income _____ | 153 | Notes to the Consolidated Income Statement _____ | 201 | Responsibility Statement _____ | 220 |
| Consolidated Statement of Changes in Equity _____ | 154 | Additional Information _____ | 205 | Independent Auditor's Report _____ | 221 |
| Consolidated Statement of Cash Flows _____ | 155 | | | Independent Auditor's Assurance Report _____ | 226 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

adidas AG Consolidated Statement of Financial Position (IFRS) € in millions

| | Note | Dec. 31, 2017 | Dec. 31, 2016 | Change in % |
|------------------------------------|------|---------------|---------------|--------------|
| Assets | | | | |
| Cash and cash equivalents | 5 | 1,598 | 1,510 | 5.8 |
| Short-term financial assets | 6 | 5 | 5 | 0.2 |
| Accounts receivable | 7 | 2,315 | 2,200 | 5.2 |
| Other current financial assets | 8 | 393 | 729 | (46.1) |
| Inventories | 9 | 3,692 | 3,763 | (1.9) |
| Income tax receivables | 35 | 71 | 98 | (27.4) |
| Other current assets | 10 | 498 | 580 | (14.1) |
| Assets classified as held for sale | 11 | 72 | - | n.a. |
| Total current assets | | 8,645 | 8,886 | [2.7] |
| Property, plant and equipment | 12 | 2,000 | 1,915 | 4.5 |
| Goodwill | 13 | 1,220 | 1,412 | (13.6) |
| Trademarks | 14 | 1,309 | 1,680 | (22.1) |
| Other intangible assets | 14 | 154 | 167 | (7.5) |
| Long-term financial assets | 15 | 236 | 194 | 21.8 |
| Other non-current financial assets | 16 | 219 | 96 | 127.3 |
| Deferred tax assets | 35 | 630 | 732 | (14.0) |
| Other non-current assets | 17 | 108 | 94 | 14.7 |
| Total non-current assets | | 5,877 | 6,290 | [6.6] |
| Total assets | | 14,522 | 15,176 | [4.3] |

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, 2017 | Dec. 31, 2016 | Change in % |
|---|------|---------------|---------------|--------------|
| Liabilities and equity | | | | |
| Short-term borrowings | 18 | 137 | 636 | (78.5) |
| Accounts payable | | 1,975 | 2,496 | (20.9) |
| Other current financial liabilities | 19 | 362 | 201 | 80.5 |
| Income taxes | 35 | 424 | 402 | 5.3 |
| Other current provisions | 20 | 741 | 573 | 29.3 |
| Current accrued liabilities | 21 | 2,180 | 2,023 | 7.8 |
| Other current liabilities | 22 | 473 | 434 | 8.9 |
| Liabilities classified as held for sale | 11 | - | - | n.a. |
| Total current liabilities | | 6,291 | 6,765 | (7.0) |
| Long-term borrowings | 18 | 983 | 982 | 0.1 |
| Other non-current financial liabilities | 23 | 22 | 22 | 1.1 |
| Pensions and similar obligations | 24 | 298 | 355 | (16.3) |
| Deferred tax liabilities | 35 | 275 | 387 | (28.8) |
| Other non-current provisions | 20 | 80 | 44 | 81.7 |
| Non-current accrued liabilities | 21 | 85 | 120 | (29.4) |
| Other non-current liabilities | 25 | 53 | 46 | 14.6 |
| Total non-current liabilities | | 1,796 | 1,957 | (8.2) |
| Share capital | | 204 | 201 | 1.2 |
| Reserves | | (81) | 749 | n.a. |
| Retained earnings | | 6,327 | 5,521 | 14.6 |
| Shareholders' equity | 26 | 6,450 | 6,472 | (0.3) |
| Non-controlling interests | 28 | (15) | (17) | 13.6 |
| Total equity | | 6,435 | 6,455 | (0.3) |
| Total liabilities and equity | | 14,522 | 15,176 | (4.3) |

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, 2017 | Year ending Dec. 31, 2016 | Change |
|---|------------|------------------------------|------------------------------|--------------|
| Net sales | 37 | 21,218 | 18,483 | 14.8% |
| Cost of sales | | 10,514 | 9,383 | 12.1% |
| Gross profit | | 10,703 | 9,100 | 17.6% |
| [% of net sales] | | 50.4% | 49.2% | 1.2pp |
| Royalty and commission income | | 115 | 105 | 9.6% |
| Other operating income | 31 | 133 | 262 | (49.3%) |
| Other operating expenses | 12, 14, 32 | 8,882 | 7,885 | 12.6% |
| [% of net sales] | | 41.9% | 42.7% | (0.8pp) |
| Operating profit | | 2,070 | 1,582 | 30.8% |
| [% of net sales] | | 9.8% | 8.6% | 1.2pp |
| Financial income | 34 | 46 | 28 | 67.6% |
| Financial expenses | 34 | 93 | 74 | 25.7% |
| Income before taxes | | 2,023 | 1,536 | 31.7% |
| [% of net sales] | | 9.5% | 8.3% | 1.2pp |
| Income taxes | 35 | 668 | 454 | 47.2% |
| [% of income before taxes] | | 33.0% | 29.6% | 3.5pp |
| Net income from continuing operations | | 1,354 | 1,082 | 25.2% |
| [% of net sales] | | 6.4% | 5.9% | 0.5pp |
| Losses from discontinued operations, net of tax | 3 | 254 | 62 | 310.0% |
| Net income | | 1,100 | 1,020 | 7.9% |
| [% of net sales] | | 5.2% | 5.5% | (0.3pp) |
| Net income attributable to shareholders | | 1,097 | 1,017 | 7.8% |
| [% of net sales] | | 5.2% | 5.5% | (0.3pp) |
| Net income attributable to non-controlling interests | | 3 | 2 | 21.4% |
| Basic earnings per share from continuing operations (in €) | 36 | 6.68 | 5.39 | 23.9% |
| Diluted earnings per share from continuing operations (in €) | 36 | 6.63 | 5.29 | 25.2% |
| Basic earnings per share from continuing and discontinued operations (in €) | 36 | 5.42 | 5.08 | 6.7% |
| Diluted earnings per share from continuing and discontinued operations (in €) | 36 | 5.38 | 4.99 | 7.8% |

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, 2017 | Year ending Dec. 31, 2016 |
|--|------|------------------------------|------------------------------|
| Net income after taxes | | 1,100 | 1,020 |
| 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 | 23 | (60) |
| Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss | | 23 | (60) |
| Items of other comprehensive income that are or will be reclassified to profit or loss when specific conditions are met | | | |
| Net (loss)/gain on cash flow hedges, net of tax | 30 | (375) | 87 |
| Reclassification of foreign currency differences on loss of significant influence | | 15 | (0) |
| Currency translation differences | | (539) | 71 |
| Subtotal of items of other comprehensive income that are or will be reclassified to profit or loss when specific conditions are met | | (899) | 158 |
| Other comprehensive income | | (876) | 97 |
| Total comprehensive income | | 224 | 1,117 |
| Attributable to shareholders of adidas AG | | 220 | 1,115 |
| Attributable to non-controlling interests | | 4 | 2 |

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 | Shareholders' equity | Non-controlling interests | Total equity |
|--|------|---------------|-----------------|---|-----------------|-----------------------------|-------------------|----------------------|---------------------------|--------------|
| Balance at December 31, 2015 | | 200 | 777 | (123) | 59 | (122) | 4,874 | 5,666 | (18) | 5,648 |
| Net income recognized 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 |
| Reissuance 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 |
| Net income recognized directly in equity | | | | (525) | (375) | 23 | | (877) | 1 | (876) |
| Net income | | | | | | | 1,097 | 1,097 | 3 | 1,100 |
| Total comprehensive income | | | | (525) | (375) | 23 | 1,097 | 220 | 4 | 224 |
| Reissuance of treasury shares due to the conversion of convertible bonds | 26 | 3 | 46 | | | | 180 | 229 | | 229 |
| Repurchase of treasury shares | 26 | (0) | | | | | (73) | (73) | | (73) |
| Repurchase of treasury shares due to equity-settled share-based payment | 26 | (0) | | | | | (15) | (15) | | (15) |
| Reissuance of treasury shares due to equity-settled share-based payment | 26 | 0 | | | | | 19 | 20 | | 20 |
| Dividend payment | | | | | | | (405) | (405) | (1) | (406) |
| Equity-settled share-based payment | 27 | | | | | | 2 | 2 | | 2 |
| Balance at December 31, 2017 | | 204 | 884 | (577) | (229) | (159) | 6,327 | 6,450 | (15) | 6,435 |

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, 2017 | Year ending Dec. 31, 2016 |
|--|--------------------|------------------------------|------------------------------|
| Operating activities: | | | |
| Income before taxes | | 2,023 | 1,536 |
| Adjustments for: | | | |
| Depreciation, amortization and impairment losses | 12, 13, 14, 32, 34 | 484 | 376 |
| Reversals of impairment losses | 31 | [1] | [2] |
| Unrealized foreign exchange gains, net | | [75] | [7] |
| Interest income | 34 | [25] | [21] |
| Interest expense | 34 | 62 | 70 |
| Losses/(gains) on sale of property, plant and equipment and intangible assets, net | | 17 | [24] |
| Other non-cash expense/(income) | 31, 32 | 3 | [0] |
| Payment for external funding of pension obligations (CTA) | | [30] | - |
| Proceeds from early termination of promotion and advertising contracts | 4, 31 | 76 | - |
| Operating profit before working capital changes | | 2,534 | 1,927 |
| Increase in receivables and other assets | | [477] | [462] |
| Increase in inventories | | [216] | [656] |
| Increase in accounts payable and other liabilities | | 422 | 973 |
| Cash generated from operations before interest and taxes | | 2,263 | 1,782 |
| Interest paid | | [65] | [46] |
| Income taxes paid | | [556] | [427] |
| Net cash generated from operating activities – continuing operations | | 1,641 | 1,309 |
| Net cash generated from operating activities – discontinued operations | | 6 | 39 |
| Net cash generated from operating activities | | 1,648 | 1,348 |

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

adidas AG Consolidated Statement of Cash Flows (IFRS) € in millions

| | Note | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|------|------------------------------|------------------------------|
| Investing activities: | | | |
| Purchase of trademarks and other intangible assets | | (74) | (64) |
| Proceeds from sale of trademarks and other intangible assets | | 0 | 0 |
| Purchase of property, plant and equipment | | (678) | (578) |
| Proceeds from sale of property, plant and equipment | | 2 | 5 |
| Proceeds from sale of assets held for sale | 11 | – | 14 |
| Proceeds from sale of a disposal group | 11 | 6 | 29 |
| Proceeds from disposal of discontinued operations net of cash disposed | | 174 | – |
| Purchase of short-term financial assets | | (0) | (0) |
| Purchase of investments and other long-term assets | | (132) | (33) |
| Interest received | | 25 | 21 |
| Net cash used in investing activities – continuing operations | | (676) | (605) |
| Net cash used in investing activities – discontinued operations | | (4) | (9) |
| Net cash used in investing activities | | (680) | (614) |
| Financing activities: | | | |
| Repayments of finance lease obligations | | (2) | (3) |
| Dividend paid to shareholders of adidas AG | 26 | (405) | (320) |
| Dividend paid to non-controlling interest shareholders | | (1) | (2) |
| Acquisition of non-controlling interests | 28 | – | (24) |
| Repurchase of treasury shares | 26 | (85) | (218) |
| Repurchase of treasury shares due to share-based payments | | (15) | – |
| Proceeds from reissuance of treasury shares due to share-based payments | | 13 | – |
| Proceeds from short-term borrowings | | – | 159 |
| Repayments of short-term borrowings | 18 | (273) | (138) |
| Net cash used in financing activities – continuing operations | | (769) | (545) |
| Net cash used in financing activities – discontinued operations | | (0) | (9) |
| Net cash used in financing activities | | (769) | (553) |
| Effect of exchange rates on cash | | | |
| Increase of cash and cash equivalents | | 88 | 145 |
| Cash and cash equivalents at beginning of year | 5 | 1,510 | 1,365 |
| Cash and cash equivalents at end of period | 5 | 1,598 | 1,510 |

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, 2017, the operating activities of adidas are divided into 13 operating segments: Western Europe, North America (excluding USA Reebok), USA Reebok, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, adidas Golf, Runtastic and Other centrally managed businesses. Due to the completed divestitures of the former TaylorMade and CCM Hockey operating segments on October 2, 2017, and September 1, 2017, respectively, income and expenses of the former TaylorMade and CCM Hockey operating segments were reported as discontinued operations as at December 31, 2017. [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.

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 Y-3 label.

01 » GENERAL

The consolidated financial statements of adidas AG as at December 31, 2017 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, 2017, and the additional requirements pursuant to § 315e section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations and amendments to existing standards and interpretations are effective for financial years beginning on January 1, 2017 and have been applied for the first time to the consolidated financial statements:

- **IAS 7 Amendment – Disclosure Initiative (EU effective date: January 1, 2017):** This amendment introduces a new disclosure relating to changes in liabilities arising from financing activities. The amendment requires enhanced disclosures in the consolidated financial statements. [SEE NOTE 38](#)
- **IAS 12 Amendment – Recognition of Deferred Tax Assets for Unrealised Losses (EU effective date: January 1, 2017):** This amendment clarifies existing guidance for recognizing deferred tax assets. The amendment did not have any material impact on the consolidated financial statements.
- **Improvements to IFRSs (2014–2016) – Amendments to IFRS 12 (EU 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. These amendments did not have a material impact on the consolidated financial statements.

New standards and interpretations as well as amendments to existing standards and interpretations are usually not applied by adidas before the EU effective date.

New standards and interpretations and amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU which are effective for financial years beginning after January 1, 2017, and which have not been applied in preparing these consolidated financial statements are:

- **IFRS 4 Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU effective date: January 1, 2018):** The amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts. adidas does not have any insurance contracts accounted for under IFRS 4. Therefore, the amendment is not expected to have any impact on the company's consolidated financial statements.
- **IFRS 9 Financial Instruments (EU effective date: January 1, 2018):** The new standard prescribes rules for the accounting of financial instruments, replacing the current guidelines in IAS 39 Financial Instruments: Recognition and Measurement. In particular, IFRS 9 prescribes new classification methods for financial assets, which has an effect on the company's classification and subsequent presentation of certain financial assets. adidas has identified all financial instruments that require classification according to IFRS 9, defined the respective business models for managing the financial assets and analyzed contractual cash flow characteristics of financial assets by performing a test based on the single contracts. The business model and fulfilling the so-called 'SPPI test' are the basis for the respective classification and measurement of financial assets according to IFRS 9. As a result of the changes in IFRS 9 classification, the company has determined that most financial assets previously

classified as available-for-sale will be classified as at fair value through profit or loss. The classification as at fair value through profit or loss is caused by the fact that the respective financial instruments do not achieve the contractual cash flow characteristic. Furthermore, equity investments which are currently classified as available-for-sale and measured at cost because they do not have a quoted market price in an active market will be measured as fair value through profit or loss. Furthermore, investment securities which are currently measured at fair value in other comprehensive income based on IAS 39 will be measured as fair value through profit or loss since the respective contracts do not satisfy the contractual cash flow characteristics test. Due to the classification changes, as of January 1, 2018, adidas expects a positive fair value change in the mid-single-digit million range in euros.

The new standard also introduces the 'expected credit loss model' for financial assets, which will require company-wide policy adjustments to the allowance for doubtful accounts relating to accounts receivable. adidas has analyzed and determined the future calculation model for this allowance, which will calculate the allowance for doubtful accounts on all accounts receivable using lifetime expected credit losses. This calculation model also uses portfolios consisting of accounts receivable bearing similar features, such as the Credit Default Spread (CDS) and Days Sales Outstanding (DSO). The calculation model is based on historic information about default rates which, at the respective balance sheet date, are adjusted for current information and forecasts. At the first-time application of IFRS 9 as of January 1, 2018, the adjusted calculation of the allowances for doubtful accounts relating to accounts receivable is expected to result in a low double-digit million decrease in euros with a corresponding increase in retained earnings.

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. The company has decided to adopt IFRS 9 for hedge accounting at the EU effective date. As a result of the evaluation, the company has decided to designate forward exchange contracts – with the exception of hedges of a net investment in foreign operations – solely by the spot value, with the forward element posted under the costs of hedging in Other Comprehensive Income (OCI). This change is expected to result in less hedge ineffectiveness for forward exchange contracts. Hedges of net investment in a foreign operation will retain a forward designation, resulting in the expected future ineffectiveness from the cross-currency basis under IFRS 9 accounted for in profit or loss. In this respect, at the first-time application of IFRS 9 as of January 1, 2018, the company expects an immaterial effect. In addition, the company will continue to designate foreign currency options solely with their intrinsic value as the hedged instrument, with resulting changes in time value recognized as costs of hedging in OCI. adidas decided to designate solely the spot value components of forward exchange contracts as hedge instruments for the cash flow hedges under the application of IFRS 9. adidas has elected to utilize the option to account for forward elements for a period of time as costs of hedging in OCI.

Additionally, the new standard adds new disclosures going beyond the current disclosure requirements in accordance with IFRS 7 Financial Instruments: Disclosures. adidas has identified the disclosures relevant to the company which are either new or have to be changed due to the implementation of IFRS 9. Retrospective restatement in the consolidated financial statements is either not permitted or not required for most disclosures, with the exception of certain disclosures related to hedge accounting. The company does not plan to retrospectively restate information except where required by the standard. adidas will take advantage of the option allowing it not to

restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities due to the first-time adoption of IFRS 9 will be recognized in retained earnings and other reserves as at January 1, 2018.

IFRS 9 is neither expected to have a significant effect on the company's accounting for financial liabilities nor on the derecognition of financial assets as the new guidelines are – to a large extent – adopted from IAS 39. As a result of the IFRS 9 evaluation, adidas identified the need for changes of accounting-related IT systems including: adding new accounts, e.g. for separating hedge components, as well as adding aging buckets for impairment purposes.

The estimated effects of the IFRS 9 implementation on the above-mentioned balance sheet line items as at January 1, 2018, are based on current estimations. The actual effects of the IFRS 9 implementation as at January 1, 2018, may deviate because the new accounting methods may be subject to changes until the publication of the first consolidated financial statements after the effective date.

- **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 recognizing 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 centralized, single five-step model for recognizing revenue arising from contracts with customers. adidas has determined that the accounting for revenue recognition at the transfer of control is comparable to current practice in accordance with IAS 18. It has also been determined that customer incentives and options such as volume rebates, cooperative advertising

allowances and slotting fees as well as any obligation of adidas to pay for the delivery of goods to the customer do not create performance obligations under IFRS 15. Currently, customer incentives which are contractually agreed upon are accounted for as sales discounts and are accrued over the financial year. Customer incentives which are not contractually agreed upon as well as promises that are implied by adidas' customary business practice and do not bear the characteristics of a discount are accounted for as expenditure for marketing investments. According to IFRS 15, customer incentives are principally treated as a reduction of sales, except in cases where adidas receives from its customer a distinct service as consideration for the payment to the customer.

In accordance with IAS 18, adidas 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 the 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 presentation of the return provision. In addition, an asset for the right to recover products from customers upon settling the refund liability has to be recognized. The company currently performs a fine adjustment of the calculation logic of the return rate. The first-time application of IFRS 15 as at January 1, 2018, is expected to lead to a balance sheet prolongation in the low three-digit million range in euros due to the increase in the return provision, the initially recognized return asset and a potential adjustment of retained earnings.

No significant changes in the timing or amount of revenue recognized are expected with regard to revenue from own-retail transactions and licensing. The timing and

measurement of sales-based licensing-out of trademarks and royalties is similar to the previous practice in accordance with IAS 18. Contract assets and liabilities will arise in relation to licensing-out contracts with fixed consideration, with the following expected effects to be recognized in the consolidated statement of financial position on January 1, 2018: approximately € 3 million in contract assets, less than € 1 million in contract liabilities, and an adjustment to retained earnings in an amount of approximately € 2 million. The change will have an immaterial effect on revenues in the 2018 financial year. The estimated effects of the IFRS 15 implementation on the above-mentioned balance sheet line items as at January 1, 2018, are based on current estimations. The actual effects of the IFRS 15 implementation as at January 1, 2018, may deviate because the new accounting methods may be subject to changes until the publication of the first consolidated financial statements after the effective date.

After further analysis, adidas has chosen the modified retrospective method (also called 'cumulative effect method') for the first-time application of IFRS 15. According to this transition method, the cumulative effect of applying IFRS 15 will be shown in the opening balance as at January 1, 2018. adidas will use a practical expedient offered in the IFRS 15 Amendment Clarifications to IFRS 15 which is applicable for the modified retrospective method. This allows the company to reflect the aggregate effect of all contract modifications that occur before the beginning of the earliest period presented or before the date of initial application. Except for the separate presentation of contract assets and contract liabilities in the consolidated statement of financial position, IFRS 15 does not change the presentation in the consolidated statement of financial position or in the consolidated income statement.

The company has updated internal policies and IT systems according to IFRS 15 in order to collect the necessary information for new IFRS 15 disclosures. It is not expected that IFRS 15 will significantly increase the amount of disclosures in the consolidated financial statements of adidas AG.

- **IFRS 15 Amendment – Clarifications to IFRS 15 (EU 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. The company will use the transition relief available for the modified retrospective method related to modified and completed contracts. The transition relief reduces the workload necessary to analyze contracts with customers.
- **Improvements to IFRSs (2014–2016) – Amendments to IFRS 1 and IAS 28 (EU effective date: January 1, 2018):** These improvements include amendments to IFRS 1 and IAS 28. The amendments to IFRS 1 eliminated the short-term transition exemptions and the amendments to IAS 28 made a clarification about the option for qualifying entities (such as venture capital organizations) to apply either the equity method or fair value through profit or loss to the measurement of associates or joint ventures at initial recognition. These improvements are not expected to have a material impact on the consolidated financial statements.
- **IFRS 16 Leases (EU effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 Leases and the respective interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognize a right-of-use asset and a corresponding lease liability for leases with a lease

term of more than twelve months. 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 2,500 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. The company has continued to collect real estate lease contracts in the global lease management system, which captures relevant information from lease contracts and uses this information to create accounting reports. adidas intends to use this system also for IFRS 16 accounting purposes and is in the process of working with the supplier to ensure system functionality and compliance according to IFRS 16 logic. Based on a completeness survey, the company is internally evaluating which other leased assets fall under the scope of IFRS 16. adidas has decided to apply the modified retrospective method with optional practical expedients as the transition method. The company 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. Further analysis of the expected impact on the company's consolidated financial statements is still 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, the classification of share-based payment transactions with net settlement features, and the treatment of share-based payment classification due to modifications of the terms and conditions. The company currently accounts for cash-settled share-based payment transactions with performance conditions in line with the upcoming clarified guidance. Additionally, adidas does not currently have share-based payment transactions with net settlement features or regularly modify terms and conditions of share-based payment transactions. This amendment is not expected to have any impact on the company's consolidated financial statements.
- **IFRS 9 Amendment – Prepayment Features with Negative Compensation (IASB effective date: January 1, 2019):** The amendment offers additional guidance on how to classify prepayable financial assets according to IFRS 9 and it clarifies the accounting for financial liabilities following a modification. According to the IFRS 9 evaluation, adidas does not have any financial assets with prepayment features. Additionally, the company does not currently expect modifications to financial liabilities. Therefore, this amendment is not expected to have any material impact on the company's consolidated financial statements.
- **IFRS 10 and IAS 28 Amendment – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: indefinitely postponed):** The amendment addresses an inconsistency between IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture. This

amendment is not expected to have any material impact on the consolidated financial statements.

- **IFRS 17 – Insurance Contracts (IASB effective date: January 1, 2021):** The new standard regulates the recognition, measurement, presentation, and disclosure of certain insurance contracts that influence the entity's financial position, financial performance and cash flows. Insurance contracts which the entity issues, reinsurance contracts the entity holds, and investment contracts with discretionary participation features issued by the entity are all within the scope of the standard. IFRS 17 replaces IFRS 4 Insurance contracts, which is currently not applied by the company. Therefore, the standard is not expected to have any impact on the consolidated financial statements.
- **IAS 28 Amendment – Long-term Interests in Associates and Joint Ventures (IASB effective date: January 1, 2019):** The amendment clarifies that IFRS 9 Financial Instruments – including the impairment requirements – should be applied to long-term interests in an associate or joint venture forming part of a net investment but for which the equity method is not applied. adidas does not have long-term interests in an associate or joint venture forming part of a net investment but for which the equity method is not applied and which will not be accounted for according to IFRS 9 starting January 1, 2018. Therefore, the amendment is not expected to have any impact on the consolidated financial statements.
- **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 received or performed prepayments, is the date of the initial recognition of the non-monetary prepayment asset or deferred income liability. adidas already translates non-monetary items, such as prepayments, at the exchange rate as of the initial recognition date. Therefore, this interpretation is not expected to have an impact on the consolidated financial statements.

- **IFRIC 23 – Uncertainty over Income Tax Treatments (IASB effective date: January 1, 2019):** This new interpretation applies to income taxes within the scope of IAS 12 Income Taxes and clarifies the accounting for uncertainties in income taxes. In the case of uncertainty regarding the determination of taxable profit/tax loss, tax bases, unused tax losses, unused tax credits and tax rates under IAS 12, this interpretation should be applied. This interpretation is not expected to have an impact on the consolidated financial statements.
- **Improvements to IFRSs (2015–2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (IASB effective date: January 1, 2019):** These improvements include amendments to IFRS 3 which clarify that when an entity obtains control of a business that was previously a joint operation, the entity must remeasure its previously held interests in that business. The amendments to IFRS 11 clarify that an entity does not remeasure previously held interests in a business when it assumes joint control of a joint operation. The amendments to IFRS 3 and IFRS 11 would only have a potential impact in the case that the aforementioned transactions take place in the year of initial application. The amendments to IAS 12 clarify that the income tax effects resulting from dividend payments should be presented in the same manner as the income from which the dividends are derived. In other words, the income tax consequences from dividends should

be shown in profit or loss unless the dividend relates to income which is recorded in equity or other comprehensive income. adidas does not expect any effects from this amendment. The amendments to IAS 23 specify that when a qualifying asset has become ready for its intended sale or use, any outstanding borrowed amount is no longer used in the calculation of the capitalization rate for the specific qualifying asset, but instead used in the general capitalization rate for borrowings. adidas currently capitalizes the borrowing costs for one qualifying asset. The amendments to IAS 23 are not expected to have a material impact on the consolidated financial statements.

The consolidated financial statements have in principle been prepared on the historical cost basis with the exception of certain items in the statement of financial position such as: financial instruments valued at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments and plan assets 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, 2017 and December 31, 2016, respectively:

Number of consolidated subsidiaries

| | 2017 | 2016 |
|--------------------------------------|------------|------------|
| January 1 | 143 | 145 |
| First-time consolidated subsidiaries | 3 | 2 |
| Thereof: newly founded | 3 | 2 |
| Thereof: purchased | – | – |
| Deconsolidated/divested subsidiaries | (17) | (3) |
| Intercompany mergers | – | (1) |
| December 31 | 129 | 143 |

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. 215 This schedule comprises information about the name, domicile, currency and equity of all consolidated subsidiaries as well as the respective share held in the capital of these subsidiaries. Furthermore, the schedule of the shareholdings of adidas AG will be published on the electronic platform of the German Federal Gazette.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognized in the statement of financial position at fair value at the acquisition date. A debit difference between the acquisition cost and the proportionate fair value of assets, liabilities and contingent liabilities is 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 recognized. Any difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is recorded directly in shareholders' equity.

The financial effects of intercompany transactions as well as any unrealized gains and losses arising from intercompany business relations are eliminated in preparing the consolidated financial statements.

Principles of measurement

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

Overview of selected subsequent measurement principles

| Item | Subsequent measurement principle |
|--|--|
| Assets | |
| Cash and cash equivalents | Nominal amount |
| Short-term financial assets | At fair value through profit or loss |
| Accounts receivable | Amortized cost |
| Inventories | Lower of cost and net realizable value |
| Assets classified as held for sale | Lower of carrying amount and fair value less costs to sell |
| Property, plant and equipment | Amortized cost |
| Goodwill | Impairment-only approach |
| Intangible assets (except goodwill): | |
| With definite useful life | Amortized cost |
| With indefinite useful life | Impairment-only approach |
| 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 | Amortized cost |
| Loans and receivables | Amortized cost |
| Available-for-sale | At fair value in other comprehensive income or at amortized cost |
| Liabilities | |
| Borrowings | Amortized cost |
| Accounts payable | Amortized cost |
| Liabilities/provisions for cash-settled share-based payment arrangements | Fair value |
| Other financial liabilities | Amortized cost |
| Provisions: | |
| Pensions | Projected unit credit method |
| Other provisions | Expected settlement amount |
| Accrued liabilities | Amortized 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, | |
|------------|---|----------|------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| USD | 1.1266 | 1.1069 | 1.1993 | 1.0541 |
| GBP | 0.8754 | 0.8188 | 0.8872 | 0.8562 |
| JPY | 126.2381 | 120.4031 | 135.0100 | 123.4000 |
| CNY | 7.6116 | 7.3515 | 7.8365 | 7.3123 |
| RUB | 65.5601 | 74.2778 | 69.0799 | 63.9384 |

Discontinued operations

A component of the company's business is classified as a discontinued operation if the operations and cash flows of the component can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company and if the component either has been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographic area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations or
- is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as a discontinued operation, the comparative consolidated income statement and consolidated statement of cash flows are restated and presented as if the operation had been classified as such from the start of the comparative year.

Derivative financial instruments

adidas uses derivative financial instruments, such as currency options, forward exchange contracts, commodity futures as well as interest rate swaps and cross-currency interest rate swaps, to hedge its exposure to foreign exchange, commodity price and interest rate risks. In accordance with its Treasury Policy, adidas does not enter into transactions with derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognized in the statement of financial position at fair value, and subsequently also measured at their fair value. The method of recognizing the resulting gains or losses is dependent on the nature of the hedge. On the date a derivative contract is entered into, adidas designates derivatives as either a hedge of a forecast transaction (cash flow hedge) or a hedge of a net investment in a foreign operation.

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 recognized in equity. When the effectiveness is not 100%, the ineffective portion of the change in the fair value is recognized in the income statement. Accumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecast transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the company's risk management policies, may not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not meet these rules are recognized immediately in the income statement.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. If the hedging instrument is a derivative (e.g. a forward exchange contract) or a foreign currency borrowing, effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing, respectively, are recognized in equity.

adidas documents the relationship between hedging instruments and hedge objects at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific firm commitments and forecast transactions. adidas also 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 recognized 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 amortized cost using the 'effective interest method'. Required allowances, if necessary, are determined on the basis of individual risk assessments, and on the aging structure of receivables past due.

Inventories

Merchandise and finished goods are valued at the lower of cost or net realizable value, which is the estimated selling

price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method: the 'average cost method'. Costs of finished goods include cost of raw materials, direct labor and the components of the manufacturing overheads which can be reasonably attributed to finished goods. The allocation of overheads is based on the planned average utilization. The net realizable value allowances are computed consistently throughout the company based on the age and expected future sales of the items on hand.

Assets/liabilities and disposal groups classified as held for sale

Assets/liabilities and disposal groups classified as held for sale are primarily non-current assets and liabilities expected to be recovered principally through sale rather than through continuing use. These are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held for sale are not depreciated on a straight-line basis.

Property, plant and equipment

Property, plant and equipment are measured at amortized cost. This comprises any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized for those assets, with the exception of land and construction in progress, over the estimated useful life utilizing the 'straight-line method' and taking into account any potential residual value, except where the 'declining-balance method' is more appropriate in light of the actual utilization pattern. Parts of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately.

Land leases are measured at the lower of the fair value or the present value of minimum lease payments and are depreciated on a straight-line basis over the contractually agreed lease term.

Estimated useful lives are as follows:

Estimated useful lives of property, plant and equipment

| | Years |
|--|----------------------|
| Land | indefinite |
| Land leases | 50 – 99 |
| Buildings and leasehold improvements | 20 – 50 ¹ |
| Furniture and fixtures | 3 – 5 |
| Technical equipment and machinery as well as other equipment | 2 – 10 ¹ |

¹ Or, if shorter, the lease term/useful life. [SEE NOTE 29](#)

Expenditures for repairs and maintenance are expensed as incurred. Renewals and improvements are capitalized 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 recognized in other operating expenses or reported in goodwill impairment losses if the carrying amount exceeds the recoverable amount.

The impairment test for goodwill is performed based on groups of cash-generating units which represent the lowest level within the company at which goodwill is monitored for internal management purposes. If there is an impairment loss for a group of cash-generating units, first the carrying amount of any goodwill allocated to the group of cash-generating units is reduced. Subsequently, provided that the recoverable amount is lower than the carrying amount, the other non-current assets of the group of cash-generating units are reduced pro rata on the basis of the carrying amount of each asset in the group of cash-generating units.

Irrespective of whether there is an impairment indication, intangible assets with an indefinite useful life (in particular trademarks) and goodwill acquired in business combinations are tested annually on September 30 for impairment.

An impairment loss recognized in goodwill is not reversible. With respect to all other impaired assets, an impairment loss recognized in prior periods is reversed affecting the income statement if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

Impairment losses for financial assets are recognized 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 amortized 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 recognized at the fair value of the asset or, if lower, the net present value of the minimum lease payments. For subsequent measurement, minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability. In addition, depreciation and any impairment losses for the associated assets are recognized. Depreciation is performed over the lease term or, if shorter, over the useful life of the asset.

Under operating lease agreements, rent expenses are recognized on a straight-line basis over the term of the lease.

Goodwill

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

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

Intangible assets (except goodwill)

Intangible assets are valued at amortized cost. Amortization is calculated on a straight-line basis taking into account any potential residual value.

Expenditures during the development phase of internally generated intangible assets are capitalized as incurred if they qualify for recognition under IAS 38 'Intangible Assets'.

Estimated useful lives are as follows:

Estimated useful lives of intangible assets

| | Years |
|----------------------|-------------------------|
| Trademarks | indefinite ¹ |
| Software | 5 – 7 |
| Patents and licenses | 5 – 15 |
| Websites | 2 |

¹ For exceptions [SEE NOTE 14](#)

Research and development

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

Financial assets

All purchases and sales of financial assets are recognized on the trade date and initially measured at fair value. 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. Realized and unrealized

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 unrealized gains and losses are recognized in equity unless they are impaired.

Borrowings and other liabilities

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

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

Provisions and accrued liabilities

Other provisions are recognized where a present obligation (legal or constructive) to third parties has been incurred as a

result of a past event which can be estimated reliably and is likely to lead to an outflow of resources, and where the timing or amount is uncertain. 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 recognized as an expense in the income statement as incurred.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of adidas. Additionally, contingent liabilities may be present obligations that arise from past events but

which are not recognized because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed and explained in the Notes. [SEE NOTE 39](#)

Treasury shares

When treasury shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The nominal value of € 1 per treasury share is debited to share capital. Any premium or discount to the nominal value is shown as an adjustment to the capital reserve. If treasury shares are sold or re-issued, the nominal value of the shares will be credited to share capital and the amount exceeding the nominal value will be added to the capital reserve.

Revenue

Revenue in terms of income derived from the sale of goods is recognized 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 recognized 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 fulfills 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 and Reebok brands as well as various other trademarks to third parties. The related royalty and commission income is recognized based on the contract terms on an accrual basis.

Advertising and promotional expenditures

Advance payments for media campaigns are included in prepaid expenses (other current and non-current assets) until the services are received, and upon receipt expensed in full. Significant costs for media campaigns are expensed over the duration of the media campaign.

Promotional expenses including one-time up-front payments for promotion contracts are principally expensed on a straight-line basis over the term of the agreement.

Interest

Interest is recognized as income or expense as incurred using the 'effective interest method' with the exception of interest

that is directly attributable to the acquisition, construction or production of a qualifying asset. This interest is capitalized as part of the cost of the qualifying asset.

Government grants

adidas receives government grants related to income in the form of subsidies, subventions or premiums from local, national or international government authorities such as those of the Federal Republic of Germany, the European Union and the Free State of Bavaria.

Government grants related to income are recognized if there is reasonable assurance that the grants will be received and that adidas will comply with the conditions attached.

Grants related to income are reported in the consolidated income statement as a deduction from the related expenses.

Income taxes

Current income taxes are computed in accordance with the applicable taxation rules established in the countries in which adidas operates.

adidas computes deferred taxes for all temporary differences between the carrying amount and the tax base of its assets and liabilities and tax loss carry-forwards. As it is not permitted to recognize a deferred tax liability for the initial recognition of goodwill, adidas does not compute any deferred taxes thereon.

Deferred tax assets arising from deductible temporary differences and tax loss carry-forwards which exceed taxable temporary differences are only recognized to the extent that it is probable that the entity concerned will generate sufficient taxable income to realize the associated benefit.

Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Share-based payment

The cost of equity-settled share-based payment transactions with employees is determined by the fair value at the grant date using an appropriate valuation model. [SEE NOTE 27](#) That cost is recognized in personnel expenses, together with a corresponding increase in equity (retained earnings), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the fair value of awards at the grant date, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. If the estimate is changed, even a credit in the income statement for the period can be possible as it reflects the movement in cumulative expenses from the beginning to the end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

Equity-settled share-based payment transactions with parties other than employees are generally measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted,

measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is remeasured at each end of the reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Estimation uncertainties and judgments

The preparation of financial statements in conformity with IFRS requires the use of assumptions and estimates that affect reported amounts and related disclosures. Although such estimates are based on the best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill [SEE NOTE 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](#).

Judgments have also been used in classifying leasing arrangements as well as in determining valuation methods for intangible assets.

03 » DISCONTINUED OPERATIONS

On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). The transaction was completed on October 2, 2017. The TaylorMade business is reported as discontinued operations. The consideration was paid in cash and via a combination of a secured note and contingent considerations of which the fair values were estimated by applying the discounted cash flow model and Monte Carlo method, respectively. [SEE NOTE 04](#)

On July 26, 2017, adidas signed an agreement to sell the CCM Hockey business. The transaction was completed on September 1, 2017. The CCM Hockey business is reported as discontinued operations. The consideration was paid in cash and in the form of a secured note. The fair value of the secured note was estimated by applying the discounted cash flow method. [SEE NOTE 04](#)

The net result of discontinued operations presented in the consolidated income statement as at December 31, 2017 also contains the fair value adjustment of the contingent considerations as well as allowances for outstanding receivables in connection with the sale of the Rockport operating segment in July 2015.

TaylorMade and CCM Hockey were classified as assets held for sale and discontinued operations for the first time as of May 10, 2017 and June 30, 2017, respectively. The prior year figures of the consolidated statement of cash flows have been restated to show the discontinued operations separately from continuing operations.

The results of the Rockport, TaylorMade and CCM operations are shown as discontinued operations in the consolidated income statement:

Discontinued operations € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--|---------------------------------|---------------------------------|
| Net sales | 667 | 808 |
| Expenses | (666) | (895) |
| Gain/(loss) from operating activities | 1 | (87) |
| Income taxes | 0 | 27 |
| Gain/(loss) from operating activities, net of tax | 1 | (60) |
| (Loss) from the sale of discontinued operations | (304) | (3) |
| Income taxes | 48 | 1 |
| (Loss) from the sale of discontinued operations, net of tax | (256) | (2) |
| (Loss) from discontinued operations, net of tax | (254) | (62) |
| Basic earnings per share from discontinued operations (€) | (1.26) | (0.31) |
| Diluted earnings per share from discontinued operations (€) | (1.26) | (0.31) |

The loss from discontinued operations in an amount of € 254 million (2016: € 62 million) was entirely attributable to the shareholders of adidas AG.

04 » DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES

The divestiture of the TaylorMade business was completed on October 2, 2017. The total purchase price amounted to US \$ 425 million consisting of US \$ 200 million in cash, a promissory note in an amount of US \$ 100 million and earn-out components in an amount of US \$ 125 million. In 2017, a preliminary cash consideration of US \$ 155 million was received for which the cash component of US \$ 200 million was adjusted mainly due to lower estimated net working capital compared to target net working capital and the net cash transferred. The assets and liabilities, which were reported as assets/liabilities held for sale since May 10, 2017 due to the concrete plans to sell the business, were consequently derecognized from the consolidated statement of financial position as of October 2, 2017. For the impact of the divestiture on the items in the consolidated statement of financial position [SEE NOTE 38](#) The TaylorMade business is part of Other Businesses (discontinued operations).

The divestiture of the CCM Hockey business was completed on September 1, 2017 for a preliminary cash consideration of US \$ 76 million plus a promissory note amounting to US \$ 40 million. The assets and liabilities which were reported as assets/liabilities held for sale since June 30, 2017 due to the concrete plans to sell the business were consequently derecognized from the consolidated statement of financial position as of September 1, 2017. For the impact of the divestiture on the items in the consolidated statement of financial position [SEE NOTE 38](#) The CCM Hockey business is part of Other Businesses (discontinued operations).

As of June 30, 2016 (closing date), the company formally completed the divestiture of the Mitchell & Ness business. The preliminary purchase price amounted 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 promissory note was issued by the buyer. All contractually agreed closing assets were transferred by adidas at the closing date. This was followed by a transition service period which ended on June 30, 2017. The final purchase price will be determined in early 2018. In 2016, a resulting gain from this transaction in an amount of € 39 million was accounted for as other operating income.

[SEE NOTE 31](#)

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 recognized in the consolidated income statement as they occur.

The majority of short-term financial assets are marketable securities.

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, 2017 | Dec. 31, 2016 |
|--|---------------|---------------|
| Accounts receivable, gross | 2,484 | 2,377 |
| Less: accumulated allowances for doubtful accounts | (169) | (177) |
| Accounts receivable, net | 2,315 | 2,200 |

Movement in allowances for doubtful accounts

€ in millions

| | 2017 | 2016 |
|---|------------|------------|
| Allowances at January 1 | 177 | 149 |
| Additions | 46 | 76 |
| Reversals | (39) | (41) |
| Write-offs charged against the allowance accounts | (9) | (8) |
| Currency translation differences | (7) | 0 |
| Other changes | 0 | 0 |
| Allowances at December 31 | 169 | 177 |

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, 2017 | 153 | 61 | 6 | 4 | 2 |
| Dec. 31, 2016 | 164 | 63 | 11 | 5 | 6 |

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 recognizable for accounts receivable that are neither past due nor impaired.

For further information about credit risks [SEE RISK AND OPPORTUNITY REPORT, P. 131](#)

08 » OTHER CURRENT FINANCIAL ASSETS

Other current financial assets consist of the following:

Other current financial assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Currency options | 12 | 20 |
| Forward exchange contracts | 98 | 348 |
| Security deposits | 44 | 81 |
| Financial assets related to the early termination of promotion contracts | – | 77 |
| Promissory notes | – | 15 |
| Sundry | 239 | 187 |
| Other current financial assets | 393 | 729 |

The line item 'Sundry' mainly relates to a secured promissory note in the amount of € 31 million which is part of the divestiture of the Mitchell & Ness business as well as to credit cards and similar receivables. The secured promissory note will be due upon finalization of the sale of Mitchell & Ness in 2018.

Other current financial assets include accumulated allowances in the amount of € 51 million.

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, 2017 | | | Dec. 31, 2016 | | |
|--|---------------|----------------------------|--------------|---------------|----------------------------|--------------|
| | Gross value | Allowance for obsolescence | Net value | Gross value | Allowance for obsolescence | Net value |
| Merchandise and finished goods on hand | 2,716 | (132) | 2,584 | 2,748 | (170) | 2,578 |
| Goods in transit | 1,103 | – | 1,103 | 1,151 | – | 1,151 |
| Raw materials | 5 | – | 5 | 35 | (2) | 34 |
| Work in progress | 0 | – | 0 | 1 | – | 1 |
| Inventories | 3,824 | (132) | 3,692 | 3,935 | (172) | 3,763 |

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, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Prepaid expenses | 261 | 311 |
| Tax receivables other than income taxes | 146 | 180 |
| Sundry | 99 | 97 |
| Other current assets, gross | 506 | 588 |
| Less: accumulated allowances | (8) | (8) |
| Other current assets, net | 498 | 580 |

Prepaid expenses mainly relate to promotion and service contracts as well as rents.

11 » ASSETS/LIABILITIES AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

At December 31, 2017, assets/liabilities held for sale comprise a building of Reebok International Ltd. in an amount of € 72 million. The Reebok headquarters was moved from Canton to Boston in September 2017. From this moment on, the land and building were readily sellable and therefore reported as 'Assets classified as held for sale'.

At December 31, 2017, impairment losses (before transaction costs) of € 1 million were included in operating profit.

12 » PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Property, plant and equipment € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Land, land leases, buildings and leasehold improvements | 1,242 | 1,395 |
| Technical equipment and machinery | 288 | 325 |
| Other equipment as well as furniture and fixtures | 1,721 | 1,710 |
| | 3,251 | 3,430 |
| Less: accumulated depreciation and impairment losses | (1,629) | (1,733) |
| | 1,622 | 1,697 |
| Construction in progress, net | 378 | 218 |
| Property, plant and equipment, net | 2,000 | 1,915 |

Depreciation expenses were € 358 million and € 303 million for the years ending December 31, 2017 and 2016, 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 € 13 million and € 10 million for the years ending December 31, 2017 and 2016, 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 2017, reversals of impairment losses were recorded in an amount of € 1 million (2016: € 2 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 (2016: € 1 million) related to the construction of qualifying assets at adidas AG were capitalized using a capitalization rate of 1.3% (2016: 1.3%).

For details see Attachment I to the consolidated financial statements SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 213

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, 2017 | Dec. 31, 2016 |
|-------------------------------------|------------------|------------------|
| Goodwill, gross | 1,675 | 1,908 |
| Less: accumulated impairment losses | (454) | (496) |
| Goodwill, net | 1,220 | 1,412 |

The majority of goodwill, which primarily relates to the acquisition of the Reebok business in 2006, is denominated in US dollars. A currency translation effect of negative € 78 million and positive € 20 million was recorded for the years ending December 31, 2017 and 2016, 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 three-year period in total. The planning is based on long-term expectations of the company and reflects in total for the groups of cash-generating units an average annual mid-single- to low-double-digit sales increase with varying forecast growth prospects for the different groups of cash-generating units. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning for capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual groups of cash-generating units. Cash flows beyond this three-year period are extrapolated using steady growth rates of 1.7% (2016: 1.7%). According to the company's expectations, these growth rates do not exceed the long-term average growth rate of the business sector in which the respective group of cash-generating units operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market-weighted debt/equity structure and financing costs referencing major competitors for the respective group of cash-generating units. The discount rates used are after-tax rates and reflect

the specific equity and country risk of the respective group of cash-generating units.

The groups of cash-generating units are defined as the regional markets which are responsible for the joint distribution of the adidas and Reebok brands as well as the other operating segments adidas Golf and Runtastic. The regional markets are: Western Europe, North America (excluding USA Reebok), USA Reebok, 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 2017 and 2016, respectively.

Following the company's internal management reporting and the related split of the market North America into North America (excluding USA Reebok) and USA Reebok, the number of groups of cash-generating units increased from twelve to a total of thirteen in 2017.

On May 10, 2017, adidas signed an agreement to sell its golf equipment business which included the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). As a result, the goodwill allocated to the group of cash-generating units TaylorMade-adidas Golf in the amount of € 292 million was split and re-allocated to the new cash-generating units TaylorMade amounting to € 113 million and adidas Golf amounting to € 179 million based on relative values (value in use) of the operation disposed of and the cash-generating unit retained, respectively. The re-allocated goodwill was initially measured according to IAS 36 'Impairment of Assets' and goodwill allocated to the cash-generating unit TaylorMade was subsequently transferred to 'Assets classified as held for sale'. The recoverable amount of the new cash-generating unit TaylorMade identified in the course of the impairment test was determined based on the net realizable value on the

basis of an existing purchase price offer at this point of time.

SEE NOTES 03, 04 AND 30

The divestiture of TaylorMade, Adams Golf and Ashworth was formally completed on October 2, 2017.

On July 26, 2017, adidas signed an agreement to sell its CCM Hockey business. The divestiture of the CCM Hockey business was formally completed on September 1, 2017.

At December 31, 2017, the number of cash-generating units decreased again to a total of twelve as a result of the completed divestiture of the CCM Hockey and TaylorMade businesses.

In the course of the annual impairment test, adidas assessed whether goodwill impairment was required. In this context, there was no need for goodwill impairment for the years ending December 31, 2017 and 2016, respectively.

The carrying amounts of acquired goodwill allocated to the respective groups of cash-generating units and the respective discount rates applied to the cash flow projections are as follows:

Allocation of goodwill

| | Goodwill (€ in millions) | | Discount rate (after taxes) | |
|------------------------|-----------------------------|------------------|--------------------------------|------------------|
| | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2016 |
| Western Europe | 600 | 643 | 8.2% | 7.7% |
| Greater China | 215 | 231 | 8.1% | 7.5% |
| TaylorMade-adidas Golf | – | 293 | – | 6.5% |
| adidas Golf | 178 | – | 7.7% | – |
| Other | 228 | 245 | 7.9 – 9.5% | 7.3 – 8.9% |
| Total | 1,220 | 1,412 | | |

'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 4.2 percentage points or a reduction of planned free cash inflows by up to approximately 40% would not result in any impairment requirement.

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

For details see Attachment I to the consolidated financial statements SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 213

The reconciliation of goodwill is as follows:

Reconciliation of goodwill, net € in millions

| | Western Europe | Greater China | Taylor-Made-adidas Golf | TaylorMade | adidas Golf | Other | Total |
|------------------------------------|----------------|---------------|-------------------------|------------|-------------|------------|--------------|
| January 1, 2017 | 643 | 231 | 293 | - | - | 245 | 1,412 |
| Re-allocation of goodwill | - | - | (292) | 113 | 179 | - | - |
| Currency translation differences | (43) | (16) | (1) | - | (1) | (17) | (78) |
| Decrease in companies consolidated | - | - | - | (113) | - | - | (113) |
| December 31, 2017 | 600 | 215 | - | - | 178 | 228 | 1,220 |

14 » TRADEMARKS AND OTHER INTANGIBLE ASSETS

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|---------------|---------------|
| Reebok | 1,292 | 1,470 |
| CCM Hockey | - | 122 |
| Runtastic | 31 | 31 |
| Other | 9 | 57 |
| Less: accumulated amortization and impairment losses | (23) | - |
| Trademarks | 1,309 | 1,680 |
| Software, patents and licenses | 839 | 925 |
| Less: accumulated amortization and impairment losses | (685) | (758) |
| Other intangible assets | 154 | 167 |
| Trademarks and other intangible assets | 1,463 | 1,847 |

At December 31, 2017, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and runtastic GmbH in 2015, have indefinite useful lives, with the exception of the definite useful life of the Five Ten trademark. This is due to the expectation of permanent use of the acquired trademarks Reebok and Runtastic and of the limited use of the Five Ten trademark.

The Ashworth and Adams Golf trademarks amounting to € 41 million were initially measured according to IAS 36 'Impairment of Assets' and subsequently transferred to 'Assets classified as held for sale' due to the signing of an agreement in May 2017 to sell the TaylorMade business. The divestiture of TaylorMade, Adams Golf and Ashworth was formally completed on October 2, 2017.

On July 26, 2017, adidas signed an agreement to sell its CCM Hockey business. For this reason, the CCM Hockey trademarks amounting to € 109 million were initially measured according to IAS 36 'Impairment of Assets' and subsequently transferred

to 'Assets classified as held for sale' at June 30, 2017. The divestiture of the CCM Hockey business was formally completed on September 1, 2017.

adidas tests at least on an annual basis whether trademarks 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. Future trademark-specific sales are based on the underlying financial planning used for the goodwill impairment test.

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 amortization benefit, resulting from the amortization 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 three 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 4.5% of the respective trademark-specific sales. Notional royalty savings beyond this period are extrapolated using steady growth rates of 1.7% (2016: 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 8.5% and 9.6% (2016: between 6.5% and 9.0%).

In total, trademark impairment losses of € 23 million were recognized in 2017 (2016: € 0 million).

On the basis of the value in use determination of Runtastic on the cash-generating unit level and due to adjusted growth assumptions, an indication of a potential impairment was identified. In the course of the trademark impairment test, the recoverable amount of the Runtastic trademark in the amount of € 16 million was determined to be lower than its carrying amount and an impairment loss of € 15 million was recognized. Regarding the determination of the fair value less costs to sell, a royalty rate of 3.5% and a discount rate of 9.6% was applied.

In the course of the trademark impairment test, the recoverable amount of the Five Ten trademark in the amount of € 1 million was also determined to be lower than its carrying amount. The impairment loss of € 8 million was mainly due to the planned integration of the Five Ten trademark into adidas by the end of 2020 and the resulting limitation of its remaining useful life to three years.

For the Reebok trademark, there was no indication of a potential impairment. Neither an increase in the discount rate of up to approximately 2.0 percentage points nor a reduction of trademark-specific sales of up to approximately 28.4% or of the applied royalty rate of approximately 1.3 percentage points would 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.

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 (€ 353 million), USA Reebok (€ 224 million), Russia/CIS (€ 203 million) and Latin America (€ 118 million). All other trademarks are part of the respective groups of cash-generating units.

Amortization expenses for intangible assets with definite useful lives were € 63 million and € 70 million for the years ending December 31, 2017 and 2016, respectively. In 2017, impairment losses on other intangible assets amounted to € 10 million (2016: € 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. 213](#)

15 » LONG-TERM FINANCIAL ASSETS

Long-term financial assets primarily include an 8.33% investment in FC Bayern München AG (2016: 8.33%) of € 82 million (2016: € 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, 2017.

The line item 'Investments and loans' comprises investments which are mainly invested in insurance products, which are measured at fair value, securities for long-term variable compensation components as well as other loans. Investments include impairment losses in an amount of € 11 million in 2017 (2016: € 0 million).

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 € 56 million (2016: € 50 million) which are classified as 'available-for-sale' and measured at cost as a reliable determination of the fair value is impossible without having concrete negotiations regarding a sale. Other minority shareholdings include impairment losses in an amount of € 20 million in 2017 (2016: € 5 million). These shares are unlisted and do not have an active market. There is currently no intention to sell these shares.

Long-term financial assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|------------------------------------|------------------|------------------|
| Investment in FC Bayern München AG | 82 | 81 |
| Investments and loans | 98 | 49 |
| Other financial assets | 56 | 64 |
| Long-term financial assets | 236 | 194 |

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, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Currency options | 14 | 18 |
| Forward exchange contracts | 1 | 13 |
| Security deposits | 67 | 34 |
| Earn-out components | 19 | - |
| Promissory notes | 118 | 30 |
| Sundry | 0 | 0 |
| Other non-current financial assets | 219 | 96 |

For further information about currency options and forward exchange contracts [SEE NOTE 30](#)

For information about promissory notes and earn-out components [SEE NOTE 03](#)

17 » OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

Other non-current assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---------------------------------|------------------|------------------|
| Prepaid expenses | 108 | 94 |
| Sundry | 0 | 0 |
| Other non-current assets | 108 | 94 |

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, 2017 are denominated in euros (2017: 91%; 2016: 77%).

The weighted average interest rate on the Group's gross borrowings increased to 2.7% in 2017 (2016: 2.3%).

As at December 31, 2017, adidas had cash credit lines and other long-term financing arrangements totaling € 3.3 billion (2016: € 3.6 billion); thereof unused credit lines accounted for € 2.1 billion (2016: € 2.0 billion). In addition, as at December 31, 2017, adidas had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.2 billion (2016: € 0.2 billion).

The amounts disclosed as gross borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

Gross borrowings as at December 31, 2017 € in millions

| | Up to 1 year | Between 1 and 3 years | Between 3 and 5 years | More than 5 years | Total |
|--|-----------------|--------------------------|--------------------------|----------------------|--------------|
| Bank borrowings incl. commercial paper | 106 | – | – | – | 106 |
| Eurobond | – | – | 596 | 387 | 983 |
| Convertible bond | 31 | – | – | – | 31 |
| Total | 137 | – | 596 | 387 | 1,120 |

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 € 31 million (2016: € 260 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 0.4 million new or existing adidas AG shares (as at December 31, 2017). In 2017, the bondholders converted an aggregate nominal amount of € 229 million of the convertible bond into 2,814,470 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 € 81.57 to € 81.13 (2016: € 82.00 to € 81.57) per share. This adjustment became effective on May 12, 2017. On June 14, 2017, the bondholders had the right to call the bond from adidas AG at nominal value plus interest accrued on the nominal amount. This option was not utilized. adidas AG is entitled to redeem all remaining bonds as a 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 all remaining bonds as a whole if, on 20 of 30 consecutive trading days, the adidas AG share price exceeds the current conversion price of € 81.13 by at least 30%.

According to IAS 32 'Financial Instruments: Presentation', the conversion right represented in the convertible bond constitutes a financial instrument which at issuance is covered in the capital reserve in an amount of € 55 million after deduction of the issuance cost. 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, 2017, the financial liability amounted to € 31 million (2016: € 257 million).

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](#)

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, onerous contracts and provisions due to the divestiture of operating segments.

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 |

For further details on future cash outflows [SEE RISK AND OPPORTUNITY REPORT, P. 131](#)

19 » OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities consist of the following:

Other current financial liabilities € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Currency options | 3 | 1 |
| Forward exchange contracts | 271 | 109 |
| Finance lease obligations | 0 | 3 |
| Earn-out components | 21 | 7 |
| Sundry | 67 | 81 |
| Other current financial liabilities | 362 | 201 |

The line item 'Sundry' mainly relates to payables due to the divestiture of operating segments and due to customs duties.

20 » OTHER PROVISIONS

Other provisions consist of the following:

Other provisions € in millions

| | Jan. 1, 2017 | Currency translation differences | Usage | Reversals | Additions | Transfers | Dec. 31, 2017 | Thereof non-current |
|----------------------------------|-----------------|--|--------------|-------------|------------|-------------|------------------|------------------------|
| Marketing | 28 | (3) | (17) | (0) | 26 | (7) | 27 | - |
| Personnel | 99 | (10) | (56) | (1) | 96 | (11) | 117 | 33 |
| Returns, allowances and warranty | 230 | (16) | (187) | (2) | 251 | (16) | 261 | - |
| Taxes, other than income taxes | 36 | (4) | (14) | (0) | 9 | 0 | 27 | - |
| Sundry | 224 | (11) | (78) | (14) | 260 | 10 | 391 | 47 |
| Other provisions | 617 | (45) | (351) | (18) | 642 | (24) | 821 | 80 |

Marketing provisions mainly consist of provisions for promotion contracts, which are comprised of obligations to clubs and athletes.

Management follows past experience from similar transactions when assessing the recognition and the measurement of other provisions; in particular external legal opinions are considered for provisions for customs risks and for litigation and other legal risks. All evidence from events

until the preparation of the consolidated financial statements is taken into account.

The transfers include reclassifications to 'Liabilities classified as held for sale'.

21 » ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued liabilities € in millions

| | Jan. 1, 2017 | Currency translation differences | Usage | Reversals | Additions | Transfers | Dec. 31, 2017 | Thereof non-current |
|-------------------------------------|-----------------|--|----------------|-------------|--------------|--------------|------------------|------------------------|
| Goods and services not yet invoiced | 708 | (44) | (530) | (22) | 766 | (46) | 833 | 1 |
| Marketing and sales | 748 | (35) | (516) | (18) | 639 | (11) | 806 | 3 |
| Personnel | 633 | (31) | (439) | (4) | 492 | (57) | 595 | 76 |
| Sundry | 54 | (4) | (26) | (5) | 21 | (10) | 30 | 5 |
| Accrued liabilities | 2,143 | (113) | (1,511) | (49) | 1,919 | (124) | 2,265 | 85 |

Accrued liabilities for marketing and sales mainly consist of accruals for distribution, such as discounts, rebates and sales commissions.

Accrued liabilities for personnel mainly consist of accruals for outstanding salary payments, such as bonuses and overtime, as well as outstanding vacation.

Sundry accrued liabilities mainly include accruals for interest as well as for dismantling costs.

The transfers include reclassifications to 'Liabilities classified as held for sale'.

22 » OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

Other current liabilities € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Tax liabilities other than income taxes | 200 | 131 |
| Liabilities due to personnel | 65 | 65 |
| Liabilities due to social security | 22 | 24 |
| Deferred income | 53 | 43 |
| Customers with credit balances | 54 | 85 |
| Sundry | 78 | 86 |
| Other current liabilities | 473 | 434 |

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, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Currency options | 0 | 1 |
| Forward exchange contracts | 14 | 2 |
| Revaluation total return swap | 4 | - |
| Finance lease obligations | 3 | 4 |
| Earn-out components | 5 | 15 |
| Sundry | 1 | 0 |
| Other non-current financial liabilities | 22 | 22 |

For further information about currency options and forward exchange contracts [SEE NOTE 30](#)

For further information about finance lease obligations [SEE NOTE 29](#)

24 » PENSIONS AND SIMILAR OBLIGATIONS

adidas has recognized post-employment benefit obligations arising from defined benefit plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country and mainly depend on the employees' years of service and remuneration.

Pensions and similar obligations € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Liability arising from defined benefit pension plans | 295 | 338 |
| Similar obligations | 2 | 17 |
| Pensions and similar obligations | 298 | 355 |

Defined contribution pension plans

The total expense for defined contribution plans amounted to € 67 million in 2017 (2016: € 66 million).

Defined benefit pension plans

Given the company's diverse structure, different defined benefit pension plans exist, comprising a variety of post-employment benefit arrangements. The company's major defined benefit pension plans relate to adidas AG and its subsidiaries in the UK and South Korea. The defined benefit pension plans generally provide payments in case of death, disability or retirement to former employees and their survivors. The obligations arising from defined benefit pension plans are partly covered by plan assets.

In Germany, adidas AG grants its employees contribution-based and final salary defined benefit pension schemes, which provide employees with entitlements in the event of retirement, disability and death. German pension plans operate under the legal framework of the German Company Pensions Act ('Betriebsrentengesetz') and under general German labor legislation. New employees are entitled to benefits in accordance with the adidas Pension Plan or the adidas Management Pension Plan. The adidas Pension Plan is a matching contribution plan; the contributions to this pension plan are partly paid by the employee and partly paid by the employer. The contributions are transferred into benefit components. The benefits are paid out in the form of a pension, a lump sum or installments. The pension plans in Germany are financed using book reserves, a contractual trust arrangement (CTA) and a pension fund ('Pensionsfonds') in combination with a reinsured provident fund ('Unterstützungskasse') for certain former members of the Executive Board of adidas AG. Further details about the pension entitlements of members of the Executive Board of adidas AG are contained in the Compensation Report.

SEE COMPENSATION REPORT, P. 39

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.

Breakdown of the present value of the obligation arising from defined benefit pension plans in the major countries € in millions

| | Dec. 31, 2017 | | | Dec. 31, 2016 | | |
|-------------------------------------|---------------|-----------|-------------|---------------|-----------|-------------|
| | Germany | UK | South Korea | Germany | UK | South Korea |
| Active members | 203 | – | 18 | 211 | – | 17 |
| Former employees with vested rights | 106 | 52 | – | 76 | 69 | – |
| Pensioners | 77 | 7 | – | 86 | 4 | – |
| Total | 386 | 59 | 18 | 375 | 73 | 17 |

In South Korea, adidas grants a final pay pension plan to certain employees. This plan is closed to new entrants. The benefits are paid out in the form of a lump sum. The pension plan operates under the Employee Retirement Benefit Security Act (ERSA). This regulation requires a minimum funding amounting to 80% of the present value of the vested benefit obligation. The annual contribution includes at least the minimum amount in order to meet the funding requirements. The pension plan at TaylorMade South Korea was derecognized due to the divestiture of the TaylorMade business as at October 2, 2017. SEE NOTE 04

The Group's pension plans are subject to risks from changes in actuarial assumptions, such as the discount rate, salary and pension increase rates, and risks from changes in longevity. A lower discount rate results in a higher defined benefit obligation and/or in higher contributions to the pension funds. Lower than expected performance of the plan assets could lead to an increase in required contributions or to a decline of the funded status.

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

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

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Present value of funded obligation from defined benefit pension plans | 482 | 485 |
| Fair value of plan assets | (218) | (178) |
| Funded status | 264 | 307 |
| Present value of unfunded obligation from defined benefit pension plans | 31 | 31 |
| Asset ceiling effect | 0 | 0 |
| Net defined benefit liability | 295 | 338 |
| Thereof: liability | 295 | 338 |
| Thereof: adidas AG | 248 | 275 |
| 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, 2017 | Dec. 31, 2016 |
|-----------------------------------|------------------|------------------|
| Discount rate | 2.3 | 2.1 |
| Expected rate of salary increases | 3.7 | 3.1 |
| Expected pension increases | 1.6 | 1.7 |

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

The actuarial assumptions for withdrawal and mortality rates are based on statistical information available in the various countries. In Germany, the Heubeck 2005 G mortality tables are used. In the UK, assumptions are based on the S2PA base table with modified improvement of the life expectancy mortality tables. In South Korea, the KIDI 2015 tables from the Korean Insurance Development Institute are used.

As in the previous year, the calculation of the pension liabilities in Germany is based on a discount rate determined using the 'Mercer Yield Curve (MYC)' approach.

Remeasurements, such as gains or losses arising from changes in the actuarial assumptions for defined benefit pension plans during the financial year or a return on the plan assets exceeding the interest income, are immediately recognized outside the income statement as a change in other reserves in the consolidated statement of comprehensive income.

Pension expenses for defined benefit pension plans

€ in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Current service cost | 27 | 17 |
| Net interest expense | 7 | 6 |
| Thereof: interest cost | 11 | 11 |
| Thereof: interest income | (4) | (5) |
| Past service cost/(credit) | 1 | (0) |
| Gain on plan settlements | (0) | (1) |
| Expenses for defined benefit pension plans (recognized in the consolidated income statement) | 34 | 23 |
| Actuarial (gains)/losses | (21) | 89 |
| Thereof: due to changes in financial assumptions | (22) | 70 |
| Thereof: due to changes in demographic assumptions | (2) | (1) |
| Thereof: due to experience adjustments | 2 | 21 |
| Return on plan assets (not included in net interest income) | (7) | (6) |
| Asset ceiling effect | (0) | (0) |
| Remeasurements for defined benefit pension plans (recognized as (increase)/decrease in other reserves in the consolidated statement of comprehensive income) | (29) | 84 |
| Total | 5 | 106 |

Of the total pension expenses recorded in the consolidated income statement, an amount of € 25 million (2016: € 16 million) relates to employees of adidas AG, € 0.6 million (2016: € 0.2 million) relates to employees in the UK and € 2.8 million (2016: € 3 million) relates to employees in South Korea. The pension expense is mainly recorded within other operating expenses. The production-related part of the pension expenses is recognized within cost of sales.

Present value of the defined benefit obligation

€ in millions

| | 2017 | 2016 |
|---|------------|------------|
| Present value of the obligation from defined benefit pension plans as at January 1 | 516 | 419 |
| Currency translation differences | (7) | (8) |
| Current service cost | 27 | 17 |
| Interest cost | 11 | 11 |
| Contribution by plan participants | 0 | 0 |
| Pensions paid | (11) | (11) |
| Payments for plan settlements | 0 | (2) |
| Actuarial (gains)/losses | (21) | 89 |
| Thereof: due to changes in financial assumptions | (22) | 70 |
| Thereof: due to changes in demographic assumptions | (2) | (1) |
| Thereof: due to experience adjustments | 2 | 21 |
| Past service cost/(credit) | 1 | (0) |
| Gain on plan settlements | (0) | (1) |
| Business combinations/transfers/divestitures | (2) | 1 |
| Present value of the obligation from defined benefit pension plans as at December 31 | 513 | 516 |

In the following table, the effects of reasonably conceivable changes in the actuarial assumptions on the present value of the obligation from defined benefit pension plans are analyzed. In addition, for Germany, the UK and South Korea the average duration of the obligation is shown.

Approximately 93% (2016: 92%) of the total plan assets are allocated to plan assets in the three major countries: Germany (2017: 63%, 2016: 57%), UK (2017: 23%, 2016: 28%) and South Korea (2017: 7%, 2016: 8%).

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.

Sensitivity analysis of the obligation from defined benefit pension plans € in millions

| | Dec. 31, 2017 | | | Dec. 31, 2016 | | |
|--|---------------|----|-------------|---------------|----|-------------|
| | Germany | UK | South Korea | Germany | UK | South Korea |
| Present value of the obligation from defined benefit pension plans | 386 | 59 | 18 | 375 | 73 | 17 |
| Increase in the discount rate by 0.5% | 355 | 51 | 18 | 344 | 63 | 16 |
| Reduction in the discount rate by 0.5% | 422 | 67 | 19 | 412 | 85 | 18 |
| Average duration of the obligations (in years) | 17 | 28 | 7 | 18 | 30 | 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 installment payments, the pension increase rate and the mortality assumption have significantly less impact than the discount rate when calculating the pension obligations.

Fair value of plan assets € in millions

| | 2017 | 2016 |
|---|------------|------------|
| Fair value of plan assets at January 1 | 178 | 173 |
| Currency translation differences | (3) | (7) |
| Pensions paid | (4) | (3) |
| Contributions by the employer | 36 | 6 |
| Contributions paid by plan participants | 0 | 0 |
| Interest income from plan assets | 4 | 5 |
| Return on plan assets (not included in net interest income) | 7 | 6 |
| Settlement payments | - | (1) |
| Business combinations/transfers/divestitures | (1) | - |
| Fair value of plan assets at December 31 | 218 | 178 |

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. In addition, in 2017, an amount of € 30 million in cash was transferred to the trustee. The plan assets in the registered association are mainly invested in real estate, equity index funds and hybrid bonds. 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.

The expected payments for the 2018 financial year amount to € 43 million. Thereof, € 6 million relates to benefits directly paid to pensioners by the subsidiaries and € 37 million to employer contributions paid into the plan assets. In 2017, the actual return on plan assets (including interest income) was € 11 million (2016: € 10 million).

Composition of plan assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|----------------------------------|---------------|---------------|
| Cash and cash equivalents | 19 | 28 |
| Equity instruments | 26 | 59 |
| Bonds | 26 | 34 |
| Real estate | 50 | 13 |
| Pension plan reinsurance | 46 | 44 |
| Investment funds | 51 | - |
| Insurance policies | - | 0 |
| Other assets | 0 | 0 |
| Fair value of plan assets | 218 | 178 |

All equities and bonds are traded freely and have a quoted market price in an active market.

At each balance sheet date, the company analyzes the over- or underfunding and, where appropriate, adjusts the composition of plan assets.

25 » OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

Other non-current liabilities € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--------------------------------------|------------------|------------------|
| Liabilities due to personnel | 2 | 5 |
| Deferred income | 51 | 41 |
| Sundry | 0 | 0 |
| Other non-current liabilities | 53 | 46 |

26 » SHAREHOLDERS' EQUITY

The nominal capital of adidas AG has remained unchanged since December 31, 2016. As at the balance sheet date, and in the period beyond, up to and including February 23, 2018, 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 5,354,952 treasury shares, corresponding to a notional amount of € 5,354,952 in the nominal capital and consequently 2.56% of the nominal capital. As at February 23, 2018, adidas AG holds 5,322,731 treasury shares, corresponding to a notional amount of € 5,322,731 in the nominal capital and consequently 2.54% of the nominal capital.

Authorized Capital

The Executive Board of adidas AG did not utilize the existing amount of authorized capital of up to € 90 million in the 2017 financial year or in the period beyond the balance sheet date up to and including February 23, 2018.

The following overview of the existing amounts of authorized capital refers to § 4 sections 2, 3, 4 and 5 of the Articles of Association and consequently does not include the Authorized Capitals 2013/I, 2013/III and 2015 canceled by the Annual General Meeting on May 11, 2017, which had also not been utilized up to May 11, 2017. The authorized capital of adidas AG entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital

until June 7, 2022

- by issuing new shares against contributions in cash once or several times by no more than € 50 million and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights (Authorized Capital 2017/I);

until June 7, 2020

- by issuing new shares against contributions in kind once or several times by no more than € 16 million and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorized Capital 2017/II);

until June 7, 2022

- by issuing new shares against contributions in cash once or several times by no more than € 20 million and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to exclude shareholders' subscription rights when issuing the new shares at a value not essentially below the stock market price of the adidas AG shares already listed on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the adidas AG shares on a foreign stock exchange (Authorized Capital 2017/III). The authorization to exclude subscription rights pursuant to the previous sentence may, however, only be used to the extent that the pro rata amount of the new shares in the nominal capital together with the

pro rata amount in the nominal capital of other shares which have been issued by adidas AG since May 11, 2017, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorized capital or following a repurchase, or for which subscription or conversion rights or subscription or conversion obligations have been granted since May 11, 2017, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded 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 authorization into the commercial register or – if this amount is lower – as of the respective date on which the resolution on utilization of the authorization is adopted; the overall amount of shares issued based on the Authorized Capital 2017/III and the Authorized Capital 2017/II must not exceed 10% of the nominal capital existing on the date of the respective issuance;

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 (Authorized Capital 2016). Any repurchased treasury shares of adidas AG which are used by adidas AG for employee stock purchase plans during the term of this authorization shall be attributed to the maximum number of 4,000,000 shares. The new shares may only be issued to (current or former) employees of adidas AG and its affiliated companies as well as to (current and former) members of management bodies of the adidas AG's affiliated companies.

Contingent Capital

The following description of the Contingent Capital is based on § 4 sections 6 and 7 of the Articles of Association of adidas AG as well as on the underlying resolutions of the Annual General Meetings held on May 6, 2010 and May 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 authorization resolution. The new shares shall carry dividend rights from the commencement of the financial year in which the shares are issued.

On March 14, 2012, the Executive Board, with the approval of the Supervisory Board, made partial use of the authorization of the Annual General Meeting from May 6, 2010, and on March 21, 2012 issued a convertible bond due on June 14, 2019 (including a prolongation option) in a nominal value of € 500 million via an offer to institutional investors outside the USA 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 of the conversion ratio 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 € 81.13 per

share are convertible into 6,163,246 shares of adidas AG. The conversion price currently amounts to € 81.13 per share. The convertible bond bears an interest rate of 0.25% per annum. Bondholders were entitled to demand early redemption of the bonds as at June 14, 2017. Since 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 € 81.13 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. 183](#)

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

The Executive Board of adidas AG did not issue shares from the Contingent Capital 2010 up to the balance sheet date and in the period beyond the balance sheet date up to and including February 23, 2018.

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 the option or conversion duties based on bonds issued by adidas AG or a subordinated Group company, pursuant to the authorization of the Executive Board granted by the resolution adopted by the Annual General Meeting on May 8, 2014 (Agenda Item 7), up to May 7, 2019 and guaranteed by adidas AG, 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 adidas AG exercises its

rights to choose to deliver adidas AG shares for the total amount or a part amount instead of payment of the amount due and insofar as no cash settlement, treasury shares or shares of another publicly listed company are used to service these rights. The new shares will be issued at the respective option or conversion price to be established in accordance with the aforementioned authorization 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 authorized, subject to Supervisory Board approval, to stipulate any additional details concerning the implementation of the contingent capital increase.

Up to the balance sheet date and in the period beyond the balance sheet date up to and including February 23, 2018, the Executive Board of adidas AG did not issue any bonds based on the authorization granted on May 8, 2014 and consequently did not issue any shares from the Contingent Capital 2014.

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 canceled the authorization 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 authorization to repurchase treasury shares up to an amount totaling 10% of the nominal capital until May 11, 2021. The authorization may be used by adidas AG but also by its subordinated Group companies or by third parties on account of adidas AG or its subordinated Group companies or third parties assigned by adidas AG or one of its subordinated Group companies.

Based on the authorization to repurchase treasury shares granted by the Annual General Meeting on May 8, 2014, the adidas AG Executive Board commenced a share buyback program on November 7, 2014.

Under the granted authorization, 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 cancelation (capital reduction) or otherwise used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond.

Under the granted authorization, 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 cancelation (capital reduction) or otherwise used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond.

Based on the authorization granted by the Annual General Meeting on May 12, 2016, 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. The repurchased shares were either canceled, thus reducing the nominal capital, or used to meet obligations arising from the potential conversion of adidas AG's € 500 million convertible bond and other admissible purposes under the authorization granted by the Annual General Meeting on May 12, 2016. The share buyback program expired on December 31, 2017.

For details [SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE, P. 120](#)

In the 2017 financial year, a total of 2,814,470 treasury shares were used to meet obligations arising from the conversion of adidas AG's convertible bond. In the 2018 financial year and up to and including February 23, 2018, a total of 9,861 treasury shares were used to meet obligations arising from the conversion of adidas AG's convertible bond.

Moreover, in the 2017 financial year, 30,420 treasury shares and in the period beyond up to and including February 23, 2018, another 22,360 treasury shares were used as consideration, inter alia for the transfer or licensing of intellectual property rights and intangible property rights due to contractual obligations.

In the 2017 financial year and up to and including February 23, 2018, adidas AG used a total of 2,877,111 treasury shares.

Employee stock purchase plan

In the 2016 financial year, adidas AG introduced an employee stock purchase plan in favor of employees of adidas AG and its affiliated companies.

On January 6, 2017, adidas AG purchased 25,699 adidas AG shares at an average price of € 144.41 in connection with the employee stock purchase plan. This corresponded to a total price of € 3,711,236 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 25,699 or 0.01%. All shares purchased for this purpose on January 6, 2017 were issued to eligible employees on January 9, 2017 and on January 10, 2017.

On April 7, 2017, adidas AG purchased 20,086 adidas AG shares at an average price of € 176.16 in connection with the employee stock purchase plan. This corresponded to a total

price of € 3,538,364 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 20,086 or 0.009%. All shares purchased for this purpose on April 7, 2017 were issued to eligible employees on April 11, 2017.

On July 7, 2017, adidas AG purchased 22,563 adidas AG shares at an average price of € 175.61 in connection with the employee stock purchase plan. This corresponded to a total price of € 3,962,498 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 22,563 or 0.01%. All shares purchased for this purpose on July 7, 2017 were issued to eligible employees on July 11, 2017.

On October 9, 2017, adidas AG purchased 20,454 adidas AG shares at an average price of € 194.40 in connection with the employee stock purchase plan. This corresponded to a total price of € 3,976,337 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 20,454 or 0.009%. All shares purchased for this purpose on October 9, 2017 were issued to eligible employees on October 11, 2017.

On January 8, 2018, adidas AG purchased 25,672 adidas AG shares at an average price of € 173.27 in connection with the employee stock purchase plan. This corresponded to a total price of € 4,448,258 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 25,672 or 0.01%. At the same time, adidas AG purchased another 3,642 adidas AG shares at an average price of € 173.27, which were used as matching shares. This corresponded to a total price of € 631,059 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 3,642 or 0.002%. All shares purchased for this purpose on January 8, 2018 were issued to eligible employees on January 10, 2018. For details on the employee stock purchase plan [SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 HGB AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE, P. 120](#) [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 § 33 section 1 or section 2 (and until December 31, 2017, § 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 23, 2018 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 23, 2018 are available on the adidas website. [ADIDAS-GROUP.COM/S/VOTING-RIGHTS-NOTIFICATIONS](https://www.adidas-group.com/s/voting-rights-notifications) The details on the percentage of shareholdings and voting rights may no longer be up to date.

Capital management

The company's policy is to maintain a strong capital base so as to uphold investor, creditor and market confidence and to sustain future development of the business.

adidas seeks to maintain a balance between a higher return on equity that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The company further aims to maintain net debt below two times EBITDA over the long term.

Notified reportable shareholdings as at February 23, 2018

| Notifying party | Date of reaching, exceeding or falling below | Reporting threshold | Notification obligations and attributions in accordance with WpHG ¹ | Shareholdings in % | Number of voting rights |
|---|--|---------------------|--|--------------------|-------------------------|
| Albert Frère ² | December 28, 2017 | Exceeding 5% | § 33 | 7.50 | 15,694,711 |
| Fidelity Mt. Vernon Street Trust, Boston, MA, USA ³ | December 13, 2017 | Falling below 3% | § 21 | 2.99 | 6,258,487 |
| adidas AG, Herzogenaurach, Germany ⁴ | November 28, 2017 | Falling below 3% | | 2.62 | 5,478,213 |
| BlackRock, Inc., Wilmington, DE, USA ⁵ | November 14, 2017 | Exceeding 5% | §§ 22, 25 sec. 1 no. 1 and § 25 sec. 1 no. 2 | 7.38 | 15,448,941 |
| Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands ⁶ | December 16, 2016 | Exceeding 5% | §§ 22, 25 sec. 1 no. 2 | 5.71 | 11,950,482 |
| FMR LLC, Wilmington, DE, USA ⁷ | May 12, 2016 | Exceeding 5% | § 22 | 5.31 | 11,117,704 |
| Capital Research and Management Company, Los Angeles, CA, USA ⁸ | 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 ⁹ | July 22, 2015 | Exceeding 3% | § 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2 and 3 | 3.02 | 6,325,110 |

¹ The provisions of the WpHG stated refer to the version applicable at the time of publication of the respective individual voting rights notification. Until December 31, 2017, the notification obligations and attributions were regulated in §§ 21 et seq. WpHG and have been regulated in §§ 33 et seq. since January 1, 2018.

² See adidas AG's disclosure dated February 8, 2018.

³ See adidas AG's disclosure dated December 20, 2017.

⁴ See adidas AG's disclosure dated December 4, 2017.

⁵ See adidas AG's disclosure dated November 20, 2017.

⁶ See adidas AG's disclosure dated December 22, 2016.

⁷ See adidas AG's disclosure dated May 19, 2016.

⁸ See adidas AG's disclosure dated July 29, 2015.

⁹ See adidas AG's disclosure dated July 28, 2015.

Financial leverage amounts to negative 7.5% (2016: positive 1.6%) and is defined as the ratio between net borrowings (short- and long-term borrowings less cash and cash equivalents as well as short-term financial assets) in an amount of negative € 484 million (2016: positive € 103 million) and shareholders' equity in an amount of € 6.450 billion (2016: € 6.472 billion). EBITDA (continuing operations) amounted to € 2.511 billion for the financial year ending December 31, 2017 (2016: € 1.953 billion). The ratio between net borrowings and EBITDA (continuing operations) amounted to negative 0.2 for the financial year ending December 31, 2017 (2016: positive 0.1).

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, expenses recognized for share option plans, effects from the acquisition of non-controlling interests, as well as reserves required by law.
- **Retained earnings:** comprises both amounts which are required by the Articles of Association and voluntary amounts that have been set aside by adidas. The reserve includes the unappropriated accumulated profits less dividends paid and consideration paid for the repurchase

of treasury shares exceeding the nominal value. In addition, the item includes the effects of the employee stock purchase plan.

The capital reserve includes restricted capital in an amount of € 4 million. Furthermore, other reserves include additional restricted capital in an amount of € 47 million.

Distributable profits and dividends

Profits distributable to shareholders are determined by reference to the retained earnings of adidas AG and calculated under German Commercial Law.

Based on the resolution of the 2017 Annual General Meeting, the dividend for 2016 was € 2.00 per share (total amount: € 405 million). The Executive Board of adidas AG will propose to use retained earnings of adidas AG in an amount of € 573 million as reported in the 2017 financial statements of adidas AG for a dividend payment of € 2.60 per dividend-entitled share for the year 2017 as at December 31, 2017 and to carry forward the subsequent remaining amount.

As at December 31, 2017, 203,861,234 dividend-entitled shares exist, resulting in a dividend payment of € 530 million.

27 » SHARE-BASED PAYMENT

Equity-settled share-based payment transactions with employees

In 2016, adidas announced the introduction of an open-ended employee stock purchase plan (the 'plan'). The plan is operated on a quarterly basis, with each calendar quarter referred to as an 'investment quarter'. The investment shares granted in the first investment quarter between October 1, 2016 and December 31, 2016 were issued to the eligible employees on January 9, 2017 and January 10, 2017, respectively. The investment shares granted in the second investment quarter between January 1, 2017 and March 31, 2017 were issued to the eligible employees on April 11, 2017. The investment

shares granted in the third investment quarter between April 1, 2017 and June 30, 2017 were issued to the eligible employees on July 11, 2017. The investment shares granted in the fourth investment quarter between July 1, 2017 and September 30, 2017 were issued to the eligible employees on October 11, 2017.

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 eleven other subsidiaries can participate in the plan. Up to two weeks before the start of an investment quarter each eligible employee can enroll for the plan. The company accepts enrollment requests on the first day of the relevant investment quarter. This is the grant date for the investment and matching shares. The fair value at the vesting date is equivalent to the fair value of the granted equity instruments at this date. The employees invest an amount up to 10% of their gross base salary per quarter in the plan. A few days after the end of the investment quarter the shares are purchased on the market at fair market value and transferred to the employees. Thereby the amount invested during the quarter plus the top-up from adidas is used. These shares can be sold at any time by the employee. If the shares are held for a period of one year after the last day of an investment quarter, employees will receive one-time free matching shares (one matching share for every six adidas AG shares acquired). This plan currently constitutes an equity-settled share-based payment for both elements. For the component of the matching shares relating to the specific period of service an appropriate discount is taken into account. The effects are presented in the following table:

Equity-settled share-based payment transactions with employees

| | As at December 31, 2016 | | As at December 31, 2017 | | | |
|--|-------------------------|------------------------|-------------------------|------------------------|------------------------|------------------------|
| | 1st investment quarter | 1st investment quarter | 2nd investment quarter | 3rd investment quarter | 4th investment quarter | 5th investment quarter |
| Grant date | Oct. 1, 2016 | Oct. 1, 2016 | Jan. 2, 2017 | April 3, 2017 | July 3, 2017 | Oct. 2, 2017 |
| Share price at grant date (in €) | 157.40 | 157.40 | 151.30 | 175.85 | 168.90 | 196.10 |
| Share price at December 31 (in €) | 150.15 | | | | | 167.15 |
| Number of granted investment shares based on the share price as at December 31 | 24,665 | – | – | – | – | 26,671 |
| Number of actually purchased investment shares | – | 25,699 | 20,086 | 22,563 | 20,454 | – |
| Outstanding granted matching shares based on the share price as at December 31 or actually purchased investment shares | 4,110 | 3,643 | 3,016 | 3,429 | 3,077 | 4,445 |
| Average remaining vesting period in months as at December 31 (in months) | 12 | 0 | 3 | 6 | 9 | 12 |

The number of forfeited matching shares during the period amounted to 1,463 (2016: 0).

As at December 31, 2017, the total expenses recognized relating to investment shares amounted to € 2.5 million (2016: € 0.6 million).

Expenses recognized relating to vesting of matching shares amounted to € 1.4 million in 2017 (2016: € 0.1 million).

As at December 31, 2017, a total amount of € 4 million (2016: € 3 million) was invested by the participants in the stock purchase plan and was not yet transferred into shares by the end of December 2017. Therefore, this has been included in 'Other current financial liabilities'. [SEE NOTE 19](#)

Equity-settled share-based payment transactions with third parties

In 2016, adidas entered into a promotion and advertising contract, which includes a share-based payment transaction with third parties. The contract has a duration of five years and will end in 2021.

The first part of the agreement grants a one-time transfer of basic shares over five years which correspond to a value of US \$ 5 million each year. Based on the contractual terms, the first transfer in 2017 equated to 30,420 shares. The shares from the third tranche of repurchased shares with an average price of € 140.96 per share were used as a consideration.

[SEE NOTE 26](#)

As at January 1, 2017 (grant date), an amount of € 5 million was recognized as expenses for basic shares over the vesting period of twelve months.

The second part of the agreement grants bonus shares of US \$ 5 million if certain conditions are fulfilled. This option can be granted two times. As at December 31, 2017, it was likely that the bonus shares will be issued. Therefore, expenses recognized for bonus shares amounting to € 1.4 million were accrued in 2017.

Cash-settled share-based payment transactions with employees

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

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

Due to the implementation of the new LTI, one tranche with a three-year term and another with a four-year term were issued in 2017. The number of RSUs granted depends on the seniority of the beneficiaries. In addition, for the four-year plan, the number of RSUs also depends on the achievement of a target figure which is based on the growth of the diluted earnings per share from continuing operations.

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

At December 31, 2017, the calculation of the provision is based on a fair value of € 161.61 per RSU for the three-year cycle and a fair value of € 157.91 per RSU for the four-year cycle. The fair value is based on the closing price of the adidas AG share on December 29, 2017, adjusted for future dividend payments.

The average risk-free interest rate is based on German government securities and is 0.71% for the three-year cycle and 0.67% for the four-year cycle.

At December 31, 2017, the RSU Plan worldwide comprised 408,236 RSUs from the three-year tranche and 331,143 RSUs from the four-year tranche. The RSUs for the three-year tranche were issued in 2017. In 2017, this resulted in an expense of € 31 million. The corresponding provision amounted to € 31 million.

28 » NON-CONTROLLING INTERESTS

This line item within equity comprises the non-controlling interests in subsidiaries which are not directly or indirectly attributable to adidas AG.

Non-controlling interests are assigned to two subsidiaries as at December 31, 2017 and 2016, respectively. [SEE ATTACHMENT II TO THE CONSOLIDATED FINANCIAL STATEMENTS](#) [SEE SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH, P. 215](#) 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.

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

Subsidiaries with non-controlling interests

| Legal entity name | Principal place of business | Ownership interests held by non-controlling interests (in %) | |
|----------------------|-----------------------------|--|---------------|
| | | Dec. 31, 2017 | Dec. 31, 2016 |
| Life Sport Ltd. | Israel | 15% | 15% |
| Reebok India Company | India | 6.85% | 6.85% |

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

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

| | Non-controlling interests | |
|---|---------------------------|---------------|
| | Dec. 31, 2017 | Dec. 31, 2016 |
| Net sales (third parties) | 185 | 168 |
| Net income | 20 | 15 |
| Net income attributable to non-controlling interests | 3 | 2 |
| Other comprehensive income | 17 | (1) |
| Total comprehensive income | 38 | 15 |
| Total comprehensive income attributable to non-controlling interests | 4 | 2 |
| Current assets | 98 | 85 |
| Non-current assets | 16 | 16 |
| Current liabilities | (63) | (55) |
| Non-current liabilities | (1) | (1) |
| Net assets | 50 | 44 |
| Net assets attributable to non-controlling interests according to the consolidated statement of financial position | (15) | (17) |
| Net cash generated from operating activities | 14 | 18 |
| Net cash used in investing activities | (3) | (8) |
| Net cash (used in)/generated from financing activities | (6) | 0 |
| Net increase of cash and cash equivalents | 5 | 10 |
| Dividends paid to non-controlling interests during the year ¹ | 1 | 2 |

¹ Included in net cash used in 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 one and 21 years partly include renewal options and escalation clauses. Rent expenses (continuing operations), which partly depend on net sales, amounted to € 779 million and € 707 million for the years ending December 31, 2017 and 2016, 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, 2017 | Dec. 31, 2016 |
|-----------------------|------------------|------------------|
| Within 1 year | 722 | 688 |
| Between 1 and 5 years | 1,341 | 1,289 |
| After 5 years | 586 | 523 |
| Total | 2,649 | 2,501 |

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 € 5 million and € 8 million was included in property, plant and equipment as at December 31, 2017 and 2016, respectively. For the year ending December 31, 2017, interest expenses (continuing operations) were € 0 million (2016: € 0 million) and depreciation expenses (continuing operations) were € 3 million (2016: € 4 million).

Minimum lease payments for finance leases in 2017 include land leases with a remaining lease term of 95 years. The minimum lease payments under these contracts amount to € 11 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 2020 and the land leases with a remaining lease term of 95 years are as follows:

Minimum lease payments for finance leases € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Lease payments falling due: | | |
| Within 1 year | 0 | 3 |
| Between 1 and 5 years | 1 | 1 |
| After 5 years | 11 | 12 |
| Total minimum lease payments | 13 | 16 |
| Less: estimated amount representing interest | (10) | (10) |
| Present value of minimum lease payments | 3 | 6 |
| Thereof falling due: | | |
| Within 1 year | 0 | 3 |
| Between 1 and 5 years | 0 | 1 |
| After 5 years | 2 | 2 |

Service arrangements

adidas has outsourced certain logistics and information technology functions, for which it has entered into long-term contracts. Financial commitments under these contracts mature as follows:

Financial commitments for service arrangements € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|-----------------------|------------------|------------------|
| Within 1 year | 181 | 134 |
| Between 1 and 5 years | 255 | 233 |
| After 5 years | 0 | 0 |
| Total | 437 | 366 |

30 » FINANCIAL INSTRUMENTS**Additional disclosures on financial instruments**

Carrying amounts of financial instruments as at December 31, 2017, according to categories of IAS 39 and their fair values € in millions

| | Category according to IAS 39 | Carrying amount Dec. 31, 2017 | Measurement according to IAS 39 | | | Measurement according to IAS 17 | Fair value Dec. 31, 2017 |
|---|------------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------|--------------------------|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in net income | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | n. a. | 1,598 | 1,598 | | | | 1,598 |
| Short-term financial assets | FAHfT | 5 | | | 5 | | 5 |
| Accounts receivable | LaR | 2,315 | 2,315 | | | | 2,315 |
| Other current financial assets | | | | | | | |
| Derivatives being part of a hedge | n. a. | 82 | | 82 | | | 82 |
| Derivatives not being part of a hedge | FAHfT | 28 | | | 28 | | 28 |
| Other financial assets | LaR | 283 | 283 | | | | 283 |
| Long-term financial assets | | | | | | | |
| Other equity investments | FAHfT | 82 | | | 82 | | 82 |
| Available-for-sale financial assets | AfS | 145 | 56 ¹ | 89 | | | 145 |
| Loans | LaR | 9 | 9 | | | | 9 |
| Other non-current financial assets | | | | | | | |
| Derivatives being part of a hedge | n. a. | 1 | | 1 | | | 1 |
| Derivatives not being part of a hedge | FAHfT | 14 | | | 14 | | 14 |
| Promissory notes | AfS | 118 | | | 118 | | 118 |
| Earn-out components | AfS | 19 | | | 19 | | 19 |
| Other financial assets | LaR | 67 | 67 | | | | 67 |

¹ Investments in other equity instruments are measured at cost less impairment losses

Carrying amounts of financial instruments as at December 31, 2017, according to categories of IAS 39 and their fair values € in millions

| | Category according to IAS 39 | Carrying amount Dec. 31, 2017 | Measurement according to IAS 39 | | | Measurement according to IAS 17 | Fair value Dec. 31, 2017 |
|---|------------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------|--------------------------|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in net income | | |
| Financial liabilities | | | | | | | |
| Short-term borrowings | | | | | | | |
| Bank borrowings | FLAC | 106 | 106 | | | | 106 |
| Convertible bond | FLAC | 31 | 31 | | | | 63 |
| Accounts payable | FLAC | 1,975 | 1,975 | | | | 1,975 |
| Current accrued liabilities | FLAC | 837 | 837 | | | | 837 |
| Other current financial liabilities | | | | | | | |
| Derivatives being part of a hedge | n. a. | 250 | | 250 | | | 250 |
| Derivatives not being part of a hedge | FLHfT | 24 | | | 24 | | 24 |
| Earn-out components | n. a. | 21 | | | 21 | | 21 |
| Other financial liabilities | FLAC | 67 | 67 | | | | 67 |
| Finance lease obligations | n. a. | 0 | | | | 0 | 0 |
| Long-term borrowings | | | | | | | |
| Eurobond | FLAC | 983 | 983 | | | | 1,035 |
| Convertible bond | FLAC | - | - | | | | - |
| Non-current accrued liabilities | FLAC | 1 | 1 | | | | 1 |
| Other non-current financial liabilities | | | | | | | |
| Derivatives being part of a hedge | n. a. | 9 | | 9 | | | 9 |
| Derivatives not being part of a hedge | FLHfT | 5 | | | 5 | | 5 |
| Earn-out components | n. a. | 5 | | | 5 | | 5 |
| Other financial liabilities | FLAC | 1 | 1 | | | | 1 |
| Finance lease obligations | n. a. | 3 | | | | 3 | 3 |
| Thereof: aggregated by category according to IAS 39 | | | | | | | |
| Financial assets at fair value through profit or loss | | 129 | | | | | |
| Thereof: designated as such upon initial recognition (Fair Value Option - FVO) | | - | | | | | |
| Thereof: Held for Trading (FAHfT) | | 129 | | | | | |
| Loans and Receivables (LaR) | | 2,674 | | | | | |
| Available-for-Sale Financial Assets (AFS) | | 282 | | | | | |
| Financial Liabilities Measured at Amortized Cost (FLAC) | | 4,001 | | | | | |
| Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT) | | 29 | | | | | |

1 Investments in other equity instruments are measured at cost less impairment losses

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 |
|---|------------------------------|----------------------------------|---------------------------------|------------------------------------|--|---------------------------------|-----------------------------|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized 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 ¹ | 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 |

¹ Investments in other equity instruments are measured at cost less impairment losses

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 |
|---|------------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------|--------------------------|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in net income | | |
| Financial liabilities | | | | | | | |
| Short-term borrowings | | | | | | | |
| Bank borrowings | FLAC | 379 | 379 | | | | 379 |
| 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 | | | | | | | |
| 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 |
| 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 Amortized Cost (FLAC) | | 4,909 | | | | | |
| Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT) | | 24 | | | | | |

1 Investments in other equity instruments are measured at cost less impairment losses

Fair value hierarchy of financial instruments according to IFRS 13 as at December 31, 2017 € in millions

| | Fair value Dec. 31, 2017 | Level 1 | Level 2 | Level 3 |
|---------------------------------------|-----------------------------|--------------|-----------------|------------|
| Short-term financial assets | 5 | | 5 | |
| Derivative financial instruments | | | | |
| Derivatives being part of a hedge | 83 | | 83 | |
| Derivatives not being part of a hedge | 42 | | 42 | |
| Long-term financial assets | 227 | | 89 ¹ | 138 |
| Promissory notes | 118 | | | 118 |
| Earn-out components | 19 | | | 19 |
| Financial assets | 494 | | 218 | 276 |
| Short-term borrowings | 169 | | 169 | |
| Derivative financial instruments | | | | |
| Derivatives being part of a hedge | 259 | | 259 | |
| Derivatives not being part of a hedge | 29 | | 29 | |
| Long-term borrowings | 1,035 | 1,035 | | |
| Earn-out components | 25 | | | 25 |
| Financial liabilities | 1,517 | 1,035 | 457 | 25 |

¹ Net gains in the amount of € 4 million and losses in the amount of € 3 million due to currency translation differences were recognized in equity in 2017.

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, 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 ¹ | 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 |

¹ Net gains in the amount of € 2 million and gains in the amount of € 1 million due to currency translation differences were recognized in equity in 2016.

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 2017 € in millions

| | | Fair value Jan. 1, 2017 | Additions | Disposals | Gains | Losses | Currency translation | Fair value Dec. 31, 2017 |
|---|---|----------------------------|-----------|-----------|-------|--------|-------------------------|-----------------------------|
| Long-term financial assets | This category relates to an 8.33% investment in FC Bayern München AG of € 82 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognized in other financial income. | 81 | - | - | 1 | - | - | 82 |
| Promissory note | On July 26, 2017, adidas signed a definitive agreement to sell the CCM Hockey operating segment which was divested on September 1, 2017. The transaction included a promissory note. The discounted cash flow method is applied. The fair value adjustment is recognized in discontinued operations. | - | 36 | - | - | (1) | - | 35 |
| Promissory note | On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade) which was divested on October 2, 2017. The transaction included a promissory note. The discounted cash flow method is applied. The fair value adjustment is recognized in discontinued operations. | - | 86 | - | - | (0) | (3) | 83 |
| 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 recognized in discontinued operations. | 45 | - | - | - | (40) | (5) | - |
| Earn-out components (assets) | On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). The transaction included earn-out components which are measured based on the Monte Carlo method. The earn-out components are dependent on the achievement of certain performance measures over the first five years. The fair value adjustment is recognized in discontinued operations | - | 19 | - | - | - | - | 19 |
| Investments in other equity instruments | The change in fair value refers to recognized impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognized in other financial result. | 64 | 26 | (14) | - | (20) | - | 56 |
| Earn-out components (liabilities) | 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 recognized in interest result. | 22 | - | (2) | - | 5 | - | 25 |

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 recognized 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 recognized in discontinued operations. | 42 | - | - | 2 | - | 1 | 45 |
| Investments in other equity instruments | The change in fair value refers to recognized impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognized in other financial result. | 22 | 47 | - | - | (5) | - | 64 |
| Earn-out components (liabilities) | 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 recognized in interest result. | 21 | - | - | - | 1 | - | 22 |

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, 2017. | Not applicable | FLAC |
| Eurobond | The fair value is based on the market price of the Eurobond as at December 31, 2017. | 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, 2017. | Not applicable | AfS |
| Forward exchange contracts | In 2017, adidas applied the par method (forward NPV) for all currency pairs to calculate the fair value, implying actively traded forward curves. | Not applicable | n.a./FAHfT |
| Currency options | adidas applies the Garman-Kohlhagen model, which is an extended version of the Black-Scholes model. | Not applicable | n.a./FAHfT |
| Commodity futures | The fair value is determined based on commodity forward curves, discounted by deposit and swap interest rates. | Not applicable | n.a./FAHfT |
| Total return swap (for own shares) | The fair value is based on the market price of the adidas AG share as at December 31, 2017, minus accrued interest. | Not applicable | n.a./FLHfT |

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, 2017. | See column 'Valuation method' | | FAHfT |
| Earn-out components (assets) | The valuation follows an option price model based on the 'Monte Carlo method' to simulate future EBITDA values. The derived earn-out payments are discounted using a risk-adjusted discount rate. | Risk-adjusted maturity-specific discount rate [2.1% – 4.9%] EBITDA values, confidence level | The estimated fair value would increase (decrease) if the dividends were higher (lower) or the risk-adjusted discount rate was lower (higher). | AfS |
| 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 expected dividends, the amount to be paid under each scenario and the probability of each scenario. | Risk-adjusted maturity-specific discount rate [2.0% – 3.2%] | 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, 2017. | See column 'Valuation method' | | AfS |
| Earn-out components (liabilities) | The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. | Risk-adjusted discount rate [1.75%] | 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 recognized in the consolidated income statement
 € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--|---------------------------|---------------------------|
| Financial assets or financial liabilities at fair value through profit or loss | 1 | 1 |
| Thereof: designated as such upon initial recognition | – | – |
| Thereof: classified as held for trading | 1 | 1 |
| Loans and receivables | (60) | (35) |
| Available-for-sale financial assets | (56) | (3) |
| Financial liabilities measured at amortized cost | 22 | 15 |

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 expenses.

Net losses on available-for-sale financial assets mainly refer to an adjustment to the fair value of the contingent considerations in connection with the sale of the Rockport operating segment in July 2015.

Net gains or losses on loans and receivables comprise mainly impairment losses and reversals.

During the course of 2017, significant unobservable inputs have not significantly changed with the exception of inputs for

the promissory note related to the agreement for the sale of the Rockport operating segment. The dividend underlying the determination of future cash flows is no longer expected. A change in the discount rate by 1 percentage point or a reduction of simulated future EBITDA values by 10% would result in a reduction of fair values of 5% and approximately 10%, respectively.

Net gains or losses on financial liabilities measured at amortized 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

these Notes and in the Group Management Report. [SEE NOTE 07](#)
[SEE RISK AND OPPORTUNITY REPORT, P. 131](#)

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, 2017, adidas had outstanding currency options with premiums paid totaling an amount of € 12 million (2016: € 15 million). The effective part of the currency hedges is directly recognized 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 € 2 million after taxes (2016: positive € 9 million) for currency options and an amount of negative € 144 million after taxes (2016: positive € 226 million) for forward exchange contracts were recorded in hedging reserves. Currency option premiums impacted net income in the amount of € 6 million in 2017 (2016: € 2 million).

The total time value of the currency options not being part of a hedge in an amount of positive € 6 million (2016: positive € 7 million) was recorded in the income statement in 2017. In 2017, due to a change in the exposure, some of the currency hedges were terminated and consequently an amount of € 1 million was reclassified from hedging reserves to the income statement.

In the years ending December 31, 2017 and 2016, hedging instruments related to product sourcing were bought to hedge a total net amount of US \$ 6.6 billion and US \$ 6.5 billion, respectively.

The notional amounts of all outstanding currency hedging instruments, which are mainly related to cash flow hedges, are summarized in the following table:

Notional amounts of all outstanding currency hedging instruments € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|----------------------------|------------------|------------------|
| Forward exchange contracts | 11,327 | 11,750 |
| Currency options | 565 | 459 |
| Total | 11,892 | 12,209 |

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, 2017 | Dec. 31, 2016 |
|----------------------------|------------------|------------------|
| Forward exchange contracts | 5,201 | 6,156 |
| Currency options | 453 | 405 |
| Total | 5,654 | 6,561 |

The fair value of all outstanding currency hedging instruments is as follows:

Fair values € in millions

| | Dec. 31, 2017 | | Dec. 31, 2016 | |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| | Positive fair value | Negative fair value | Positive fair value | Negative fair value |
| Forward exchange contracts | 101 | (280) | 362 | (112) |
| Currency options | 25 | (3) | 19 | (1) |
| Total | 126 | (283) | 381 | (113) |

A total net fair value of negative € 178 million (2016: positive € 240 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 negative € 2 million (2016: positive € 18 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 € 8 million (2016: positive € 18 million) for outstanding currency options related to cash flow hedges. This consists of a positive time value of € 7 million (2016: positive € 9 million) and of a negative time value of negative € 1 million (2016: negative € 1 million) and furthermore includes an intrinsic value of the options in an amount of € 2 million.

The fair value adjustments of outstanding cash flow hedges for future sales are reported in the income statement when the planned sales transactions are recorded. The vast majority of these transactions are expected to occur in 2018. In 2017, a gain from hedges for sales transactions in an amount of € 60 million was realized (2016: € 26 million). At the balance sheet date, inventories were adjusted without affecting the consolidated income statement by positive € 64 million (2016: negative € 12 million) which will be recognized in the consolidated income statement at the expected realization of the hedged item in 2018.

In the hedging reserve, a negative amount of € 90 million (2016: negative € 92 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, 2017, 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.

The fair values of derivatives were determined applying the 'par method' (forward NPV), which uses actively traded forward rates.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

All figures related to the 2017 and 2016 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, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Income from release of accrued liabilities and other provisions | 60 | 54 |
| Income from accounts receivable previously written off | 2 | 3 |
| Gains from disposal of fixed assets | 3 | 3 |
| Reversals of impairment losses for intangible and tangible assets | 1 | 2 |
| Income from the early termination of promotion contracts | 2 | 69 |
| Income from the divestiture of the Mitchell & Ness business | 0 | 39 |
| Sundry income | 65 | 92 |
| Other operating income | 133 | 262 |

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 and from sub-licensing of trademarks.

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 amortization of intangible assets (except goodwill impairment losses), with the exception of depreciation and amortization 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 2017, expenditure for marketing investments accounted for 24% (2016: 24%) 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 amortization expense for tangible and intangible assets (except goodwill impairment losses) and impairment losses were € 453 million and € 370 million for the years ending December 31, 2017 and 2016, respectively. Thereof, amounts of € 2 million and € 2 million, respectively, were recorded within the cost of sales as they are directly assigned to the production costs.

Income from government grants is reported as a deduction from the related expenses and amounted to € 24 million in 2017 (2016: € 23 million).

Other operating expenses € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Expenditure for marketing investments | 2,141 | 1,889 |
| Expenditure for point-of-sale investments | 592 | 521 |
| Marketing overhead ¹ | 748 | 642 |
| Sales force ¹ | 2,352 | 2,146 |
| Logistics ¹ | 1,098 | 932 |
| Research and development ¹ | 187 | 149 |
| Central administration ¹ | 1,765 | 1,605 |
| Other operating expenses | 8,882 | 7,885 |
| Thereof: depreciation, amortization and impairment losses | 451 | 369 |

¹ Including personnel and administration expenses.

In 2017, the total sales and distribution costs amounted to € 6,930 million (2016: € 6,131 million).

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 recognized as an expense during the period was € 10.454 billion and € 9.324 billion for the years ending December 31, 2017 and 2016, respectively.

Personnel expenses

Personnel expenses were as follows:

Personnel expenses € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|-------------------------------|---------------------------------|---------------------------------|
| Wages and salaries | 2,234 | 2,091 |
| Social security contributions | 214 | 197 |
| Pension expenses | 101 | 84 |
| Personnel expenses | 2,549 | 2,373 |

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, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Interest income from financial instruments measured at amortized cost | 23 | 21 |
| Interest income from financial instruments at fair value through profit or loss | 0 | 0 |
| Interest income from non-financial assets | 2 | 0 |
| Net foreign exchange gains | 19 | 5 |
| Other | 1 | 1 |
| Financial income | 46 | 28 |

Financial expenses € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--|---------------------------------|---------------------------------|
| Interest expense on financial instruments measured at amortized cost | 62 | 70 |
| 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 | 31 | 4 |
| Financial expenses | 93 | 74 |

Interest income from financial instruments, measured at amortized cost, mainly consists of interest income from bank deposits and loans.

Interest income/expense from financial instruments at fair value through profit or loss mainly includes interest payments from investment funds as well as net interest payments from interest derivatives not being part of a hedging relationship. Unrealized gains/losses from fair value measurement of such financial assets are shown in other financial income or expenses.

Interest expense on financial instruments measured at amortized cost mainly includes interest on borrowings and effects from using the 'effective interest method'.

Interest expense on other provisions and non-financial liabilities particularly includes effects from measurement of other provisions at present value and interest on non-financial liabilities such as tax payables.

Other financial expenses include impairment losses on other financial assets amounting to € 31 million for the year ending December 31, 2017 (2016: € 4 million).

Information regarding 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, 2017 and 2016, 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, 2017 | Dec. 31, 2016 |
|---------------------------------|------------------|------------------|
| Deferred tax assets | 630 | 732 |
| Deferred tax liabilities | (275) | (387) |
| Deferred tax assets, net | 355 | 345 |

The movement of deferred taxes is as follows:

Movement of deferred taxes € in millions

| | 2017 | 2016 |
|--|------------|------------|
| Deferred tax assets, net as at January 1 | 345 | 269 |
| Deferred tax (expense)/income | (19) | 56 |
| Change in consolidated companies ¹ | (17) | 1 |
| Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income ² | (7) | 21 |
| Change in deferred taxes attributable to the change in the effective portion of the fair value of qualifying hedging instruments recorded in other comprehensive income ³ | 68 | (2) |
| Currency translation differences | (15) | 0 |
| Deferred tax assets, net as at December 31 | 355 | 345 |

¹ See Note 04.

² See Note 24.

³ See Note 30.

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

Deferred taxes € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|-------------------------------------|------------------|------------------|
| Non-current assets | 150 | 202 |
| Current assets | 219 | 193 |
| Accrued liabilities and provisions | 302 | 334 |
| Accumulated tax loss carry-forwards | 30 | 76 |
| Deferred tax assets | 702 | 805 |
| Non-current assets | 255 | 346 |
| Current assets | 69 | 68 |
| Accrued liabilities and provisions | 23 | 46 |
| Deferred tax liabilities | 347 | 460 |
| Deferred tax assets, net | 355 | 345 |

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

Deferred tax assets for which the realization of the related tax benefits is not probable decreased from € 731 million to € 518 million for the year ending December 31, 2017. 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 unrecognized deferred tax assets relate to subsidiaries operating in markets where the realization of the related tax benefit is not considered probable.

The divestiture of TaylorMade has been reflected as a share transaction in the US. Under US law, the buyer has the option to elect to treat the transaction as an asset acquisition for income tax purposes. In the event that the buyer chooses this option, the deferred tax assets and liabilities in this regard may change.

adidas does not recognize deferred tax liabilities for unremitted earnings of non-German subsidiaries to the extent that they are expected to be permanently invested in international operations. These earnings, the amount of which cannot be practicably computed, could become subject to additional tax if they were remitted as dividends or if the company were to sell its shareholdings in the subsidiaries.

Tax expenses

Tax expenses are split as follows:

Income tax expenses € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--------------------------------|---------------------------------|---------------------------------|
| Current tax expenses | 649 | 482 |
| Deferred tax expenses/(income) | 19 | (56) |
| Income tax expenses | 668 | 426 |

The current tax expenses include interest and penalties in respect of income tax.

The deferred tax income includes tax income of € 80 million in total (2016: € 29 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, 2017 as follows:

Tax rate reconciliation

| | Year ending Dec. 31, 2017 | | Year ending Dec. 31, 2016 | |
|---|---------------------------|-------------|---------------------------|-------------|
| | € in millions | in % | € in millions | in % |
| Expected income tax expenses | 607 | 30.0 | 434 | 30.0 |
| Tax rate differentials | (215) | (10.6) | (160) | (11.0) |
| Non-deductible expenses | 44 | 2.2 | 48 | 3.3 |
| Losses for which benefits were not recognizable and changes in valuation allowances | 37 | 1.8 | 51 | 3.5 |
| Changes in tax rates | 87 | 4.3 | (8) | (0.5) |
| Other, net | 2 | 0.1 | 0 | 0.0 |
| | 563 | 27.8 | 365 | 25.3 |
| Withholding tax expenses | 105 | 5.2 | 61 | 4.2 |
| Income tax expenses | 668 | 33.0 | 426 | 29.5 |

In 2017, the effective tax rate of 33.0% was affected by the US tax reform. The one-time non-cash effect of € 76 million is reflected in 2017 in the line item 'Changes in tax rates'. Excluding the effect of the US tax reform, the effective tax rate in 2017 was 29.3%.

For 2016 and 2017, the line item 'Losses for which benefits were not recognizable and changes in valuation allowances' mainly related to changes in valuation allowances for Brazil.

For 2017, the line item 'Changes in tax rates' mainly reflects tax rate reductions in the US. For 2016, this line item mainly reflected a UK tax rate reduction.

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 1.8 million and 6.0 million potential dilutive shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share in 2017 and 2016, respectively, 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 € 176.02 per share during 2017 and thus exceeded the conversion price of € 81.13 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 81.57 to € 81.13 per share. This adjustment became effective on May 12, 2017.

The bonus shares vested under the equity-settled share-based payment program with third parties were not considered in the calculation of the diluted earnings per share because the conditions have not yet been met. ■ [SEE NOTE 27](#)

Earnings per share

| | Continuing operations | | Discontinued operations | | Total | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
| Net income from continuing operations (€ in millions) | 1,354 | 1,082 | – | – | – | – |
| Net income attributable to non-controlling interests (€ in millions) | 3 | 2 | – | – | – | – |
| Net income attributable to shareholders (€ in millions) | 1,352 | 1,079 | (254) | (62) | 1,097 | 1,017 |
| Weighted average number of shares | 202,391,673 | 200,188,276 | 202,391,673 | 200,188,276 | 202,391,673 | 200,188,276 |
| Basic earnings per share (in €) | 6.68 | 5.39 | (1.26) | (0.31) | 5.42 | 5.08 |
| Net income attributable to shareholders (€ in millions) | 1,352 | 1,079 | (254) | (62) | 1,097 | 1,017 |
| Interest expense on convertible bond, net of taxes (€ in millions) | 1 | 12 | – | – | 1 | 12 |
| Net income used to determine diluted earnings per share (€ in millions) | 1,353 | 1,091 | (254) | (62) | 1,099 | 1,029 |
| Weighted average number of shares | 202,391,673 | 200,188,276 | 202,391,673 | 200,188,276 | 202,391,673 | 200,188,276 |
| Weighted assumed conversion of the convertible bond | 1,846,245 | 5,958,632 | 1,846,245 | 5,958,632 | 1,846,245 | 5,958,632 |
| Dilutive effect of share-based payments | 2,712 | – | 2,712 | – | 2,712 | – |
| Weighted average number of shares for diluted earnings per share | 204,240,629 | 206,146,908 | 204,240,629 | 206,146,908 | 204,240,629 | 206,146,908 |
| Diluted earnings per share (in €) | 6.63 | 5.29 | (1.26) | (0.31) | 5.38 | 4.99 |

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, 2017, 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 (excluding USA Reebok), USA Reebok, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, adidas Golf, Runtastic and Other centrally managed businesses. Due to the completed divestitures of the former TaylorMade and CCM Hockey operating segments on October 2, 2017 and September 1, 2017, respectively, income and expenses of the former TaylorMade and CCM Hockey operating segments were reported as discontinued operations as at December 31, 2017. [SEE NOTE 03](#) In 2017, the former operating segment North America was split into two operating segments: North America (excluding USA Reebok) and USA Reebok. The operating segments Middle East, South Korea and Southeast Asia/Pacific were aggregated to MEAA ('Middle East, Africa and other Asian markets'). The operating segments North America (excluding USA Reebok) and USA Reebok were aggregated to North America. Furthermore, the former operating segment TaylorMade-adidas Golf was split into the operating segments TaylorMade and adidas Golf. According to the criteria of IFRS 8 for reportable segments, the operating 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.

adidas Golf comprises the distribution and sale of adidas Golf branded products.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

Other centrally managed businesses primarily includes the business activities of the Y-3 label.

Certain centralized corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes, in particular, functions such as Global Brands and Global Sales (central brand and distribution management for the adidas and Reebok brands), central treasury, global sourcing as well as other headquarter functions. Assets, liabilities, income and expenses relating to these corporate functions are presented in the reconciliations.

The chief operating decision maker for adidas has been defined as the entire Executive Board of adidas AG.

There are no intersegment sales between the reportable segments. Accounting and valuation policies applied for reporting segmental information are the same as those used for adidas. [SEE NOTE 02](#)

The results of the operating segments are reported in the line item 'Segmental operating profit'. This is defined as gross profit minus other operating expenses plus royalty and commission income and other operating income attributable to the segment or group of segments, however without considering headquarter costs and central 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, amortization, 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 amortization as well as impairment losses and reversals of impairment losses not directly attributable to a segment or a group of segments are presented under HQ and Consolidation in the reconciliations.

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

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

Segmental information I € in millions

| | Net sales (third parties) ¹ | | Segmental operating profit ¹ | | Segmental assets ² | | Segmental liabilities ² | |
|--|---|---------------|--|--------------|----------------------------------|--------------|---------------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Western Europe | 5,883 | 5,291 | 1,178 | 951 | 1,728 | 1,595 | 129 | 200 |
| North America | 4,275 | 3,412 | 468 | 214 | 1,500 | 1,273 | 77 | 117 |
| Greater China | 3,789 | 3,010 | 1,342 | 1,060 | 627 | 507 | 153 | 167 |
| Russia/CIS | 660 | 679 | 136 | 105 | 216 | 284 | 7 | 6 |
| Latin America | 1,907 | 1,731 | 268 | 227 | 724 | 757 | 66 | 73 |
| Japan | 1,056 | 1,007 | 266 | 207 | 236 | 218 | 44 | 38 |
| MEAA | 2,907 | 2,685 | 847 | 722 | 715 | 751 | 88 | 90 |
| Reportable segments | 20,479 | 17,816 | 4,504 | 3,485 | 5,747 | 5,385 | 563 | 691 |
| Other Businesses (continuing operations) | 739 | 667 | 68 | 52 | 306 | 594 | 26 | 143 |
| Other Businesses (discontinued operations) | 667 | 808 | 26 | (66) | – | – | – | – |
| Other Businesses | 1,405 | 1,475 | 95 | (14) | 306 | 594 | 26 | 143 |
| Total | 21,885 | 19,291 | 4,599 | 3,471 | 6,053 | 5,978 | 589 | 834 |

1 Year ending December 31.

2 At December 31.

Segmental information II € in millions

| | Capital expenditure ¹ | | Depreciation and amortization ¹ | | Impairment losses and reversals of impairment losses ¹ | |
|--|-------------------------------------|------------|---|------------|---|----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Western Europe | 75 | 76 | 50 | 40 | 1 | 1 |
| North America | 62 | 87 | 32 | 21 | 4 | 2 |
| Greater China | 120 | 97 | 71 | 52 | 2 | 2 |
| Russia/CIS | 38 | 47 | 27 | 21 | 1 | 0 |
| Latin America | 29 | 48 | 28 | 22 | 1 | 0 |
| Japan | 20 | 14 | 14 | 13 | 0 | 1 |
| MEAA | 41 | 60 | 36 | 31 | 2 | 1 |
| Reportable segments | 385 | 430 | 258 | 199 | 11 | 7 |
| Other Businesses (continuing operations) | 9 | 5 | 10 | 12 | 13 | (1) |
| Other Businesses (discontinued operations) | 7 | 7 | 7 | 14 | 7 | 2 |
| Other Businesses | 16 | 12 | 17 | 26 | 20 | 1 |
| Total | 401 | 442 | 275 | 225 | 30 | 8 |

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, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Reportable segments | 20,479 | 17,816 |
| Other Businesses | 1,405 | 1,475 |
| Reclassification to discontinued operations | (667) | (808) |
| Total | 21,218 | 18,483 |

Operating profit € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--|---------------------------------|---------------------------------|
| Operating profit for reportable segments | 4,504 | 3,485 |
| Operating profit for Other Businesses | 95 | (14) |
| Segmental operating profit | 4,599 | 3,471 |
| Reclassification to discontinued operations | (26) | 66 |
| HQ | (1,623) | (1,327) |
| Central expenditure for marketing investments | (842) | (703) |
| Consolidation | (38) | 74 |
| Operating profit | 2,070 | 1,582 |
| Financial income | 46 | 28 |
| Financial expenses | (93) | (74) |
| Income before taxes | 2,023 | 1,536 |

Capital expenditure € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Reportable segments | 385 | 430 |
| Other Businesses | 16 | 12 |
| Reclassification to discontinued operations | (7) | (7) |
| HQ | 357 | 207 |
| Consolidation | – | – |
| Total | 752 | 642 |

Depreciation and amortization € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Reportable segments | 258 | 199 |
| Other Businesses | 17 | 26 |
| Reclassification to discontinued operations | (7) | (14) |
| HQ | 145 | 141 |
| Consolidation | – | – |
| Total | 413 | 353 |

Impairment losses and reversals of impairment losses
€ in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Reportable segments | 11 | 7 |
| Other Businesses | 20 | 1 |
| Reclassification to discontinued operations | (7) | (2) |
| HQ | 1 | (0) |
| Consolidation | 14 | 10 |
| Total | 38 | 15 |

Assets € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|--|------------------|------------------|
| Accounts receivable and inventories of reportable segments | 5,747 | 5,385 |
| Accounts receivable and inventories of Other Businesses | 306 | 594 |
| Segmental assets | 6,053 | 5,978 |
| Non-segmental accounts receivable and inventories | (45) | (15) |
| Current financial assets | 1,996 | 2,245 |
| Other current assets | 641 | 678 |
| Non-current assets | 5,877 | 6,290 |
| Total | 14,522 | 15,176 |

Liabilities € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|------------------|------------------|
| Accounts payable of reportable segments | 563 | 691 |
| Accounts payable of Other Businesses | 26 | 143 |
| Segmental liabilities | 589 | 834 |
| Non-segmental accounts payable | 1,386 | 1,662 |
| Current financial liabilities | 499 | 837 |
| Other current liabilities | 3,817 | 3,432 |
| Non-current liabilities | 1,796 | 1,957 |
| Total | 8,087 | 8,721 |

Net sales (third parties) € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|---|---------------------------------|---------------------------------|
| Footwear | 12,428 | 10,135 |
| Apparel | 7,779 | 7,476 |
| Hardware | 1,679 | 1,681 |
| Reclassification to discontinued operations | (667) | (808) |
| Total | 21,218 | 18,483 |

Geographical information

Net sales (third parties) are shown in the geographic market in which the net sales are realized. Non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary independent of the segmental structure and consist of tangible assets, goodwill, trademarks, other intangible assets and other non-current assets.

Geographical information € in millions

| | Net sales (third parties) | | Non-current assets | |
|---|---------------------------------|---------------------------------|--------------------|------------------|
| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2016 |
| Western Europe | 6,352 | 5,728 | 2,138 | 2,056 |
| North America | 4,882 | 4,131 | 803 | 1,197 |
| Greater China | 3,812 | 3,028 | 532 | 515 |
| Russia/CIS | 660 | 680 | 359 | 369 |
| Latin America | 1,917 | 1,741 | 217 | 288 |
| Japan | 1,231 | 1,187 | 225 | 280 |
| MEAA | 3,030 | 2,795 | 518 | 563 |
| Reclassification to discontinued operations | (667) | (808) | – | – |
| Total | 21,218 | 18,483 | 4,792 | 5,268 |

With regard to Germany, Western Europe contains net sales (third parties) (continuing operations) amounting to € 1,226 million and € 1,092 million as well as non-current assets amounting to € 1,082 million and € 1,015 million for the years 2017 and 2016, respectively. With regard to the USA, North America contains net sales (third parties) (continuing operations) amounting to € 4,092 million and € 3,253 million as well as non-current assets amounting to € 695 million and € 1,062 million for the years 2017 and 2016, respectively.

38 » ADDITIONAL CASH FLOW INFORMATION

In 2017, 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 and an increase in income taxes paid.

Net cash used in investing activities in 2017 mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of own-retail stores, in new office buildings and IT systems and the purchase of financial assets and other long-term assets. This was partly offset by proceeds from the disposal of discontinued operations.

Net cash used in financing activities mainly related to the dividend paid to shareholders of adidas AG, the repayment of short-term borrowings and the repurchase of treasury shares.

As of October 2, 2017, the TaylorMade operating segment was divested. The following assets and liabilities were consequently derecognized from the consolidated statement of financial position as of October 2, 2017:

Impact of divestiture on items in the consolidated statement of financial position € in millions

| | October 2, 2017 |
|---|--------------------|
| Cash and cash equivalents | (11) |
| Current assets | (234) |
| Non-current assets | (93) |
| Liabilities | 153 |
| Net assets | (185) |
| Consideration received in cash | 131 |
| Less: cash and cash equivalents disposed of | (11) |
| Net cash inflow | 119 |

As of September 1, 2017, the CCM Hockey operating segment was divested. The following assets and liabilities were consequently derecognized from the consolidated statement of financial position as of September 1, 2017:

Impact of divestiture on items in the consolidated statement of financial position € in millions

| | September 1, 2017 |
|---|----------------------|
| Cash and cash equivalents | (10) |
| Current assets | (138) |
| Non-current assets | 0 |
| Liabilities | 55 |
| Net assets | (94) |
| Consideration received in cash | 65 |
| Less: cash and cash equivalents disposed of | (10) |
| Net cash inflow | 55 |

Net cash generated from discontinued operations € in millions

| | Year ending Dec. 31, 2017 | Year ending Dec. 31, 2016 |
|--|---------------------------------|---------------------------------|
| Net cash generated from operating activities | 6 | 39 |
| Net cash (used in) investing activities | (4) | (9) |
| Net cash (used in) financing activities | (0) | (9) |
| Net cash generated from discontinued operations | 2 | 22 |

In 2017, the following changes in financial liabilities impacted the net cash used in financing activities:

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

| | Jan. 1, 2017 | Payments in this period | New lease obligations | Non-cash effects | | | Dec. 31, 2017 |
|-----------------------|--------------|-------------------------|-----------------------|------------------------------------|--------------|--------------------------|---------------|
| | | | | Decrease in companies consolidated | Other | Effect of exchange rates | |
| Short-term borrowings | 636 | (297) | – | – | (227) | 24 | 137 |
| Lease obligations | 6 | (2) | 0 | (0) | 0 | (0) | 4 |
| Total | 643 | (299) | 0 | (0) | (227) | 23 | 140 |

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 derecognized from the consolidated statement of financial position:

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 » OTHER FINANCIAL COMMITMENTS AND CONTINGENCIES**Other financial commitments**

adidas has other financial commitments (continuing operations) for promotion and advertising contracts, which mature as follows:

Financial commitments for promotion and advertising € in millions

| | Dec. 31, 2017 | Dec. 31, 2016 |
|-----------------------|---------------|---------------|
| Within 1 year | 893 | 988 |
| Between 1 and 5 years | 2,600 | 2,585 |
| After 5 years | 1,762 | 2,070 |
| Total | 5,255 | 5,643 |

Commitments with respect to promotion and advertising contracts maturing after five years have remaining terms of up to 13 years from December 31, 2017.

Compared to December 31, 2016, commitments for promotion and advertising contracts decreased as there were no new significant long-term commitments in the 2017 financial year.

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 respective remaining risks cannot be assessed conclusively. However, based on legal opinions and internal assessments, Management assumes that the effects will not have any material influence on the assets, liabilities, financial position and profit or loss of the company.

In September 2017, an employee of the company's US subsidiary was charged with criminal violations relating to alleged unlawful payments to certain high school basketball players or their families. The company's US subsidiary, with the full support of the company, is cooperating with the prosecutors and actively working to understand the allegations, which includes an internal investigation with the assistance of outside counsel. While Management currently believes that the effects will not have any material influence on the assets, liabilities, financial position and profit or loss of the company, the risks related to this case cannot be assessed conclusively at this point in time.

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](#) [SEE COMPENSATION REPORT, P. 39](#)

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, 2017 | Year ending Dec. 31, 2016 |
|--------------------------|---------------------------------|---------------------------------|
| Own retail | 32,349 | 33,307 |
| Sales | 3,981 | 3,778 |
| Logistics | 5,914 | 5,876 |
| Marketing | 5,717 | 4,959 |
| Central administration | 5,114 | 4,840 |
| Production | 1,241 | 1,150 |
| Research and development | 1,059 | 967 |
| Information technology | 1,204 | 1,169 |
| Total | 56,577 | 56,046 |

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 2017, the expenses for the professional audit service fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft amounted to € 1.6 million (2016: € 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 (2016: € 0.1 million), € 0.1 million (2016: € 0.0 million) and € 0.0 million (2016: € 0.1 million), respectively.

Expenses for the audit fees of KPMG AG Wirtschaftsprüfungsgesellschaft were mainly related to the audits of both the consolidated financial statements and the financial statements of adidas AG, as well as the audit of the financial statements of its subsidiary, adidas CDC Immobilieninvest GmbH. Integrated IT project audits were also conducted.

Other confirmation services consist of audits which are either required by law or contractually agreed, such as European Market Infrastructure Regulation (EMIR) audits according to § 20 WpHG, audits according to the German Packaging Ordinance (Verpackungsverordnung – VerpackV), audits of the utilization of funds, and other contractually agreed-upon confirmation services.

The tax consultancy services include support services for transfer pricing and consulting for sales taxes on a case-by-case basis.

Other services provided by the auditor consist of supporting services to ensure the quality of sales transactions and of legal consultancy services.

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 € 1.8 million (2016: € 1.3 million).

Members of the Supervisory Board were not granted any loans or advance payments in 2017.

Executive Board

In 2017, the overall compensation of the members of the Executive Board totaled € 23.3 million (2016: € 21.2 million), € 23.3 million thereof relates to short-term benefits (2016: € 11.3 million) and € 0.0 million to long-term benefits (2016: € 9.9 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board as well as follow-up bonuses for resigned members of the Executive Board) totaled € 4.9 million (2016: € 4.8 million).

In 2017, former members of the Executive Board and their survivors received pension payments totaling € 3.7 million (2016: € 3.6 million).

Pension obligations relating to former members of the Executive Board and their survivors amount in total to € 84.7 million (2016: € 75.3 million).

Benefits confirmed to former members of the Executive Board in 2017 due to the termination of their Executive Board mandates were recognized in the consolidated income statement and amounted to € 1.4 million (2016: € 2.6 million).

Current members of the Executive Board were not granted any loans or advance payments in 2017.

Advance payments were made to a former member of the Executive Board with regard to the Performance Bonus for 2017 and prorated for 2018, as well as with regard to the LTIP 2015/2017.

Further information on disclosures according to § 314 section 1 no. 6a HGB is provided in the Compensation Report.

 [SEE COMPENSATION REPORT, P. 39](#)

42 » INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)

In February 2018, the Executive Board and Supervisory Board of adidas AG issued an updated Declaration of Compliance in accordance with § 161 AktG and made it permanently available to the shareholders. The full text of the Declaration of Compliance is available on the company's corporate website.

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 23, 2018. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorization for issue.

Herzogenaurach, February 23, 2018

The Executive Board of adidas AG



Kasper Rorsted



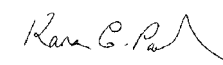
Roland Auschel



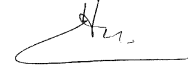
Eric Liedtke



Harm Ohlmeyer



Karen Parkin



Gil Steyaert

STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS

Statement of Movements of Intangible and Tangible Assets € in millions

Attachment 1

| | Goodwill | Trademarks | Software, patents and concessions | Internally generated software | Total intangible assets | Land, land leases, buildings and leasehold improvements | Technical equipment and machinery | Other equipment, furniture and fixtures | Construction in progress | Total tangible assets |
|--|--------------|--------------|---|-------------------------------------|----------------------------|--|---|--|-----------------------------|--------------------------|
| Acquisition cost | | | | | | | | | | |
| January 1, 2016 | 1,879 | 1,628 | 865 | 20 | 4,392 | 1,319 | 300 | 1,502 | 100 | 3,221 |
| Currency effect | 29 | 53 | 12 | – | 93 | 28 | 10 | 33 | 1 | 73 |
| Additions | – | – | 65 | – | 65 | 87 | 27 | 272 | 201 | 586 |
| Transfers to assets held for sale | – | – | (6) | – | (6) | (0) | (0) | (1) | – | (1) |
| Transfers | – | 0 | (2) | – | (2) | (8) | 13 | 79 | (82) | 2 |
| Disposals | (0) | – | (29) | – | (29) | (31) | (25) | (175) | (2) | (233) |
| December 31, 2016/January 1, 2017 | 1,908 | 1,681 | 904 | 20 | 4,513 | 1,395 | 325 | 1,710 | 218 | 3,648 |
| Currency effect | (119) | (197) | (40) | – | (356) | (83) | (20) | (118) | (10) | (231) |
| Additions | – | – | 74 | – | 74 | 89 | 27 | 300 | 266 | 681 |
| Transfers to assets held for sale | (113) | (152) | (101) | – | (366) | (156) | (31) | (66) | (4) | (256) |
| Decrease in companies consolidated | (0) | – | (0) | – | (0) | (0) | 0 | 0 | 0 | (0) |
| Transfers | – | – | (2) | – | (2) | 48 | 6 | 36 | (89) | 1 |
| Disposals | – | – | (17) | – | (17) | (52) | (18) | (142) | (3) | (215) |
| December 31, 2017 | 1,675 | 1,332 | 819 | 20 | 3,846 | 1,242 | 288 | 1,721 | 378 | 3,629 |

STATEMENT OF MOVEMENTS OF
INTANGIBLE AND TANGIBLE ASSETS

Statement of Movements of Intangible and Tangible Assets € in millions

Attachment 1

| | Goodwill | Trademarks | Software, patents and concessions | Internally generated software | Total intangible assets | Land, land leases, buildings and leasehold improvements | Technical equipment and machinery | Other equipment, furniture and fixtures | Construction in progress | Total tangible assets |
|--|--------------|--------------|---|-------------------------------------|----------------------------|--|---|--|-----------------------------|--------------------------|
| Accumulated depreciation, amortization and impairment | | | | | | | | | | |
| January 1, 2016 | 487 | 0 | 691 | 5 | 1,184 | 389 | 155 | 1,039 | 0 | 1,583 |
| Currency effect | 9 | 0 | 13 | – | 22 | 6 | 8 | 28 | (0) | 42 |
| Additions | – | 0 | 64 | 5 | 70 | 56 | 35 | 213 | – | 303 |
| Impairment losses | – | – | 10 | – | 10 | 2 | 0 | 8 | – | 10 |
| Reversals of impairment losses | – | – | (0) | – | (0) | (1) | – | (1) | – | (2) |
| Transfers to assets held for sale | – | – | (1) | – | (1) | (0) | (0) | (0) | – | (0) |
| Transfers | – | – | (4) | – | (4) | (1) | 6 | 0 | – | 4 |
| Disposals | (0) | – | (25) | – | (25) | (26) | (23) | (158) | – | (207) |
| December 31, 2016/January 1, 2017 | 496 | 1 | 748 | 10 | 1,255 | 425 | 180 | 1,128 | 0 | 1,733 |
| Currency effect | (41) | (0) | (36) | – | (78) | (29) | (16) | (88) | (0) | (133) |
| Additions | – | 0 | 59 | 4 | 63 | 66 | 31 | 261 | – | 358 |
| Impairment losses | – | 23 | 10 | – | 34 | 2 | 0 | 11 | 0 | 13 |
| Reversals of impairment losses | – | – | (0) | – | (0) | (1) | – | (0) | – | (1) |
| Transfers to assets held for sale | – | (1) | (94) | – | (95) | (67) | (25) | (57) | – | (149) |
| Decrease in companies consolidated | – | 0 | (0) | – | (0) | (0) | 0 | 0 | – | (0) |
| Transfers | – | 0 | 0 | – | 0 | 11 | 0 | (11) | – | (0) |
| Disposals | – | – | (16) | – | (16) | (45) | (16) | (132) | – | (193) |
| December 31, 2017 | 454 | 23 | 671 | 14 | 1,163 | 362 | 154 | 1,112 | 0 | 1,628 |
| Net carrying amount | | | | | | | | | | |
| January 1, 2016 | 1,392 | 1,628 | 173 | 15 | 3,208 | 930 | 145 | 463 | 100 | 1,638 |
| December 31, 2016 | 1,412 | 1,680 | 157 | 10 | 3,259 | 970 | 145 | 582 | 218 | 1,915 |
| December 31, 2017 | 1,220 | 1,309 | 148 | 6 | 2,683 | 880 | 134 | 609 | 378 | 2,000 |

SHAREHOLDINGS

Shareholdings of adidas AG, Herzogenaurach at December 31, 2017

| 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 | 8,702 | 14 | 100 |
| 4 adidas Verwaltungsgesellschaft mbH ³ | Herzogenaurach (Germany) | EUR | 4,303 | 76 | 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 | 6,721 | directly | 100 |
| 7 adidas Austria GmbH | Klagenfurt (Austria) | EUR | 6,926 | directly | 95.89 |
| | | | 6 | | 4.11 |
| 8 runtastic GmbH | Pasching (Austria) | EUR | 999 | 10 | 100 |
| 9 adidas France S.a.r.l. | Landersheim (France) | EUR | 200,297 | directly | 100 |
| 10 adidas International B.V. | Amsterdam (Netherlands) | EUR | 6,832,931 | directly | 93.97 |
| | | | 9 | | 6.03 |
| 11 adidas International Trading B.V. | Amsterdam (Netherlands) | EUR | 1,626,127 | 10 | 100 |
| 12 adidas International Marketing B.V. | Amsterdam (Netherlands) | EUR | 54,009 | 10 | 100 |
| 13 adidas International Finance B.V. | Amsterdam (Netherlands) | EUR | 46,191 | 10 | 100 |
| 14 adidas International Property Holding B.V. | Amsterdam (Netherlands) | EUR | 50,955 | 86 | 100 |
| 15 adidas Infrastructure Holding B.V. | Amsterdam (Netherlands) | EUR | (23) | 10 | 100 |
| 16 adidas Benelux B.V. | Amsterdam (Netherlands) | EUR | 4,663 | directly | 100 |
| 17 Hydra Ventures B.V. | Amsterdam (Netherlands) | EUR | (17,979) | 10 | 100 |
| 18 adidas (UK) Limited | Stockport (Great Britain) | GBP | 30,907 | 10 | 100 |
| 19 Reebok International Limited ⁵ | London (Great Britain) | EUR | 340,383 | 76 | 100 |
| 20 Trafford Park DC Limited | London (Great Britain) | GBP | 1,089 | 15 | 100 |
| 21 Reebok Pensions Management Limited ^{3,5} | London (Great Britain) | GBP | – | 19 | 100 |
| 22 Reebok Europe Holdings | London (Great Britain) | GBP | 26,493 | 19 | 100 |

¹ The number refers to the number of the company.

² Profit and loss transfer agreement.

³ Company with no active business.

⁴ Sub-group Reebok International Ltd.

⁵ Sub-group Reebok International Limited.

⁶ Sub-group adidas Indy, LLC (formerly: Sports Licensed Division of the adidas Group, LLC).

Shareholdings of adidas AG, Herzogenaurach at December 31, 2017

| | Company and Domicile | | Currency | Equity (currency units in thousands) | Share in capital held by ¹ | in % |
|----|---|---------------------------------|----------|--|--|------|
| 23 | Luta Limited ^{3,5} | London (Great Britain) | GBP | – | 19 | 100 |
| 24 | adidas (Ireland) Limited | Dublin (Ireland) | EUR | 2,806 | 10 | 100 |
| 25 | adidas International Re DAC | Dublin (Ireland) | EUR | 21,872 | 10 | 100 |
| 26 | Reebok Ireland Limited ³ | Dublin (Ireland) | EUR | 56 | 24 | 100 |
| 27 | Five Ten Europe NV ³ | Lasne (Belgium) | EUR | (271) | 78 | 100 |
| 28 | adidas España S.A.U. | Zaragoza (Spain) | EUR | 41,286 | 2 | 100 |
| 29 | adidas Finance Spain S.A.U. | Zaragoza (Spain) | EUR | 36,390 | 76 | 100 |
| 30 | Global Merchandising, S.L. | Madrid (Spain) | EUR | 8,022 | 10 | 100 |
| 31 | adidas Italy S.p.A. | Monza (Italy) | EUR | 55,813 | 10 | 100 |
| 32 | adidas Portugal – Artigos de Desporto, S.A. | Lisbon (Portugal) | EUR | 6,440 | 10 | 100 |
| 33 | adidas Business Services Lda. | Morea de Maia (Portugal) | EUR | 1,263 | 10 | 98 |
| | | | | | directly | 2 |
| 34 | adidas Norge AS | Oslo (Norway) | NOK | 29,357 | directly | 100 |
| 35 | adidas Sverige AB | Solna (Sweden) | SEK | 45,222 | directly | 100 |
| 36 | adidas Finance Sverige AB | Solna (Sweden) | SEK | 272,188 | 76 | 100 |
| 37 | adidas Suomi Oy | Helsinki (Finland) | EUR | 1,620 | 10 | 100 |
| 38 | adidas Danmark A/S | Copenhagen (Denmark) | DKK | 20,635 | 10 | 100 |
| 39 | adidas CR s.r.o. | Prague (Czech Republic) | CZK | 148,054 | directly | 100 |
| 40 | adidas Budapest Kft. | Budapest (Hungary) | HUF | 462,671 | directly | 100 |
| 41 | adidas Bulgaria EAD | Sofia (Bulgaria) | BGN | 8,431 | directly | 100 |
| 42 | LLC 'adidas, Ltd.' | Moscow (Russia) | RUB | 26,357,060 | 7 | 100 |
| 43 | adidas Poland Sp.z o.o. | Warsaw (Poland) | PLN | 62,031 | directly | 100 |
| 44 | adidas Finance Poland S.A. | Warsaw (Poland) | PLN | 98,837 | 76 | 100 |
| 45 | adidas Romania S.R.L. | Bucharest (Romania) | RON | 24,762 | 10 | 100 |
| 46 | adidas Baltics SIA | Riga (Latvia) | EUR | 1,163 | 10 | 100 |
| 47 | adidas Slovakia s.r.o. | Bratislava (Slovak Republic) | EUR | 1,464 | directly | 100 |
| 48 | adidas Trgovina d.o.o. | Ljubljana (Slovenia) | EUR | 538 | directly | 100 |
| 49 | SC 'adidas-Ukraine' | Kiev (Ukraine) | UAH | 954,714 | directly | 100 |
| 50 | adidas LLP | Almaty (Republic of Kazakhstan) | KZT | 4,751,216 | directly | 100 |
| 51 | adidas Serbia d.o.o. | Belgrade (Serbia) | RSD | 532,183 | 10 | 100 |
| 52 | adidas Croatia d.o.o. | Zagreb (Croatia) | HRK | 39,998 | 10 | 100 |
| 53 | adidas Hellas A.E. | Athens (Greece) | EUR | 19,307 | directly | 100 |

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⁵ Sub-group Reebok International Limited.

⁶ Sub-group adidas Indy, LLC (formerly: Sports Licensed Division of the adidas Group, LLC).

Shareholdings of adidas AG, Herzogenaurach at December 31, 2017

| | Company and Domicile | | Currency | Equity (currency units in thousands) | Share in capital held by ¹ | in % |
|----------------------|---|-----------------------------------|----------|--|--|----------|
| 54 | adidas (Cyprus) Limited | Nicosia (Cyprus) | EUR | 923 | directly | 100 |
| 55 | adidas Spor Malzemeleri Satış ve Pazarlama A.Ş. | Istanbul (Turkey) | TRY | 316,405 | 10 | 100 |
| 56 | adidas Emerging Markets L.L.C. | Dubai (United Arab Emirates) | USD | 18,958 | indirectly 9 | 51 49 |
| 57 | adidas Emerging Markets FZE | Dubai (United Arab Emirates) | USD | 119,681 | 10 | 100 |
| 58 | adidas Levant Limited | Dubai (United Arab Emirates) | JOD | 2,956 | 57 | 100 |
| 59 | adidas Levant Limited – Jordan | Amman (Jordan) | JOD | 1,720 | 58 | 100 |
| 60 | adidas Imports & Exports Ltd. | Cairo (Egypt) | EGP | [34,455] | 61 | 100 |
| 61 | adidas Sporting Goods Ltd. | Cairo (Egypt) | EGP | 263,559 | 10 11 | 90 10 |
| 62 | adidas Egypt Ltd. ³ | Cairo (Egypt) | USD | (1,831) | directly | 100 |
| 63 | Reebok Israel Ltd. | Holon (Israel) | ILS | 15,839 | directly | 100 |
| 64 | Life Sport Ltd. | Holon (Israel) | ILS | 128,827 | 10 | 85 |
| 65 | adidas Morocco LLC | Casablanca (Morocco) | MAD | [57,870] | directly | 100 |
| 66 | adidas (South Africa) (Pty) Ltd. | Cape Town (South Africa) | ZAR | 320,376 | directly | 100 |
| North America | | | | | | |
| 67 | adidas North America, Inc. | Portland, Oregon (USA) | USD | 4,775,256 | 10 | 100 |
| 68 | adidas America, Inc. | Portland, Oregon (USA) | USD | 221,944 | 67 | 100 |
| 69 | adidas International, Inc. | Portland, Oregon (USA) | USD | 88,314 | 67 | 100 |
| 70 | adidas Team, Inc. ³ | Des Moines, Iowa (USA) | USD | (1,013) | 67 | 100 |
| 71 | The Reebok Worldwide Trading Company, LLC | Wilmington, Delaware (USA) | USD | 17,918 | 76 | 100 |
| 72 | Reebok Securities Holdings LLC ^{3,4} | Wilmington, Delaware (USA) | USD | – | 76 | 100 |
| 73 | Textronics, Inc. | Wilmington, Delaware (USA) | USD | 12,389 | 69 | 100 |
| 74 | Onfield Apparel Group, LLC ^{3,6} | Dover, Delaware (USA) | USD | – | 76 75 | 99 1 |
| 75 | Reebok Onfield, LLC ^{3,6} | Dover, Delaware (USA) | USD | – | 76 | 100 |
| 76 | Reebok International Ltd. ⁴ | Canton, Massachusetts (USA) | USD | [1,263,280] | 67 | 100 |
| 77 | adidas Indy, LLC ⁶ (formerly: Sports Licensed Division of the adidas Group, LLC) | Wilmington, Delaware (USA) | USD | 33,560 | 76 72 | 99 1 |
| 78 | Stone Age Equipment, Inc. | Redlands, California (USA) | USD | [512] | 68 | 100 |
| 79 | Spartanburg DC, Inc. | Spartanburg, South Carolina (USA) | USD | 12,661 | 68 | 100 |

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2 Profit and loss transfer agreement.

3 Company with no active business.

4 Sub-group Reebok International Ltd.

5 Sub-group Reebok International Limited.

6 Sub-group adidas Indy, LLC (formerly: Sports Licensed Division of the adidas Group, LLC).

Shareholdings of adidas AG, Herzogenaurach at December 31, 2017

| | Company and Domicile | | Currency | Equity (currency units in thousands) | Share in capital held by ¹ | in % |
|-------------|--|------------------------------|----------|--|--|-------|
| 80 | adidas Canada Ltd. | Woodbridge, Ontario (Canada) | CAD | 122,500 | 10 | 100 |
| Asia | | | | | | |
| 81 | adidas Sourcing Limited | Hong Kong (China) | USD | 548,652 | 11 | 100 |
| 82 | adidas Services Limited | Hong Kong (China) | USD | 13,414 | 10 | 100 |
| 83 | adidas Hong Kong Limited | Hong Kong (China) | HKD | 380,686 | 2 | 100 |
| 84 | Reebok Trading (Far East) Limited | Hong Kong (China) | USD | 31,406 | 76 | 100 |
| 85 | adidas (Suzhou) Co. Ltd. | Suzhou (China) | CNY | 230,058 | 2 | 100 |
| 86 | adidas Sports (China) Co. Ltd. | Suzhou (China) | CNY | 9,647,843 | 2 | 100 |
| 87 | adidas (China) Ltd. | Shanghai (China) | CNY | 987,565 | 10 | 100 |
| 88 | adidas Sports Goods (Shanghai) Co., Ltd | Shanghai (China) | CNY | - | 87 | 100 |
| 89 | Runtastic Software Technology (Shanghai) Co., Ltd. | Shanghai (China) | CNY | - | 10 | 100 |
| 90 | Zhuhai adidas Technical Services Limited | Zhuhai (China) | CNY | 42,458 | 81 | 100 |
| 91 | adidas Logistics (Tianjin) Co., Ltd. | Tianjin (China) | CNY | 151,388 | 15 | 100 |
| 92 | adidas Business Services (Dalian) Limited | Dalian (China) | CNY | 9,439 | 10 | 100 |
| 93 | adidas Japan K.K. | Tokyo (Japan) | JPY | 15,943,471 | 10 | 100 |
| 94 | adidas Korea LLC. | Seoul (Korea) | KRW | 203,106,999 | directly | 100 |
| 95 | adidas Korea Technical Services Limited | Pusan (Korea) | KRW | 3,894,309 | 81 | 100 |
| 96 | adidas India Private Limited | New Delhi (India) | INR | 4,636,148 | directly | 10.67 |
| | | | | | 10 | 89.33 |
| 97 | adidas India Marketing Private Limited | New Delhi (India) | INR | 6,042,126 | 96 | 98.62 |
| | | | | | 10 | 1.00 |
| | | | | | directly | 0.37 |
| 98 | adidas Technical Services Private Limited | New Delhi (India) | USD | 3,407 | 81 | 100 |
| 99 | Reebok India Company | New Delhi (India) | INR | (21,851,375) | 109 | 93.15 |
| 100 | PT adidas Indonesia | Jakarta (Indonesia) | IDR | 383,423,936 | 10 | 99 |
| | | | | | directly | 1 |
| 101 | adidas (Malaysia) Sdn. Bhd. | Petaling Jaya (Malaysia) | MYR | 58,014 | directly | 60 |
| | | | | | 10 | 40 |
| 102 | adidas Philippines Inc. | Pasig City (Philippines) | PHP | 822,484 | directly | 100 |
| 103 | adidas Singapore Pte. Ltd. | Singapore (Singapore) | SGD | 9,062 | directly | 100 |
| 104 | adidas Taiwan Limited | Taipei (Taiwan) | TWD | 1,774,204 | 10 | 100 |

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³ Company with no active business.

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⁵ Sub-group Reebok International Limited.

⁶ Sub-group adidas Indy, LLC (formerly: Sports Licensed Division of the adidas Group, LLC).

Shareholdings of adidas AG, Herzogenaurach at December 31, 2017

| Company and Domicile | Currency | Equity (currency units in thousands) | Share in capital held by ¹ | in % | |
|--|----------------------------|--|--|----------|-------|
| 105 adidas (Thailand) Co., Ltd. | Bangkok (Thailand) | THB | 1,419,989 | directly | 100 |
| 106 adidas Australia Pty Limited | Mulgrave (Australia) | AUD | 88,584 | 10 | 100 |
| 107 adidas New Zealand Limited | Auckland (New Zealand) | NZD | 6,115 | directly | 100 |
| 108 adidas Vietnam Company Limited | Ho Chi Minh City (Vietnam) | VND | 224,561,408 | 10 | 100 |
| 109 Reebok (Mauritius) Company Limited | Port Louis (Mauritius) | USD | (154) | 76 | 99 |
| | | | 71 | | 1 |
| Latin America | | | | | |
| 110 adidas Argentina S.A. | Buenos Aires (Argentina) | ARS | 1,280,248 | 10 | 76.96 |
| | | | | 2 | 23.04 |
| 111 Reebok Argentina S.A. ³ | Buenos Aires (Argentina) | ARS | 89,365 | 11 | 96.25 |
| | | | | 10 | 3.75 |
| 112 adidas do Brasil Ltda. | São Paulo (Brazil) | BRL | 571,730 | 2 | 100 |
| 113 adidas Franchise Brasil Servicos Ltda. | São Paulo (Brazil) | BRL | 36,088 | 112 | 100 |
| 114 Reebok Produtos Esportivos Brasil Ltda. ³ | Jundiaí (Brazil) | BRL | 10,469 | 10 | 100 |
| 115 adidas Chile Limitada | Santiago de Chile (Chile) | CLP | 116,551,782 | directly | 99 |
| | | | | 1 | 1 |
| 116 adidas Colombia Ltda. | Bogotá (Colombia) | COP | (45,422,402) | directly | 100 |
| 117 adidas Perú S.A.C. | Lima (Peru) | PEN | 95,948 | directly | 99.21 |
| | | | | 115 | 0.79 |
| 118 adidas de Mexico, S.A. de C.V. | Mexico City (Mexico) | MXN | 1,346,420 | directly | 100 |
| 119 adidas Industrial, S.A. de C.V. | Mexico City (Mexico) | MXN | 362,084 | directly | 100 |
| 120 Reebok de Mexico, S.A. de C.V. ³ | Mexico City (Mexico) | MXN | (1,260,310) | directly | 100 |
| 121 adidas Latin America, S.A. | Panama City (Panama) | USD | (72,607) | directly | 100 |
| 122 Concept Sport, S.A. | Panama City (Panama) | USD | 1,988 | 10 | 100 |
| 123 adidas Market LAM, S.A. ³ | Panama City (Panama) | USD | (2,782) | 10 | 100 |
| 124 3 Stripes S.A. (adidas Uruguay) ³ | Montevideo (Uruguay) | UYU | (436) | directly | 100 |
| 125 Tafibal S.A. | Montevideo (Uruguay) | UYU | 37,568 | directly | 100 |
| 126 Raelit S.A. | Montevideo (Uruguay) | UYU | 48,959 | directly | 100 |
| 127 Reebok Central America S.A. ⁴ | San Pedro Sula (Honduras) | HNL | - | 76 | 99.60 |
| | | | | 71 | 0.40 |
| 128 adidas Corporation de Venezuela, S.A. ³ | Caracas (Venezuela) | VEF | (17) | directly | 100 |
| 129 adisport Corporation | San Juan (Puerto Rico) | USD | (2,605) | 10 | 100 |

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³ Company with no active business.

⁴ Sub-group Reebok International Ltd.

⁵ Sub-group Reebok International Limited.

⁶ Sub-group adidas Indy, LLC (formerly: Sports Licensed Division of the adidas Group, LLC).

RESPONSIBILITY STATEMENT

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

Herzogenaurach, February 23, 2018



KASPER RORSTED

CEO



ROLAND AUSCHEL

GLOBAL SALES



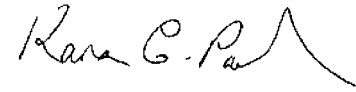
ERIC LIEDTKE

GLOBAL BRANDS



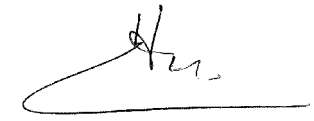
HARM OHLMEYER

CFO



KAREN PARKIN

GLOBAL HUMAN RESOURCES



GIL STEYAERT

GLOBAL OPERATIONS

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

INDEPENDENT AUDITOR'S REPORT

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

OPINIONS

We have audited the consolidated financial statements of adidas AG, Herzogenaurach and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the report on the position of the Company and the Group ("group management report") of adidas AG, Herzogenaurach for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the non-financial statement, as such included in the group management report, and the corporate governance statement as well as the corporate governance report which are included in section "Corporate Governance Report including the Declaration on Corporate Governance" of the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement, the corporate governance statement and the corporate governance report mentioned above.

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

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of

Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

VALUATION AND PRESENTATION OF THE DISPOSAL GROUPS TAYLORMADE UND CCM HOCKEY IN ACCORDANCE WITH IFRS 5

For information on the accounting and valuation methods used, as well as management's judgements and sources of estimation uncertainty, please refer to Note 02 in the consolidated financial statements. For the disclosures on Discontinued Operations and Disposal of subsidiaries as well as assets and liabilities, please refer to Notes 3 and 4, respectively, in the consolidated Financial Statements.

THE RISK TO THE CONSOLIDATED FINANCIAL STATEMENTS

After the Supervisory Board passed resolutions for the disposals of TaylorMade and CCM Hockey in May 2017 and June 2017, respectively, adidas entered into contracts dated May 10, 2017 and July 26, 2017, respectively, to dispose of the two business segments. The disposals of the two discontinued operations were completed so that they were both deconsolidated during the financial year. For the fiscal year 2017, adidas reported a loss from discontinued operations, after tax, of EUR 254 million. The sales contracts include, among other things, variable purchase price components, payment for which will become due in the future and whose amount depends on the achievement of certain future performance goals for the buyer. Promissory notes and earn-out components were therefore recognized as other non-current financial assets in the amount of EUR 137 million.

The classification and reporting of the two business segments TaylorMade and CCM Hockey as discontinued operations in accordance with IFRS 5 is complex and requires judgement. The assumptions underlying the valuation of the financial assets related to the variable purchase price components contained in the sales contracts are subject to judgement. In addition, the disclosures in the notes to the consolidated financial statements related to discontinued operations are complex.

There exists a risk to the consolidated financial statements that the discontinued operations were inappropriately identified as such and that the disclosure as discontinued operations in the consolidated income statement is therefore incorrect. In addition, there is a risk that the valuation of the financial assets for the variable purchase price components contained in the sales contracts is not appropriate. There also exists a risk that the disclosures for discontinued operations in the notes to the consolidated financial statements are not sufficient.

OUR AUDIT APPROACH

We first assessed whether the classification of the two disposal groups TaylorMade and CCM Hockey as discontinued operations in accordance with IFRS 5 was appropriate. We inquired of corporate accounting and reviewed the minutes of the Supervisory Board's meetings. In addition, amongst others we reviewed internal and external communications to assess whether the criteria for classification as discontinued operations were met.

With the assistance of KPMG valuation specialists, we also assessed the valuation of the variable purchase price components included in the contracts, which are accounted for as other non-current financial assets.

In addition, we assessed whether the discontinued operations disclosures are sufficiently detailed and appropriate.

OUR CONCLUSIONS

The disclosure of the disposal groups TaylorMade and CCM Hockey as discontinued operations is in accordance with IFRS 5. The valuation of the financial assets related to the variable purchase price components contained in the sales contracts is appropriate. The discontinued operations disclosures in the notes are sufficiently detailed and appropriate.

THE VALUATION AND ACCURACY OF STOCK-BASED COMPENSATION PROGRAMS

For information on the accounting and valuation methods used, as well as management's judgements and sources of estimation uncertainty, please refer to Note 02 in the consolidated financial statements. For information on the share-based payment programs, please refer to Note 27 in the consolidated financial statements.

THE RISK TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 2017, adidas AG launched a new share-based compensation program for executives and introduced an employee participation program as of October 1, 2016. In addition, a share-based compensation program was agreed to for an artist and a designer (non-employees), with a contract date of 19 May 2016 for the years 2017 to 2021. The respective programs contain various vesting conditions, which are linked to grants of equity instruments or a cash settlement. As of December 31, 2017, adidas has accrued stock-based compensation expense in equity, as well as short- and long-term sales and personnel provisions.

The interpretation of the contractual agreements and thus the classification of share-based payment programs in accordance with IFRS 2 are complex. Furthermore, assessing the likelihood of achieving the vesting conditions as of the balance sheet date and during the vesting period involves judgement.

There is a risk to the consolidated financial statements that the criteria for classification as share-based payment programs under IFRS 2 are not met, or that the classification as equity-settled or cash-settled share-based payment in accordance with IFRS 2 was incorrect. There is also the risk that the fair values of the equity instruments granted or the respective liability were not measured in accordance with IFRS 2.

OUR AUDIT APPROACH

We first assessed whether the criteria for classification as share-based payment programs under IFRS 2 were met. We analyzed the contractual obligations of the respective programs in detail and evaluated whether the share-based payments are equity or cash-settled in accordance with IFRS 2.

Among other things, we assessed the valuation model and the reasonableness of the assumptions used for vesting conditions (employee turnover) and performance conditions (stock price at the end of the vesting period). In doing so, we compared assumptions used for vesting conditions with historical employee turnover, and compared projections for future share prices with actuarial valuation models.

By examining the respective contracts and the related accounting treatment, we ensured that the underlying assumptions regarding the likelihood of achieving vesting conditions were reasonable as of the reporting date, and that the accounting for the share-based programs was appropriate.

OUR CONCLUSIONS

The share-based compensation programs have been appropriately classified in accordance with IFRS 2. The valuation methods used are appropriate, and the assumptions underlying the valuation regarding the achievement of vesting conditions as of the reporting date have been reasonably estimated.

THE VALUATION OF RISKS FROM TAX AUDITS

For information on the accounting and valuation methods used, as well as management's judgements and sources of estimation uncertainty, please refer to Note 02 in the consolidated financial statements. For disclosures on income taxes, please see Note 35 in the consolidated financial statements.

THE RISK TO THE CONSOLIDATED FINANCIAL STATEMENTS

adidas conducts business in various tax jurisdictions. As of December 31, 2017, income tax liabilities include provisions for risks from tax audits in the amount of EUR 424 million. The application of local tax legislation and tax relief is complex and involves various risks.

The assessment of provisions for tax obligations requires that adidas exercise judgement in the assessment of tax matters and make estimates regarding tax risks.

There exists a risk to the consolidated financial statements that the provisions for tax obligations arising from tax audits are either over- or undervalued.

OUR AUDIT APPROACH

adidas regularly appoints external experts to substantiate its own risk assessment with tax expert opinions. Among other things, we involved KPMG local and international tax specialists in the audit team to review both adidas's risk assessment and tax expert opinions. KPMG specialists reviewed the correspondence with the relevant tax authorities, and they also analyzed and examined the assumptions used in determining tax provisions based on their knowledge and experience of the current application of the relevant legislation by public authorities and courts. With our international network, we have also included tax specialists with the relevant knowledge of the respective local legal systems and regulations, who reported the results of their assessment to us.

OUR CONCLUSIONS

The judgement used by adidas in determining the amounts to be recognized as provisions for tax obligations arising from tax audits is appropriate.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- the non-financial statement,
- the corporate governance statement,
- the Corporate Governance Report in accordance with Nr. 3.10 of German Corporate Governance Code, and

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

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

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

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

We were engaged to perform a separate independent limited assurance engagement on the non-financial statement. With regards to content, scope and results of this independent limited assurance engagement we refer to our report hereon from February, 23, 2018.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined

necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

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

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

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

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

for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on May 11, 2017. We were engaged by the supervisory board on October 13, 2017. We have been the auditor of the adidas AG as a listed entity since 1995 without interruption.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, February 23, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

| | |
|-------------------------|-------------------------|
| Karl Braun | Haiko Schmidt |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

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

To the Supervisory Board of adidas AG, Herzogenaurach

We have performed an independent limited assurance engagement on the Combined Non-Financial Statement of adidas AG, Herzogenaurach, (further the “Company” or “adidas”) and the adidas Group according to §§ 315b, 315c German Commercial Code (HGB) in conjunction with §§ 289b to 289e HGB (further the “Report”) for the year from January 1 to December 31, 2017.

MANAGEMENT'S RESPONSIBILITY

The management board of adidas is responsible for the preparation of the Report in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB.

This responsibility of the management board includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

INDEPENDENCE AND QUALITY ASSURANCE ON THE PART OF THE AUDITING FIRM

We are independent from the Company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the professional code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion based on our work performed of the Report within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information” published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report for the period from January 1 to December 31, 2017, has not been prepared, in all material respects in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

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

- Inquiries of personnel on group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for adidas
- A risk assessment, including a media research, of relevant information about the sustainability performance of adidas in the reporting period
- Evaluation of the design and implementation of systems and processes for the collection, processing and monitoring of disclosures on environmental, employee and social matters, human rights, corruption and bribery, including data consolidation
- Inquiries of personnel on group level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documents
- Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level
- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey in Herzogenaurach (Germany) and a video conference with Sports Licensed Division Indianapolis (USA)
- Assessment of the overall presentation of the disclosures

As described in the section “Our Performance (Supply Chain)” in the Report, 1,015 social compliance and environmental audits at suppliers were performed by in-house technical staff as well as external third-party monitors commissioned by adidas business entities and licensees. The reasonableness and accuracy of the conclusions from the performed audit work were not part of our limited assurance engagement.

