adidas
GROUP

TOGETHER WE WIN

adidas Group Annual Report
2011

Targets 2011	Results 2011	Outlook 2012
Currency-neutral sales development: **adidas Group** increase at a mid- to high-single-digit rate	**Currency-neutral sales development:** **adidas Group** increase of 13% / Group sales of € 13.344 billion	**Currency-neutral sales development:** **adidas Group** increase at a mid- to high-single-digit rate
Wholesale segment increase at a mid-single-digit rate	**Wholesale segment** increase of 11%	**Wholesale segment** increase at a mid-single-digit rate
Retail segment increase at a low-double-digit rate	**Retail segment** increase of 20%	**Retail segment** increase at a low-teens rate
Other Businesses increase at a mid-single-digit rate	**Other Businesses** increase of 13%	**Other Businesses** increase at a low- to mid-single-digit rate
TaylorMade-adidas Golf increase at a low- to mid-single-digit rate	**TaylorMade-adidas Golf** increase of 16%	**TaylorMade-adidas Golf** increase at a low- to mid-single-digit rate
Rockport increase at a high-single- to low-double-digit rate	**Rockport** increase of 6%	**Rockport** increase at a high-single-digit rate
Reebok-CCM Hockey increase at a low-single-digit rate	**Reebok-CCM Hockey** increase of 6%	**Reebok-CCM Hockey** increase at a strong double-digit rate
	adidas brand increase of 14%	
	Reebok brand increase of 6%	
Gross margin 47.5% – 48.0%	Gross margin 47.5%	Gross margin around 47.5%
Operating margin increase to a level between 7.5% – 8.0%	Operating margin 7.6%	Operating margin increase to a level approaching 8.0%
Average operating working capital (in % of sales) increase expected	Average operating working capital (in % of sales) remains at 20.8%	Average operating working capital (in % of sales) moderate increase expected
Capital expenditure € 350 million – € 400 million	Capital expenditure € 376 million	Capital expenditure € 400 million – € 450 million
Net borrowings further reduction	Net borrowings Net cash of € 90 million	Gross borrowings further reduction
Net borrowings/EBITDA ratio to be maintained below 2	Net borrowings/EBITDA ratio – 0.1	Net borrowings/EBITDA ratio to be maintained below 2
Earnings per share increase at a rate of 10% to 15% to a level between € 2.98 – € 3.12	Earnings per share increase 18% to € 3.20 Net income attributable to shareholders increases 18% to € 671 million	Earnings per share increase at a rate of 10% to 15% to a level between € 3.52 – € 3.68
Shareholder value further increase	adidas AG share price increases 2.8% Dividend per share (subject to Annual General Meeting approval) € 1.00	Shareholder value further increase

Financial Highlights
2011

01 Financial Highlights (IFRS)

	2011	2010	Change
Operating Highlights (€ in millions)			
Net sales	13,344	11,990	11.3%
EBITDA	1,257	1,159	8.5%
Operating profit	1,011	894	13.1%
Net income attributable to shareholders	671	567	18.2%
Key Ratios (%)			
Gross margin	47.5%	47.8%	(0.3pp)
Operating expenses as a percentage of net sales	41.4%	42.1%	(0.7pp)
Operating margin	7.6%	7.5%	0.1pp
Effective tax rate	27.7%	29.5%	(1.8pp)
Net income attributable to shareholders as a percentage of net sales	5.0%	4.7%	0.3pp
Average operating working capital as a percentage of net sales	20.8%	20.8%	(0.0pp)
Equity ratio	46.8%	43.5%	3.3pp
Net borrowings / EBITDA	(0.1)	0.2	
Financial leverage	(1.7%)	4.8%	(6.5pp)
Return on equity	12.6%	12.3%	0.3pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	11,380	10,618	7.2%
Inventories	2,482	2,119	17.1%
Receivables and other current assets	2,558	2,324	10.0%
Working capital	2,154	1,972	9.3%
Net cash/(net borrowings)	90	(221)	140.7%
Shareholders' equity	5,327	4,616	15.4%
Capital expenditure	376	269	39.5%
Net cash generated from operating activities	792	894	(11.5%)
Per Share of Common Stock (€)			
Basic earnings	3.20	2.71	18.2%
Diluted earnings	3.20	2.71	18.2%
Net cash generated from operating activities	3.79	4.28	(11.5%)
Dividend	1.00 [1]	0.80	25.0%
Share price at year-end	50.26	48.89	2.8%
Other (at year-end)			
Number of employees	46,824	42,541	10.1%
Number of shares outstanding	209,216,186	209,216,186	–
Average number of shares	209,216,186	209,216,186	–

1) Subject to Annual General Meeting approval.

02 Net sales

13,344 € in millions 2011

11,990 € in millions 2010

03 Net income attributable to shareholders

671 € in millions 2011

567 € in millions 2010

Group Brands

adidas GROUP

Wholesale **Retail**

Other Businesses

adidas

adidas Sport Performance

The guiding principle of adidas Sport Performance is "Play to Win". Inspired by the motivation of our founder Adi Dassler, Sport Performance brings passion for great products to athletes in all sports, allowing them to be faster, stronger, smarter, cooler and natural. The main focus of adidas Sport Performance is on five key categories: football, basketball, running, training and outdoor.

adidas Sport Style

adidas Sport Style contains adidas' lifestyle sub-brands. adidas Originals is the authentic, iconic sportswear label for the street and its message is "Celebrate Originality". The Fashion Group is defined as the "Future of Sportswear" and includes the labels Y-3[1], Porsche Design Sport, adidas SLVR and adidas NEO. Through these four labels adidas brings authentic sportswear to the full spectrum of lifestyle consumers. adidas Sport Style's positioning statement is "Style your Life".

Reebok

Through its history and again today, Reebok's success is based on its courage to challenge convention: developing innovative products, creating new markets and the latest athletic style. Inspired by its roots in fitness, Reebok is a global sports brand that is committed to empowering consumers to be "Fit for Life".

1) From a segmental perspective, Y-3 is consolidated as part of Other Businesses.

TaylorMade-adidas Golf

TaylorMade

TaylorMade leads the golf industry in metalwood sales and is the No. 1 driver brand on the world's major professional golf tours. The brand is recognised globally for its capacity to develop innovative and performance-enhancing technologies for drivers, fairway woods, hybrids, irons, putters and balls.

adidas Golf

adidas Golf develops high-performance golf footwear and apparel for active, serious, athletic-minded golfers seeking products to elevate their game.

Ashworth

Ashworth is an authentic golf apparel brand with powerful name recognition among true, authentic golfers that moves effortlessly from the golf course to the clubhouse and beyond.

Rockport

Building on four decades of engineering expertise and a commitment to innovation, Rockport designs and markets dress, casual and outdoor leather footwear that uses performance technology to make style comfortable for the metropolitan consumer.

Reebok-CCM Hockey

Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of ice hockey equipment and apparel with two of the world's most recognised ice hockey brand names: Reebok Hockey and CCM.

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TOGETHER WE WIN

adidas Group Annual Report
2011

It takes passion, discipline and dedication to succeed, but above all it takes teamwork. Together we inspire and encourage each other to go further and achieve more.

Our Group, our employees, our innovations, our brands, connecting and resonating with people all over the world. On the pitch and on the street. Together we are a team. Living the moments and sharing our dreams.

Together we win.

TOGETHER WE WIN
2011

01 TO OUR SHAREHOLDERS

02 OUR GROUP

GROUP MANAGEMENT REPORT

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

03 FINANCIAL REVIEW

GROUP MANAGEMENT REPORT

04 CONSOLIDATED FINANCIAL STATEMENTS

05 ADDITIONAL INFORMATION

Together we achieve greatness:

London 2012 Olympic Games

TOGETHER WE WIN

The world's greatest sporting event, the Olympic and Paralympic Games, is built on the hopes and dreams of millions around the world. Incredible achievements and incredible sporting moments made possible by the commitment, pride and dedication of the communities, the coaches, the families, the fans and the volunteers.

Together we win.

Some of the 70,000 volunteers, 6,000 staff and 4,500 technical officials who make London 2012 possible.

SALLY PEARSON

2011 IAAF World Champion in the 100m hurdles
and 2011 IAAF Athlete of the Year.

YOHAN BLAKE

2011 IAAF World 100m Champion.

JESSICA ENNIS

2010 IAAF World Indoor Pentathlon Champion.

TOGETHER WE WIN

Believing in their side. The fans that supported the Spanish football team to become European and World Champions.

Together we are champions:

UEFA EURO 2012

Spain's national football team is admired by the whole world for their style of play and the magic they bring to the sport. But this is not just because of individuals' football skills, it is a team effort and not just of those on the pitch. This team extends far beyond the players to the managers, coaches, staff, medics, families, supporters and fans of the beautiful game all over the world.

Together we win.

IKER CASILLAS / FERNANDO LLORENTE / DAVID VILLA / XABI ALONSO / XAVI HERNÁNDEZ / DAVID SILVA
of Spain's national football team, current European and World Champions.

Together we have style:

Style Your Life

Style and fashion is all about the things that inspire us. Always fun, fresh and connected. It shows how we live, who we are and what we want. Seeing what's out there and who's wearing it. Musicians, athletes, actors, icons - their story, their look, their way – inspiring us – our story, our look, our way!

TOGETHER WE WIN

Together we win.

Inspired by life, inspiring each other.

TOGETHER WE WIN

9
2011

SNOOP DOGG
Rapper, singer, record producer and actor.

ANNIE THORISDOTTIR
Winner of the
2011 Reebok CrossFit Games,
"Fittest Woman on Earth".

RICH FRONING JR.
Winner of the
2011 Reebok CrossFit Games,
"Fittest Man on Earth".

TOGETHER WE WIN

2011 Reebok CrossFit Games, California, USA.

Together we get fit:

Reebok CrossFit Games

Getting fit and staying fit can often be daunting. But by helping each other we feel stronger, we feel part of something, a community, inspiring each other and pushing harder. This camaraderie gives joy and encouragement, making fitness fun and something everyone can do.

Together we win.

Reebok and CrossFit – making fitness fun for everyone.

TOGETHER WE WIN

DUSTIN JOHNSON ⁄ KEITH SBARBARO
Dustin Johnson discussing the next tee-off with friend and caddie, TaylorMade's Keith Sbarbaro.

Together we go further:
Distance and accuracy

All golfers in the world understand that to be the best they must be open to new ways to up their game. With every shot comes a new challenge, but also a new opportunity. Each shot is built on the previous, striving for better, more distance and more accuracy. Every shot, every round, part of a story, of advice, of sharing ideas, of laughs, of disappointments, of good days and of bad days. Together learning more, getting better and going further.

Together we win.

DUSTIN JOHNSON
2011 Barclays PGA Tour Tournament winner.

Reebok CCM

TOGETHER WE WIN

RYAN NUGENT-HOPKINS

2010 Western Hockey League Best Rookie and
2011 Canadian Hockey League Top Draft Prospect.

The next generation of ice hockey enthusiasts.

Together we have courage:

Power on the ice

Ice hockey is one of the most physically challenging sports on the planet. Its players and teams famous for their heart and commitment to its hard hits, energy and fast pace. But it's also famous for its unrivalled fans and dedicated followers, proud of their team, their sport. Keeping it all for the action out on the ice.

Together we win.

Together we don't compromise:

This is walkability

Modern metropolitan life constantly demands the latest fashion – a hectic world of high heels, sharp suits and espressos. Sometimes it can seem too much and can leave us wishing for a little more comfort. But there doesn't need to be a compromise. Using the latest advances in materials and technologies, you can get on with looking fabulous and stay committed to style and great design, while enjoying exceptional comfort, lightness and walkability.

Together we win.

Walkability – the way we walk.

Style made comfortable – no compromise.

Better Cotton
Sustainable cotton production initiative.

Engaging with suppliers and producers, in a collaborative way.

The Supernova Sequence 4 was created as part of the Better Place programme.

Together we care:
Sustainability

We all share one planet, its resources, its water, its air. We are all connected. We understand that, by sincere efforts and social engagement, we can make a difference. Improving the lives of everyone and reducing our impact on the environment. Learning every day to be better, smarter and more sustainable.

Together we win.

TOGETHER WE WIN

2011

adidas GROUP

TOGETHER WE WIN

2011

TOGETHER WE WIN

01 TO OUR SHAREHOLDERS

TOGETHER WE WIN

/ adidas /

The Boot with a Brain

adizero f50 miCoach, the "football boot with a brain", brings smart technology to the field of play. Combining the power of the miCoach digital training tool with the miCoach Speed_Cell technology in the boot's outsole enables the user to track and upload performance data, capturing 360° movement and key performance metrics.

Together we win.

01.1 ⁄

Operational and Sporting Highlights 2011

Q1

JAN

07. TaylorMade-adidas Golf starts 2011 off with two new partnerships: Camilo Villegas and Jim Furyk (2010 PGA Tour Player of the Year).

10. For the second consecutive time, Lionel Messi is crowned FIFA World Player of the Year.

20. adidas Originals introduces its first in-house denim line as well as a collection of premium accessories led by an assortment of soft fine leather bags ⁄ **PICTURE 01**.

23. Yohji Yamamoto and adidas celebrate ten years of collaboration as part of the Paris Men's Fashion Week.

26. Nani, striker for Manchester United and the Portuguese national team, joins the adidas family.

31. adidas team France defends the Handball World Championship title in Sweden, triumphing over Denmark 37-35. France is the first country to win four successive major titles in the sport (Olympic gold, European Champion, two-time World Champion) ⁄ **PICTURE 02**.

FEB

07. adidas and the Spanish Football Federation (RFEF) announce the extension of their sponsorship agreement, extending the relationship until December 2018.

16. Reebok and Giorgio Armani S.p.A. present their spring/summer 2011 collection, which is an evolution of the fusion of EA7's dynamism with Reebok's performance DNA.

17. Well-known producer, artist and designer Swizz Beatz and Reebok Classics join forces ⁄ **PICTURE 03**.

27. With his runner-up finish at the WGC Accenture Match Play Championship, TaylorMade-adidas Golf Tour Staff Professional Martin Kaymer ascends to No. 1 in the official world golf rankings ⁄ **PICTURE 04**.

28. Style icon and actress Eva Mendes joins Reebok as an EasyTone ambassador.

MAR

03. The Official Match Ball for the 2011 UEFA Champions League Final in Wembley Stadium, the "adidas Finale London", is unveiled.

10. Y-3 opens its first flagship store in Mayfair, London, in collaboration with luxury retail partner Hervia.

16. adidas launches its largest global brand campaign "all adidas", which embraces every aspect of the different sub-brands to create the most diverse and comprehensive insight into adidas in its history ⁄ **PICTURE 05**.

21. 100 days before the official kick-off of the FIFA Women's World Cup 2011, adidas and the German Football Federation (DFB) present the new jerseys for the German national team in Frankfurt ⁄ **PICTURE 06**.

22. The adidas Group presents its Environmental Strategy 2015, a five-year plan to re-engineer the company's approach to environmental management.

28. Reebok joins forces with CrossFit, one of the biggest fitness movements in the USA. Together, they will be extending the CrossFit gym concept around the world.

Q2

APR

14. adidas launches the adizero Crazy Light, the lightest basketball shoe ever, at an exclusive media event in New York City with streetball legend Bobbito García.

14. RealFlex, a first-of-its-kind running and training shoe from Reebok, designed with 76 strategically placed RealFlex sensors to promote natural movement, makes its debut in North America and other key markets ⁄ **PICTURE 07**.

18. At the Boston Marathon, Geoffrey Mutai runs the world's fastest ever marathon in a time of 2:03:02h and Caroline Kilel clocks the winning time in the women's race, both wearing adidas adizero running shoes.

19. FC Bayern Munich and adidas announce the extension of their partnership agreement until 2020 and present the new home jersey for the 2011/2012 season at the Allianz Arena in Munich, Germany ⁄ **PICTURE 08**.

MAY

04. Chicago Bulls star basketball player Derrick Rose becomes the youngest Most Valuable Player (MVP) award-winner in the history of the NBA ⁄ **PICTURE 09**.

06. Ashworth introduces four new footwear models: a spikeless shoe for on- and off-course wear and three street shoes.

16. adidas and Deutsche Fußball Liga (DFL) launch the second edition of "Torfabrik", the Official Match Ball of the German Bundesliga.

25. adidas Originals celebrates reaching over 10 million followers on its Facebook page :⁄⁄ **FACEBOOK.COM/ADIDASORIGINALS**.

27. At a media event in London, adidas Group CEO Herbert Hainer confirms that the company is on track to achieve its goals set for the London 2012 Olympic & Paralympic Games, where it is the Official Sportswear Partner.

JUN

10. adidas launches the all-new adiPower Predator, the lightest and most powerful Predator ever, perfectly combining three key benefits: control, power and light weight ⁄ **PICTURE 10**.

20. TaylorMade introduces the Ghost Spider Putter, which fuses the head construction, size and high moment of inertia (MOI) of the Monza Spider with the white alignment benefits of the Corza Ghost ⁄ **PICTURE 11**.

22. The adidas Group announces the construction of a new € 100 million European Distribution Centre near Osnabrueck, Germany, scheduled to open in 2013. From the planned distribution centre, products will be delivered all across Western Europe.

24. Reebok-CCM Hockey signs five of the top 2011 NHL draft prospects – with Reebok Hockey signing Adam Larsson and Jonathan Huberdeau and CCM signing Ryan Nugent-Hopkins, Gabriel Landeskog and Sean Couturier.

26. The FIFA Women's World Cup kicks off in Berlin, Germany. adidas equips six teams and is also the Official Sponsor, Supplier and Licensee of the event ⁄ **PICTURE 12**.

Q1


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WORLD CHAMPIONS 2011
adidas is all in
adidas
BAYERN MÜNCHEN
2020
youngest mvp ever
all passion

Q2

01.1

Q3

JUL

04. Around 1,700 adidas Group employees from the Marketing, Design, Product Development and Global Operations departments move into Laces – a new, state-of-the-art building at the World of Sports, the adidas Group's headquarters in Herzogenaurach, Germany. Laces comprises seven levels and covers a total area of 61,900 m^2 **PICTURE 01**.

17. The adidas sponsored Japanese national women's football team triumphs in the FIFA Women's World Cup 2011 Final in Frankfurt, Germany **PICTURE 02**.

17. TaylorMade Tour Staff Professional Darren Clarke wins the British Open. His equipment for the tournament includes the TaylorMade R11 driver and the Penta TP ball.

19. Reebok launches its new campaign "Reethym of Lite" in New York City with Swizz Beatz as the Creative Director of the campaign.

31. The final of the 2011 Reebok CrossFit Games takes place in Carson, California, in front of 8,000 enthusiastic spectators. The winners are Reebok sponsored Rich Froning Jr. and Annie Thorisdottir. They are crowned "Fittest on Earth".

AUG

01. Following the outstanding success of the R11 driver, TaylorMade introduces the new R11 iron **PICTURE 03**.

25. The first Reebok products with Better Cotton are now in stores. The adidas Group has committed to using 100% Better Cotton by 2018 and is one of the co-founders of the Better Cotton Initiative (BCI), which aims to sustainably improve environmental conditions in the conventional cotton industry.

27. The 13th IAAF World Championships open in Daegu, Korea. A total of 33 medals go to adidas sponsored athletes.

28. Yohan Blake takes gold in the 100m sprint at the World Athletics Championships, wearing the adizero Prime track shoe **PICTURE 04**.

31. In the manager magazin ranking "Best Annual Reports 2011", the adidas Group is second in the DAX category and second overall.

SEP

08. For the twelfth consecutive time, adidas AG is selected to join the Dow Jones Sustainability Indexes (DJSI). adidas is rated as industry leader in the category "Clothing, Accessories & Footwear" for the eighth time.

08. Rockport and brand ambassador Annabel Tollman partnering with Dylan's Candy Bar organise a "May each step you take be sweet" event on the occasion of "Fashion's Night Out" in New York City **PICTURE 05**.

11. Y-3 presents its spring/summer 2012 collection at New York City's Fashion Week.

25. At the 38th BMW Berlin Marathon, Patrick Makau sets a new world record wearing the adizero adios 2 running shoe. adidas is the Official Partner of the event, in which around 40,000 runners compete.

29. adidas unveils the adizero f50 miCoach. With its integrated miCoach Speed_Cell in the outsole, this football boot also acts as a digital training tool. Its many features include the possibility to record the number of sprints and the player's speed **PICTURE 06**.

Q4

OCT

01. adidas sponsored Sam Sutton defends his title as Extreme Kayak World Champion at the fifth edition of the adidas Sickline Extreme Kayak World Championship and clearly demonstrates that he still is the fastest extreme paddler in the world **PICTURE 07**.

15. Reebok Hockey releases the all-new A.i 9 stick, which features a pure fibre blade that is the lightest blade ever made by Reebok Hockey.

23. adidas sponsored rugby team the All Blacks triumph in the Rugby World Cup Final in Auckland. For the second time after 24 years, the New Zealanders win the Webb Ellis trophy, repeating their success in the inaugural competition on their home soil in 1987 **PICTURE 08**.

NOV

03. The adidas Group announces the acquisition of Five Ten, a leading performance brand in outdoor action sports. Through the acquisition, the adidas Group will be even better positioned towards the goal of becoming a leading player in the outdoor performance market **PICTURE 09**.

06. Six months after running the world's fastest ever marathon, Geoffrey Mutai completes his second major victory of the year by winning the New York Marathon wearing adizero adios 2 running shoes. Completing the course in 2:05:06h, he smashes the previous course record by more than two and a half minutes.

08. adidas Originals by Jeremy Scott wins the Musikexpress Style Award for sportswear in Berlin, Germany. The award is granted to international fashion labels and artists who embody pop culture and the fashion scene at its best.

28. adidas wins the 2011 Marketer of the Year Award for the "all adidas" campaign, presented at the 25th Annual Footwear News Achievement Awards. This keeps the award in the Group, following on from Reebok's success in 2010.

DEC

02. adidas and UEFA present the Official Match Ball for the UEFA EURO 2012, the "adidas Tango 12", during the UEFA EURO 2012 draw ceremony with former Ukrainian Olympic pole vaulter Sergey Bubka **PICTURE 10**.

09. The adidas Group's headquarters in Herzogenaurach, Germany, and the distribution centre in Indianapolis, USA, are ISO 14001 certified. This is another important milestone in the Group's Environmental Strategy as well as its Green Company Initiative.

12. TaylorMade introduces a revolutionary new technology and product franchise: RocketBallz. The breakthrough performance of RocketBallz gives golfers increased ball speed and longer distance and represents the brand's most innovative high-performance fairway woods, rescues and irons to date **PICTURE 11**.

15. adidas and UEFA announce the extension of their long-term partnership for the UEFA Champions League, UEFA Europa League as well as the UEFA Super Cup and UEFA Women's Champions League. The deal will see adidas extend its long-term partnership for each competition until 2018.

21. Reebok presents "CLASSIC" by Jonathan Mannion at Art Basel Miami. The event was an exclusive retrospective of photographer Jonathan Mannion's most celebrated works, featuring iconic hip hop stars **PICTURE 12**.

Q3

02


05


04


01


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06

07


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09

12

Q4

01.2

Interview with the CEO

HERBERT HAINER
Chief Executive Officer

In 2011, the adidas Group commenced its five-year strategic business plan Route 2015. With currency-neutral sales growth of 13%, earnings per share increasing 18% and a net cash position of € 90 million at year-end, the Group has set off at a fast pace towards its strategic goals. As a result of this strong performance, Management is proposing a dividend to shareholders of € 1.00, an increase of 25%.

Supported by major international sporting events and an exciting product pipeline, 2012 is shaping up to be another record year for the adidas Group.

In the following interview, Herbert Hainer, adidas Group CEO, reflects on 2011 and discusses the Group's strategic and financial outlook.

⁄ ? Herbert, 2011 was the first year of the Group's strategic business plan Route 2015. Have the financials lived up to your expectations?

⁄ ! At the start of any strategic plan, it is important to gain momentum quickly and set a precedent by hitting targets. In this respect, 2011 certainly met my expectations, and in most cases exceeded them. We enjoyed the Group's highest organic growth rate since 2006, as sales increased 13% currency-neutral. This means we added € 1.4 billion in revenues, achieving over € 13.3 billion for the year. We also made strong bottom-line progress, with earnings per share growing 18% to a new record level of € 3.20. And we ended the year with our balance sheet in top shape, with operating working capital as a percentage of sales remaining at all-time lows of 20.8%, and a net cash position of € 90 million. All in all, we have come out of the blocks fast and are well on our way towards our 2015 strategic goals.

⁄ ? Looking at the business, which parts really stand out for you in delivering this impressive growth?

⁄ ! What is most striking in our top-line development is the broad-based growth we generated across all of our markets, brands and channels. Clearly, we were big winners in our three key attack markets, which accounted for more than 50% of the growth. Currency-neutral sales in North America grew 15%, Russia/CIS was up 26% and Greater China increased 23%. But an even greater achievement in my opinion was our strong growth in Western Europe. Revenues were up 10% in a region facing significant economic pressure. This highlights that, in tough times, the consumer and the customer gravitate towards those brands that bring real and tangible value through innovation and cutting-edge design. On a segmental basis, all of our segments grew at a double-digit rate for the year. A key highlight was Retail, which generated comparable store sales growth of 14%, a major achievement following 11% comparable growth in the prior year. That says a lot about the great progress we are making on improving our Retail operations.

Looking at product categories, we resonated with consumers around the world in all categories. Footwear sales were up 18% currency-neutral, with football and running each growing over 20%, and outdoor growing almost 50%. In apparel, sales were up a solid 8% currency-neutral, with growth in training and running more than compensating for declines in football apparel due to high volumes related to the FIFA World Cup in the prior year. In hardware, sales were also exceptional for the year, as TaylorMade-adidas Golf drove the category up 10%. Finally, it goes without saying that, once again, adidas Sport Style was a major highlight, adding almost half a billion in sales as it grew 24% to over € 2.6 billion. The global popularity of adidas Originals as well as the expansion of the adidas NEO label in the emerging markets drove this development.

⁄ ? One of your key Route 2015 goals is to achieve an operating margin of 11%. In 2011, your margins only modestly increased. Are you disappointed with that?

⁄ ! No, quite the contrary, when I look back at the year, even considering all the great top-line achievements, our operating margin development is one of the key financial highlights we are most proud of for 2011. As flagged several times over the past 18 months, the severe pricing pressure we faced in procuring our products due to record-high raw material costs and wage inflation in our Asian sourcing markets restricted our progress. This eroded 2.3 percentage points of gross margin in 2011, and being able to limit the negative effect to a mere 30 basis points is no small feat. And, in some areas, we were even able to increase gross margins, such as in Retail by 80 basis points, and at Reebok by 40 basis points. In terms of operating leverage, we delivered as we promised, achieving a reduction in other operating expenses as a percentage of sales of 70 basis points. Therefore, you can take confidence from these results. They show our ability to tackle major challenges and they highlight the discipline we are instilling in the organisation to leverage our cost base as we grow.

⁄ ? North America has been a major turnaround story for the adidas brand. But the jury is still out on whether you can make this a long-term success. What is your recipe to succeed in the world's largest sporting goods market?

⁄ ! At the end of the day, it's all about track record. And this is what we are creating. With our Route 2015 plan for the US, we are setting up the right conditions for adidas to be successful in North America long-term. This includes being more focused in our choices, consistent in our execution, and consequent with our follow-through once we start an initiative. Over the past two years, we have concentrated our efforts on a smaller number of key initiatives, supporting them in the right distribution channels and targeting our communication to attract the next-generation consumer. And the numbers are coming through powerfully. adidas brand sales in North America have increased 41% over the past two years, the biggest jump we have achieved as a management team, with the 21% currency-neutral growth in 2011 being our best ever. All of our key categories – be it Originals, running, basketball or training – posted solid growth. The shape of our distribution mix is also evolving nicely, with strong market share gains in the high-quality mall and sporting goods channels as well as further diversification with important directional accounts regionally. When I look at this, our outstanding product pipeline and how the brand is resonating with the consumer and our customers, the consistency is now where it needs to be. You will see this again in 2012 as we push to achieve a hat-trick of years of double-digit growth for adidas in North America.

⁄ ? News flow from the local players suggests that the Chinese market will be difficult in 2012. What kind of visibility do you have and do you expect momentum to continue?

⁄ ! The Chinese consumer is discerning and recognises the innovation and quality of our brands and products. Furthermore, we have worked hard to keep retail channels clean, while at the same time ranging a comprehensive offering of our freshest and latest products. This is in contrast to many domestic players who are facing challenges from a lack of differentiation and from over-inventories. Additionally, we continue to build strong and close relationships with our customers in China, which provide us with daily or weekly feedback to coordinate a faster and more efficient supply chain. Consequently, from our order book and the clear visibility on our strong brand momentum in our franchise store base of almost 7,000, I am fully confident in delivering another year of double-digit growth in line with our Route 2015 aspirations.

⁄ ? Reebok has seen momentum slow and faces some challenges with the end of the NFL licence and the difficult toning market. What are your priorities for continuing progress for the brand in 2012?

⁄ ! We have brought Reebok back on the map with three highly successful commercial product hits – EasyTone, ZigTech and RealFlex. We can be proud of our achievements, as sales have grown by more than 20% and improved the gross margin by over 4 percentage points since 2009. While the toning market provided rapid growth early in this period, the fact that ZigTech and RealFlex have fully compensated for the equally swift deceleration in the category highlights that Reebok has regained its touch at creating broad-based innovative and highly attractive products. However, as we have learnt from our years of brand-building with adidas, while continuous innovation is the most important ingredient for long-term sustainable brand success, it alone is not enough without a clear consumer understanding of what the brand truly represents. And this is where we turn our attention to for Reebok in 2012.

Reebok's brand positioning is about making fitness aspirational and fun for everyone, by providing consumers with experiences that are exciting and engaging. To that end, we now have the right tools in place to tell this message more broadly and boldly. It starts with the introduction of a new global brand campaign – "The Sport Of Fitness Has Arrived". Our partnership with CrossFit is an integral part of this. CrossFit is one of the fastest-growing fitness movements in the world and involves a community passionate about living a healthy lifestyle and the camaraderie that can be found in fitness. With the support of the CrossFit community, we are aiming to change the way people perceive, define and experience fitness, empowering consumers to be fit for life in a fun way. This resonates in a very real and authentic way with the values of Reebok. The campaign will also be used to reinforce the performance credentials of ZigTech and RealFlex to sustain their commercial success. While the end of the NFL licence and the transfer of our US-related NHL business to the Reebok-CCM Hockey segment will see Reebok sales decline in 2012, the core of the Reebok brand is expected to remain stable in this year of brand consolidation. As we begin building our fitness empire and continue our work in invigorating Reebok Classics, 2012 will give us the platform to build a robust and sustainable business as we go forward.

⁄ ? **In 2011, TaylorMade-adidas Golf's currency-neutral sales increased 16%. How were you able to achieve such strong results given the challenging golf market?**

⁄ ! There is no doubt that the star player of the golf industry in 2011 was TaylorMade-adidas Golf, as sales broke through the € 1 billion barrier for the first time. The speed and game-changing impact of our innovation and technology launches over several years has yielded clear market leadership in the sport. Last year was no exception. The white R11 series of drivers were without doubt the story of the year. Not only did they change the colour of the game, this tuneable metalwood also catapulted our market share in the category in the US to over 40% for a large part of the year. In addition, the R11 irons also helped us to sustain leadership in that category, which we now have held for over a year.

As I look forward, we will use 2012 to secure these market share wins and build on them further. Already, our latest revolutions, the R11S and RocketBallz, are shaping up to be retail hits as we deliver on our promise to help golfers to increase ball speed, distance and accuracy. Our success will also not just be limited to hard goods. In performance golf apparel, we are adding an exciting new Fashion Performance line, which features bold colours and unique patterns, combining our proven apparel technologies with contemporary, fashion-forward styling. And with some other surprises in the bag, which you will see later in the year, our best days in golf are still ahead.

⁄ ? **What kind of innovations have you planned for 2012, particularly in light of the two major sporting events, the London 2012 Olympic Games and the UEFA EURO 2012?**

⁄ ! There is always great product buzz and excitement around major sports events. When the sporting elite take centre stage, the pinnacle of adidas innovation accompanies them as they strive to reach their personal impossible. We wouldn't be adidas if we didn't have something special for the major events. Guided by our five-pillared innovation approach – faster, cooler, stronger, smarter and natural – we will unveil new product and consumer experiences like never seen before. Building on our multi-category leadership in lightweight technologies, which are part of our faster pillar, in 2012 we are going to fuse various elements of our other technology pillars to create more holistic and exciting experiences for the consumer. For example, in football and running, you have already seen the beginning of this through the introduction of the smarter element with our new Speed_Cell technology and miCoach platform extensions in products such as the adizero f50 miCoach and adizero Feather. These capabilities will be rolled out in other categories like basketball, American football and tennis this year. In addition, we are going to bring revolutionary new products in natural motion, extending the adipure franchise we introduced in 2011 with the adipure trainer. This will start in the running category. Over the course of three years, our adidas Innovation Team has carried out extensive research and testing to develop the adipure running range. This is a collection of three shoes with a variety of heel gradients that mimic the natural movement of the foot, by helping the body gradually adapt to the demands of mid- to forefoot running. Using 500 sensors located on the bare foot, our engineers have measured exactly where the foot stretches on impact and where the maximum stress occurs. On the back of these findings, we have created a new TechFit upper and outsole. These work as one to help the runner use their muscles more effectively, improving balance and flow without sacrificing stability, for a more natural running experience.

⁄ ? **Do you have any specific goals or targets for these events?**

⁄ ! With the UEFA EURO 2012, the clear target is to set new record sales in the football category of more than € 1.5 billion. Here, in particular, our aim is to sustain the market share gains we have enjoyed since the 2010 FIFA World Cup. And we have all the ammunition we need as the official sponsor and partner of the event as well as six high-calibre teams in Spain, Germany, Russia, Ukraine, Denmark and Greece.

For the London 2012 Olympic Games, we have specific commercial targets mainly focused on increasing our exposure in the UK. As official partner to the London Organising Committee (LOCOG), only our branding will be visible at all the events and key Olympic sites. And, for the first time, we are selling the official products as worn by the athletes on the field for Team GB, designed together with Stella McCartney. However, more important for us is ensuring the Games live up to the spirit of what they are all about. Here, we are fully embracing LOCOG's sustainability goals in terms of responsible sourcing practices and product creation. 90% of all adidas products for the Games will contain sustainable content. 100% of athlete Village wear and Volunteer wear as well as 73% of on-field performance products are designed and developed as "Better Place", adidas' sustainable product creation programme.

01.2 ⁄

⁄ ? **Beyond your Olympic sustainability goals, have you other specific sustainability targets for the Group?**

⁄ ! As part of our Environmental Strategy, which is an integral part of our overall Route 2015 strategic business plan, we have numerous programmes in place to use resources more efficiently. Like our consumers, we are also concerned about the rate of natural resource depletion and we have to push the boundaries to become more efficient and environmentally benign. Building on the Olympic initiatives I just mentioned, another great example on the product side is our commitment to the Better Cotton Initiative, which the adidas Group co-founded. Here, adidas has committed to use 100% Better Cotton by 2018, which aims to improve the environmental impact in the mainstream cotton industry. In addition, within our own operations it is also our goal to reduce the emission of carbon dioxide by 30% by 2015, the usage of paper by 50% and the usage of water by 20%. There is still a lot to be done and we are nowhere close to being 'there' yet. However, our initiatives definitely show that we are actively working on being more environmentally sustainable, using resources more efficiently and taking the next generation's needs into consideration when doing business today.

⁄ ? **There is a lot of media excitement about the adidas NEO label. Can you tell us about your aspirations with this sub-brand?**

⁄ ! After looking closely at the market, it was clear that there is a younger consumer out there looking for fresh fashion options. For us, this consumer is the 14- to 19-year-old global teen. To step into this market, we created the adidas NEO label. NEO means new. New by definition. New in concept. New in spirit. It brings the heritage of sport and translates that into fashion at an accessible price point for teen consumers. No other brand has the history, credibility and style to do this. Like everything we do at adidas, we offer these consumers something special just for them, with fashionable products grounded in their likes, dislikes, trends and behaviours. Looking at the size of the fast-fashion market, the sales potential is significant and our aspiration is to create € 1 billion in sales from the adidas NEO label over time. This is why NEO is one of the selected growth projects of Route 2015.

⁄ ? **And how does your growing expertise in own retail play into making adidas NEO a success?**

⁄ ! It is critically important, because this business will only be successful in a controlled space environment. Operationally, the adidas NEO label is something new for our Group. This business model requires additional capabilities in our supply chain to facilitate greater in-season flexibility and responsiveness to changing trends. We have been working hard to build these skills and will comprehensively test them this year. In February, we kicked off a pilot phase by opening our first own-retail NEO store in Hamburg, Germany. We will open ten altogether in Germany this year, complementing our existing NEO own-retail store base of 29 in Russia. These new stores are roughly 200 to 250m² in size. In them, new technology, processes and merchandising techniques, including RFID (Radio Frequency Identification), will be leveraged to support and optimise daily product delivery. We will also engage the consumer with unique in-store experiences like the Social Mirror, where consumers can try on their favourite NEO outfits, take a picture or video and upload it to Facebook or Twitter.

⁄ ? **Now that the adidas Group has achieved a net cash position, does this change your policies towards capital management and dividends or other shareholder return opportunities?**

⁄ ! Over the past three years, through our ongoing focus on improving cash flow, we have reduced our net borrowings by € 2.3 billion. This highlights the strength of our business model and puts us in a great position to further support and invest in our opportunities and growth initiatives. With Route 2015, we have a great plan, ambitious and realisable. And executing on this will ultimately yield superior returns for our shareholders in the long term. In terms of our approach towards capital management, I see no reason to change anything. In fact, the current economic climate only reinforces our pursuit of conservative and cost-effective capital management policies. Nevertheless, this still leaves plenty of room to continue advancing direct shareholder returns. And we are fully committed to this. For now, our focus is on the annual dividend. Here, we have a clear target to increase the payout ratio within our 20% to 40% target range. For 2011, we intend to pay a dividend per share of € 1.00, 25% more than last year, representing an increase in the payout ratio of 1.7 percentage points to 31.2%.

⁄ ? **Looking forward to 2012, are you still as confident about your financial outlook as you were back in November?**

⁄ ! Absolutely. Although there is still a high degree of economic uncertainty, I am confident that 2012 will be another record year for the adidas Group. Through our unmatched innovation, our cutting-edge product pipeline as well as our marketing and point-of-sale execution strength, we are in a great position to sustain momentum as we execute our Route 2015 plan. We expect sales to increase at a mid- to high-single digit rate on a currency-neutral basis, with growth in all regions. While gross margin pressures will persist, particularly in the first half, we expect a similar gross margin compared to the prior year at a level around 47.5%. We will again leverage our operating cost base and expect our operating margin to increase to a level approaching 8%. And earnings per share will improve at a rate of 10% to 15% to a level between € 3.52 and € 3.68.

⁄ ? **Herbert, to sum up, the title of this annual report is "Together We Win". What does this mean for you and the adidas Group?**

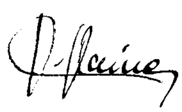
⁄ ! This statement really sums who we are: our attitude, our ambition, our passion and the responsibility we have undertaken in sport and society. It's taking the ups with the downs, never giving up, and always striving for better. From the time the first Olympians wore Adi Dassler shoes in 1928 to today's age of real-time social engagement this has not changed. Our role as creator, innovator and inspirer is only made possible by our openness to serve the desires, hopes and dreams of millions of people. On the pitch and on the street. To be there when great athletes do great things or simply take inspiration from the energy and creativity of youth. This is what pushes us to raise our game every day. It lives in everything we do: the boot with a brain, CrossFit, miCoach, RocketBallz and our unwavering commitment to being a responsible corporate citizen. This is life at the adidas Group. It's a team effort, and it's all inclusive. For me, I am proud of our team and I thank them for bringing this culture to life. We have accomplished so much in 2011, and I am convinced their passion, discipline and dedication to succeed will continue our legacy well into the future. Together we win.

Herbert, thank you for this interview.

01.3

Executive Board

Our Executive Board is comprised of four members who reflect the international character of our Group. Each Board member is responsible for at least one major function within the Group.

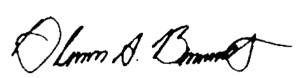


HERBERT HAINER
Chief Executive Officer

Herbert Hainer was born in Dingolfing, Germany, in 1954. Following his business studies, Herbert Hainer spent eight years with Procter & Gamble in various sales and marketing positions. He joined adidas Germany in 1987 and has held numerous management positions within the Group, including Managing Director Germany and Senior Vice President for Sales and Logistics in Europe, Africa and the Middle East. Herbert Hainer joined the Executive Board in 1997 and became CEO of adidas AG in 2001. He is married, has two daughters and lives in Herzogenaurach.

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

Until February 28, 2011:
- Member of the Supervisory Board, Engelhorn KGaA, Mannheim, Germany



GLENN BENNETT
Global Operations

Glenn Bennett was born in New Hampshire, USA, in 1963. With a degree in computer science, he began his professional career with Reebok International Ltd. in 1983, where he worked for ten years in various operations and product functions of which the latest was Director of Footwear Development. In 1993, Glenn Bennett joined adidas AG and began working as the Head of Worldwide Footwear Development. He was promoted to Senior Vice President of Footwear Operations a few months later. In 1997, Glenn Bennett was appointed to the Executive Board where he assumed responsibility for all Footwear, Apparel and Accessories & Gear Operations activities shortly thereafter. Glenn Bennett lives in Boston/Massachusetts, USA.

ROBIN J. STALKER
Chief Financial Officer

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

Robin J. Stalker is also:
– Member of the Supervisory Board, Schaeffler AG (formerly Schaeffler GmbH), Herzogenaurach, Germany

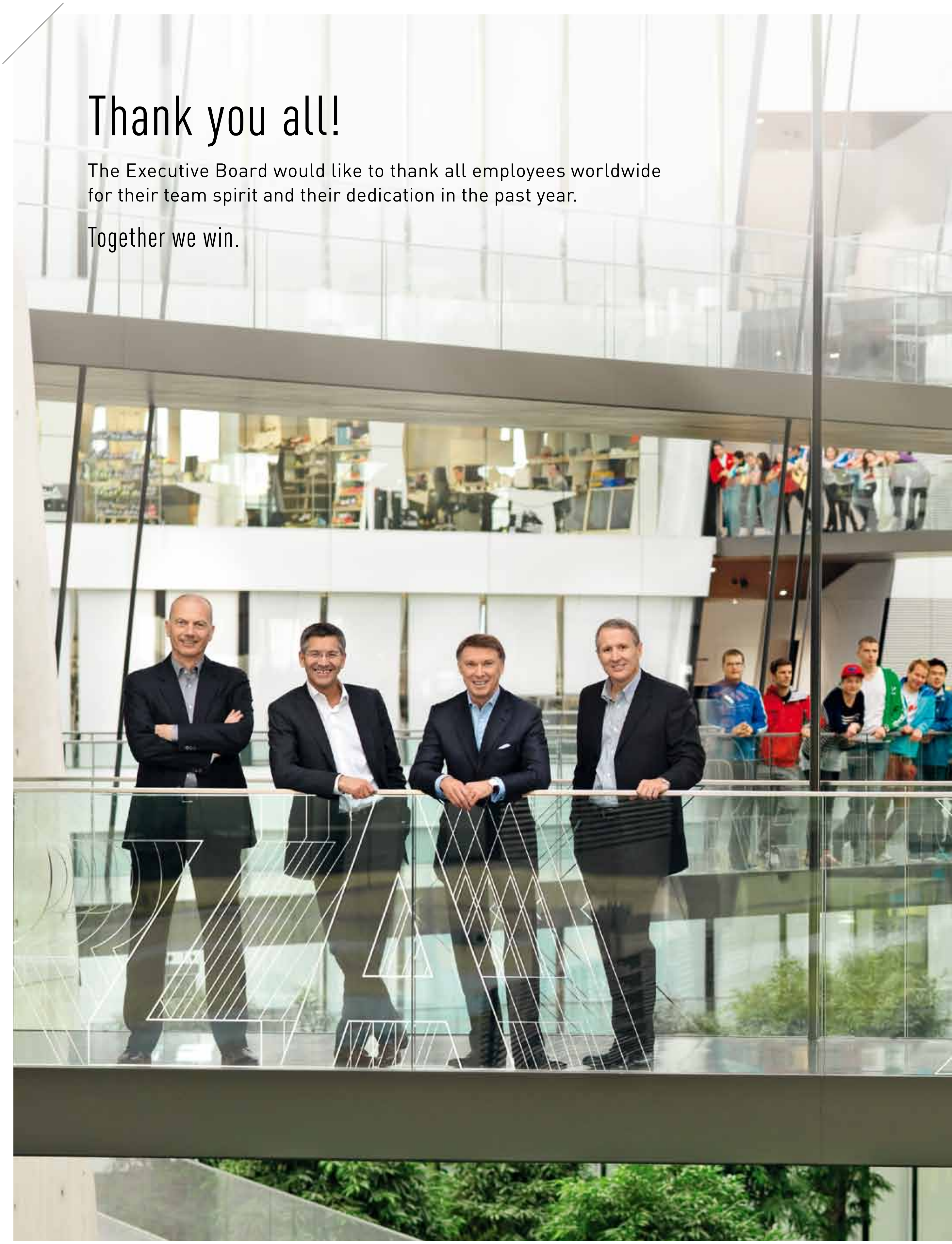
ERICH STAMMINGER
Global Brands

Erich Stamminger was born in Rosenberg, Germany, in 1957. After obtaining a degree in business studies, he started his career at GfK, a German consumer research institute. In 1983, Erich Stamminger joined adidas Germany. He served in numerous marketing positions before becoming Managing Director for Germany and later Europe and Asia/Pacific. In 1997, he was appointed to the Executive Board and became Head of Global Marketing in 2000. Four years later, he was named President of adidas North America, while maintaining his position as Head of Global Marketing. In 2006, he was named President of the adidas brand, and in 2010 he assumed responsibility for Global Brands. Erich Stamminger is married and lives in Nuremberg.

Thank you all!

The Executive Board would like to thank all employees worldwide for their team spirit and their dedication in the past year.

Together we win.



01.4

Supervisory Board

Supervisory Board Members


01


02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Standing Committees

Steering Committee: Igor Landau (Chairman), Sabine Bauer, Willi Schwerdtle / **General Committee:** Igor Landau (Chairman), Sabine Bauer, Roland Nosko, Willi Schwerdtle / **Audit Committee:** Herbert Kauffmann (Chairman), Dr. Wolfgang Jäger, Dr. Stefan Jentzsch, Hans Ruprecht / **Mediation Committee:** Igor Landau, Sabine Bauer, Willi Schwerdtle, Heidi Thaler-Veh / **Nomination Committee:** Igor Landau (Chairman), Willi Schwerdtle, Christian Tourres

IGOR LANDAU
Chairman

Former Chief Executive Officer of Aventis S.A., Paris, France

- Member of the Supervisory Board, Allianz SE, Munich, Germany
- Member of the Board of Directors, Sanofi-Aventis S.A., Paris, France
- Member of the Board of Directors, HSBC France S.A., Paris, France

01

SABINE BAUER [1]
Deputy Chairwoman

Chairwoman of the Central Works Council, adidas AG

02

WILLI SCHWERDTLE
Deputy Chairman

Management Consultant, Hofheim am Taunus, Germany[2]

- Member of the Supervisory Board, Eckes AG, Nieder-Olm, Germany[3]

03

DIETER HAUENSTEIN [1]

Member[4] of the Works Council Herzogenaurach, adidas AG

04

DR. WOLFGANG JÄGER [1]

Managing Director, Hans-Böckler-Stiftung, Duesseldorf, Germany

05

DR. STEFAN JENTZSCH

Partner, Perella Weinberg Partners UK LLP, London, Great Britain

- Member of the Supervisory Board, Sky Deutschland AG, Unterfoehring, Germany

06

HERBERT KAUFFMANN

Management Consultant, Stuttgart, Germany

- Chairman of the Supervisory Board, Uniscon universal identity control GmbH, Munich, Germany[5]

07

ROLAND NOSKO [1]

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

- Deputy Chairman of the Supervisory Board, CeramTec GmbH (formerly CeramTec AG), Plochingen, Germany

08

ALEXANDER POPOV

Chairman, RFSO "Lokomotiv", Moscow, Russia

09

HANS RUPRECHT [1]

Sales Director Customer Service Central, adidas AG

10

HEIDI THALER-VEH [1]

Member of the Central Works Council, adidas AG

11

CHRISTIAN TOURRES

Former Member of the Executive Board of adidas AG

12

Other Committees

Committee for Real Estate Projects: Herbert Kauffmann (Chairman), Dr. Wolfgang Jäger, Dr. Stefan Jentzsch

1) Employee representative. 2) Since October 1, 2011; formerly General Manager, Procter & Gamble GmbH, Schwalbach am Taunus, Germany.
3) Since December 19, 2011. 4) Since November 1, 2011; formerly Chairman of the Works Council Herzogenaurach, adidas AG. 5) Since January 28, 2011.

01.5

Supervisory Board Report

IGOR LANDAU
Chairman of the Supervisory Board

Dear Shareholders,

We look back on an extremely successful year 2011. Thanks to strong brands as well as innovative products and marketing campaigns, the Group was able to grow in all regions and to considerably improve its results. The sales and earnings guidance, which the Executive Board had raised several times during the year, was exceeded.

Supervision and advice in dialogue with the Executive Board

In the past year, we again regularly advised the Executive Board on the management of the company and carefully and continuously supervised its activities. In particular, we examined the legality, expediency and regularity of the Executive Board's management.

The Executive Board informed us regularly, extensively and in a timely manner through oral and written reports, both at Supervisory Board meetings and in the periods between our meetings. This information covered the Group's business policy as well as all relevant aspects of business planning, including finance, investment and personnel planning. We were also kept up-to-date on the course of business, the operational position of adidas AG and the Group (including the risk situation and risk management), the Group's financial position and profitability, as well as all major decisions and business transactions.

We were directly involved in all of the Group's fundamental decisions. After in-depth consultation and examination of the detailed information submitted to us by the Executive Board, we approved transactions requiring Supervisory Board approval.

We held five Supervisory Board meetings in 2011, and passed one written circular resolution. In addition, we held a meeting in February 2012, at which we discussed matters relating to the 2011 financial year. Apart from two meetings which, in each case, one member was not able to attend due to an urgent business appointment that could not be postponed, all Supervisory Board members attended all meetings in the year under review. The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), attended all meetings of the Supervisory Board, inasfar as they did not deal with Executive Board matters, and all meetings of the Audit Committee. In addition to the meetings, the Supervisory Board Chairman and the Audit Committee Chairman were informed regularly in written and oral form on the current developments of the business situation and major business transactions by the Chief Executive Officer and the Chief Financial Officer. The Executive Board regularly provided us with very detailed reports for the preparation of our meetings. We thus always had the opportunity to critically analyse the reports and resolution proposals within the committees and the Supervisory Board as a whole, and to put forward any suggestions we might have had before resolving upon the Executive Board's resolution proposals after in-depth examination and consultation. These discussions did not give rise to any doubt as to the legality, expediency or regularity of the Executive Board's management in carrying out its duties. The consultations and examinations of the entire Supervisory Board focused on the following topics:

Development of sales and earnings

The development of sales and earnings, the employment situation as well as the financial position of the Group and the business development of the individual markets were presented to us in detail by the Executive Board at every Supervisory Board meeting following the close of the respective quarter and were subsequently discussed together. The KPMG-certified 2010 consolidated financial statements and annual financial statements including the respective Management Reports, as well as the Executive Board's proposal regarding the appropriation of retained earnings, were discussed and examined in the presence of the Executive Board and the auditor on March 1, 2011.

Transactions requiring Supervisory Board approval

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

In view of this requirement, we resolved upon the budget and investment planning for the year under review and the 2012 financial year following detailed presentations by the Executive Board and comprehensive discussions at our meetings on February 9, 2011 and November 2, 2011, taking into account risks and opportunities for the Group. At our February 9, 2011 meeting, we furthermore dealt with the planned sale of real estate assets on Herzo Base, Germany, as well as of some real estate companies founded in connection with this project, and approved these transactions. The resolutions to be proposed to the Annual General Meeting were resolved upon at our meeting on March 1, 2011.

At our May 11, 2011 meeting, we additionally considered the possibility of participating in a bidding process. At the same meeting, we comprehensively discussed with the Executive Board a proposal to construct the Group's largest distribution centre at the Niedersachsenpark near Osnabrueck, Germany, and subsequently approved this project with a total investment sum of up to € 100 million. The establishment of this distribution centre will support the growth targets set out by the Executive Board as part of the Group's strategic business plan Route 2015.

At our Supervisory Board meeting held on November 2, 2011, we intensively discussed the possibility of acquiring Five Ten, a leading brand in outdoor action sports and approved the acquisition based on the detailed documentation and presentations. This transaction underscores the adidas Group's potential to significantly grow its presence in the outdoor category.

Matters relating to the Executive Board

A key topic of our meetings on February 9, 2011 and March 1, 2011 was the determination of the variable compensation components payable to the Executive Board for the 2010 financial year. Following in-depth discussions, we resolved upon the General Committee's proposal on the 2010 Performance Bonus to be granted to the Executive Board members. Furthermore, we discussed the General Committee's proposal regarding the short-term targets relevant for granting the 2011 Performance Bonus as well as on the individual Performance Bonus targets for 2011. In line with the General Committee's recommendations, when passing the respective resolutions we took into account that the compensation incentive of the Performance Bonus Plan shall not exceed the compensation incentive resulting from the sustainability-orientated variable compensation component, the LTIP 2009/2011.

Having resolved at our meeting in May to reappoint Messrs. Bennett and Stalker to the Executive Board, we reappointed Mr. Stalker to the position of Labour Director at our November meeting.

As proposed by the General Committee and following in-depth discussions, at our meeting on February 8, 2012 we resolved upon the amount of the 2011 Performance Bonus to be granted to each member of the Executive Board based on the determined degree of individual target achievement. Furthermore, following in-depth discussions, we resolved upon the LTIP Bonus to be granted for the years 2009 to 2011 in view of the Executive Board's outstanding target achievement. Subsequently, we discussed the General Committee's proposal regarding the 2012 Performance Bonus Plan as well as regarding a new compensation plan with long-term incentive effect covering the three-year period from 2012 to 2014.

Further information on compensation for the 2011 financial year can be found in the Compensation Report ⁄ SEE COMPENSATION REPORT, P. 50.

Corporate Governance

Corporate Governance is always one of the focus points at our February meetings. In this regard, we dealt extensively with the future composition of the Supervisory Board and determined specific objectives in accordance with section 5.4.1 of the German Corporate Governance Code. The current degree of internationality of our Supervisory Board members, which is vital for a successful, globally operating company, is to be maintained to the current extent. At the Supervisory Board elections taking place in 2014, we intend to increase the number of female Supervisory Board members from currently two to three women.

Following in-depth consultation from and the recommendation of the Audit Committee, which is also responsible for corporate governance topics, we issued the 2011 Declaration of Compliance in February 2011 and the 2012 Declaration of Compliance in February 2012. The Declarations of Compliance were made permanently available to shareholders on the corporate website at :⁄⁄ WWW.ADIDAS-GROUP.COM/CORPORATE_GOVERNANCE. Further information on corporate governance at the adidas Group can be found in the Corporate Governance Report including the Declaration on Corporate Governance ⁄ SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 45. At our meeting on May 11, 2011, we dealt comprehensively with significant changes of law and jurisdiction concerning "Duties and responsibilities of Supervisory Board members". With this presentation held by an external consultant, the Executive Board supported our individual training and further development measures.

There are no direct consulting or other service relationships between the company and a member of the Supervisory Board. In 2011, there was, however, a non-exclusive, project-related consulting agreement with a finance consultancy of which Dr. Jentzsch is a partner. The General Committee, of which Dr. Jentzsch is not a member, thoroughly examined the consulting agreement at its April meeting, approving it before the consulting agreement was signed. For such cases, the Supervisory Board has delegated the authority to examine and approve to the General Committee. The Chairman of the Supervisory Board then informed the Supervisory Board of the decision at the Supervisory Board meeting held in May, at which the project that was the object of the consulting agreement was discussed in detail. In order to avoid any conflicts of interest, Dr. Jentzsch excluded himself from the discussion of and the decision on the project.

Beyond this, no conflicts of interest arose in 2011 in regard to the Supervisory Board and Executive Board members.

In preparation for the efficiency examination scheduled for this year, we reviewed the efficiency of our activities at our meeting held on November 2, 2011.

Efficient committee work

In order to perform our tasks in an efficient manner, we have five standing Supervisory Board committees and also the project-related Committee for Real Estate Projects, which was established ad hoc in 2009 ⁄ SEE SUPERVISORY BOARD, P. 38. These committees not only have the task of preparing topics and resolutions of the Supervisory Board, they also partly make decisions on behalf of the Supervisory Board.

The committees' work in the year under review is summarised as follows:

– The **Steering Committee**, which is authorised to pass resolutions on behalf of the entire Supervisory Board in particularly urgent cases, did not meet in the year under review. All Supervisory Board resolutions were able to be passed by the Supervisory Board as a whole.

– The **General Committee**, which prepares the resolutions of the Supervisory Board on Executive Board related matters, held three meetings in 2011, one of them by way of a conference call. An additional meeting also dealing with the variable compensation to be granted to the Executive Board for 2011 took place in February 2012.

At its meetings on February 9, 2011 and February 8, 2012, the committee discussed the resolution proposals for the determination of the Performance Bonuses to be granted to each Executive Board member for the 2010 financial year and for the year under review, respectively, based on the determined degree of target achievement. Furthermore, at its meeting on February 8, 2012, the General Committee focused on the Executive Board's achievement of the targets of the 2011 Performance Bonus and the LTIP Bonus 2009/2011 and developed detailed resolution proposals to be presented to the Supervisory Board concerning the amounts of the 2011 Performance Bonus and LTIP Bonus 2009/2011. Another topic of this meeting was the discussion on the 2012 Performance Bonus Plan as well as on a new compensation plan with long-term incentive effect, effective as of the 2012 financial year and covering the three-year period from 2012 to 2014. In April 2011, the General Committee approved the conclusion of a non-exclusive, project-related consulting agreement.

– The **Audit Committee** held five meetings in 2011, and also one meeting in March 2012 dealing with topics of the year under review. The Chief Financial Officer and the auditor were present at these meetings. The committee members focused on the examination of the annual financial statements and the consolidated financial statements for 2010 as well as the Management Reports, an in-depth discussion of the audit reports with the auditor and the detailed examination of the first half year report and quarterly financial reports prior to publication. Furthermore, the Audit Committee obtained the required auditor's declaration of independence and dealt with the proposal to the Supervisory Board recommending the selection of the auditor for the 2011 financial year. Together with the auditor, the Audit Committee established the priority topics for the audit of the 2011 annual financial statements and the consolidated financial statements, resolved upon the assignment of the audit to the auditor as well as the audit fees, and examined the independence of the auditor in accordance with the provisions of the German Corporate Governance Code. The Audit Committee obtained information on the measures taken by the auditor to guarantee independence and assured itself that the auditor does not face any conflicts of interest. As in the previous year, the meeting in September focused on the examination of the effectiveness of the Group-wide risk management and internal control system as well as the internal audit system and the compliance organisation. In the course of this examination, the members of the Audit Committee were informed in detail on the applied methods and systems as well as on their efficiency, through written and oral reports. In the course of the following detailed discussions, inter alia with the auditor, they assured themselves of the effectiveness of the systems.

The Audit Committee was informed regularly regarding current compliance cases. At its November meeting, it dealt with the 2011 Internal Audit Report, which did not detect any major infractions in business processes, and subsequently took note of the planning of Internal Audit for 2012.

Furthermore, the committee, which is also responsible for matters relating to corporate governance in accordance with the Rules of Procedure of the Supervisory Board, discussed at its respective meetings in February 2011 and November 2011 the contents of the Declaration of Compliance to be issued by the Supervisory Board for 2010 and 2011.

- The **Mediation Committee** established in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG) again had no reason to meet in 2011.

- The same applies to the **Nomination Committee**.

- The **Committee for Real Estate Projects**, which had been established ad hoc in 2009, also did not meet in 2011.

The Chairmen of the committees reported to the Supervisory Board on the results of the meetings in a timely and regular manner, in oral and sometimes written form.

01.5 ⁄

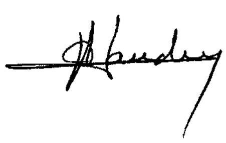
Examination of the adidas AG annual financial statements and consolidated financial statements

KPMG audited the 2011 consolidated financial statements prepared by the Executive Board in accordance with § 315a German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2011 annual financial statements and the combined Management Report of adidas AG prepared in accordance with HGB requirements. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed to all Supervisory Board members by the Executive Board in a timely manner. We examined them in depth in the presence of the auditor at the Audit Committee meeting held on March 2, 2012 and at the Supervisory Board's March 6, 2012 financial statements meeting during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported the material results of the audit with a focus on the priority topics of the year under review as agreed with the Audit Committee and was available for questions and the provision of additional information. The auditor did not report any significant weaknesses with respect to the system for early risk detection and the internal control system. We also discussed with the Executive Board the proposal concerning the appropriation of retained earnings with regard to the dividend policy and adopted it in light of the company's good financial situation as well as the expectations of our shareholders. Based on our own examinations of the annual financial statements and consolidated financial statements, we are convinced that there are no objections to be raised. Following the recommendation of the Audit Committee, at our financial statements meeting we therefore approved the audit results and the financial statements prepared by the Executive Board. The annual financial statements of adidas AG were thus approved.

Expression of thanks

The Supervisory Board wishes to thank the Executive Board, the management of the Group companies, the Works Council and all adidas Group employees for their tremendous personal dedication, their performance and their ongoing commitment which were decisive for achieving such excellent results.

For the Supervisory Board



IGOR LANDAU
Chairman of the Supervisory Board
March 2012

01.6 ⁄

Corporate Governance Report including the Declaration on Corporate Governance[1]

Corporate Governance stands for responsible and transparent management and corporate control orientated towards a sustainable increase in value. These principles apply to all corporate functions and are an essential foundation for sustainable corporate success. We are convinced that good corporate governance enhances the confidence placed in our Group by our shareholders, business partners, employees and the financial markets.

The following report includes the Corporate Governance Report and the Declaration on Corporate Governance issued by the Executive Board and Supervisory Board.

Dual board system

In accordance with statutory provisions, adidas AG has a dual board system, which assigns the management of the company to the Executive Board and advising and supervision of the Executive Board to the Supervisory Board. These two boards are strictly separated in terms of membership and duties and responsibilities.

Composition and working methods of the Executive Board

Our Executive Board consists of four members ⁄ SEE EXECUTIVE BOARD, P. 34. There are no Executive Board committees. The Executive Board is responsible for independently managing the company, developing the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. Additionally, the Executive Board is responsible for establishing and monitoring an efficient risk management system. It is bound to the company's interests and obligated to achieve a sustainable increase in company value.

Irrespective of the Executive Board's overall responsibility, its members are individually responsible for managing their respective business areas. The CEO is responsible in particular for leading the entire Executive Board as well as for management of the Group's business policy. In addition, he is in charge of various fields such as Global Sales, Internal Audit and Social & Environmental Affairs as well as Compliance. The business areas Finance, Global Brands and Global Operations are each assigned to a different member of the Executive Board. The Rules of Procedure and the Business Allocation Plan of the Executive Board set out the tasks and responsibilities of the Executive Board. These documents specifically stipulate requirements for meetings and resolutions as well as for cooperation with the Supervisory Board.

At the Supervisory Board meetings, the Executive Board reports in writing and orally on the agenda items and resolution proposals and answers all questions from the individual Supervisory Board members. Furthermore, the CEO discusses the Group's strategy and business development with the Chairman of the Supervisory Board on a regular basis.

Further information on Corporate Governance

More information on topics covered in this report can be found on our website at :⁄⁄ **WWW.ADIDAS-GROUP.COM/CORPORATE_GOVERNANCE**, including:

- Articles of Association
- Rules of Procedure of the Executive Board
- Business Allocation Plan (excerpt)
- Rules of Procedure of the Supervisory Board
- Rules of Procedure of the Audit Committee

Composition and working methods of the Supervisory Board

Our Supervisory Board consists of six shareholder representatives and six employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG) ⁄ SEE SUPERVISORY BOARD, P. 38. The Supervisory Board currently has two female members. Five members of the Supervisory Board have many years of international experience. The composition of the Supervisory Board is characterised by a high degree of diversity and comprehensive knowledge of the industry resulting from the different professional backgrounds of the members. The members of our Supervisory Board do not exercise directorship or similar positions or advisory tasks for key competitors of the company. With the exception of one already expired project-related consulting agreement concluded between the company and a financial consultancy, which one Supervisory Board member is a partner of, they do not have business or personal relations with adidas AG or the Executive Board ⁄ SEE SUPERVISORY BOARD REPORT, P. 40.

At its meeting held on February 9, 2011, and in accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board determined the following objectives for its composition:
- Maintain the composition of the Supervisory Board including members with international background to the current extent
- Maintain two female members on the Supervisory Board until the next election of the Supervisory Board in 2014
- Increase the degree of female representation on the Supervisory Board as of the next election of shareholder representatives and employee representatives in 2014; the Supervisory Board strives for at least three female members on the Supervisory Board, at least one of them on the side of the shareholder representatives

1) The Corporate Governance Report including the Declaration on Corporate Governance is part of the Group Management Report.

– Maintain the independence of all Supervisory Board members while considering the work relationships of the employee representatives vis-à-vis the company
– Consider the age limit of, in general, 72 at the time of election

In the 2011 financial year, the composition of the Supervisory Board did not change. The present composition of the Supervisory Board is in compliance with the aforementioned objectives. An increase in the percentage of female members is to be endeavoured at the next regular Supervisory Board elections, to be held at the Annual General Meeting in 2014. In selecting nominees, further criteria that we consider to be important for members of the Supervisory Board are also taken into account, such as expert and industry knowledge, as well as particular knowledge of and experience in applying accounting principles and internal control systems.

Irrespective of the consideration of these objectives and criteria, the best interests of the company will continue to play a decisive role for the Supervisory Board when nominating candidates for election. The Nomination Committee was provided with the aforementioned objectives that are to be taken into account when nominating candidates. The Supervisory Board also recommends that the employee representatives consider the determined objectives, while observing the fundamental principles for the election of employee representatives.

The Supervisory Board supervises and advises the Executive Board in matters relating to the management of the company. The Executive Board reports to the Supervisory Board regularly, expeditiously and comprehensively on business development and planning as well as the risk situation and coordinates the strategy of the company and its implementation with the Supervisory Board. Moreover, the Executive Board provides the Supervisory Board with the annual financial statements of adidas AG and the annual consolidated financial statements of the adidas Group for its approval, taking into consideration the auditor's reports. Certain business transactions and measures of the Executive Board are subject to Supervisory Board approval.

In order to increase the efficiency of its work, the Supervisory Board has formed five permanent expert committees from within its members, which, inter alia, prepare its resolutions and, in certain cases, pass resolutions on its behalf. These committees are the Steering Committee, the General Committee, the Audit Committee, the Mediation Committee in accordance with § 27 section 3 MitbestG and the Nomination Committee. In addition, a committee responsible for the handling of real estate matters was established ad hoc in 2009.

The chairmen of the committees report to the entire Supervisory Board on the results of the committee work on a regular basis. The composition of the committees and their respective tasks can be found on our website.

Apart from the tasks and responsibilities, the Rules of Procedure of the Supervisory Board and of the Audit Committee also set out the individual requirements expected of the members and the procedure for meetings and passing resolutions. These Rules of Procedure are available on our website. The activities of the Supervisory Board and its committees are outlined in the Supervisory Board Report ⁄ SEE SUPERVISORY BOARD REPORT, P. 40.

The members of the Supervisory Board are individually responsible for undertaking any necessary training and further education measures required for their tasks. The company supports the Supervisory Board members by offering a professional training programme tailored to the needs of the Supervisory Board, informs the Supervisory Board regularly about current legislative changes as well as opportunities for external training, and provides the Supervisory Board with relevant specialist literature.

Every two years, the Supervisory Board examines the efficiency of its work. The last efficiency examination took place in 2010. For the first time, an individual efficiency examination of the Audit Committee was conducted. The analysis of both examinations was carried out by an external consultant. The results were presented and discussed at the Supervisory Board meeting in November 2010 and at the Audit Committee meeting in February 2011, respectively. Based on the discussion, possibilities for improvement were debated which, however, did not leave room for doubt concerning the efficiency of either the Supervisory Board's or the Audit Committee's activities. The next efficiency examination is planned for 2012.

Avoiding conflicts of interest

The members of the Executive Board and Supervisory Board disclose any conflicts of interest to the Chairman of the Supervisory Board in his capacity as Chairman of the General Committee without delay. The Supervisory Board reports any conflicts of interest, as well as the handling thereof, to the Annual General Meeting. Apart from the case presented in the Supervisory Board Report, neither the members of the Executive Board nor the members of the Supervisory Board faced any conflicts of interest in the year under review ⁄ SEE SUPERVISORY BOARD REPORT, P. 40.

adidas GROUP

Declaration by the Executive Board and Supervisory Board of adidas AG pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG) on the German Corporate Governance Code

The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG on February 11, 2011. For the period from the publication of the last Declaration of Compliance, the following Declaration refers to the German Corporate Governance Code (hereinafter referred to as the "Code") as amended on May 26, 2010, which was published in the electronic Federal Gazette on July 2, 2010.

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

Agreeing severance payment caps when concluding Executive Board service contracts (section 4.2.3 subsection 4)
In accordance with the recommendations of the Code, contracts with a term of more than three years provide for a severance payment cap. We believe that for contracts with a term of up to three years the short contractual term agreed in connection with further contractual provisions offers sufficient protection from inappropriate severance payments. Hence, no formal severance payment cap is planned.

Number of mandates of an Executive Board member (section 5.4.5 sentence 2)
In the past, Chief Executive Officer Herbert Hainer has held four non-Group supervisory board or supervisory body mandates with similar requirements. With effect from February 28, 2011, Herbert Hainer has resigned from his position at Engelhorn KGaA. Consequently, as of March 1, 2011, all Executive Board members meet the recommendation of the Code.

Compensation of the Supervisory Board (section 5.4.6 subsection 2)
In order to ensure the independence of the Supervisory Board in their supervisory functions, the members of the Supervisory Board do not receive any performance-related compensation.

Disclosure of the shares held by the individual members of the Executive Board and Supervisory Board or financial instruments related thereto (section 6.6 sentence 1)
Insofar as no further statutory obligations exist, we report the ownership of shares if it exceeds 1% of the shares issued by adidas AG, but we do not report this on an individual basis for the members of the Boards. Instead, we publish the total holdings of all members of the Executive Board and all members of the Supervisory Board separately in order to safeguard the Board members' protectable interests.

Herzogenaurach, February 13, 2012

For the Supervisory Board	For the Executive Board
IGOR LANDAU	HERBERT HAINER
Chairman of the Supervisory Board	**Chief Executive Officer**

The above Declaration of Compliance dated February 13, 2012 has been published on our website, where it can be downloaded at
:// **WWW.ADIDAS-GROUP.COM/CORPORATE_GOVERNANCE.**

01.6 /

Suggestions of the German Corporate Governance Code fulfilled to a large extent

adidas AG complies with the suggestions of the Code with one exception: Pursuant to section 3.6 of the Code, Supervisory Board meetings should be prepared separately by the Supervisory Board members representing the shareholders and by those representing the employees. The members of our Supervisory Board meet for such preparation meetings as needed.

Relevant management practices

Performance, passion, integrity and diversity are the values of our Group. They are actively lived by our Executive Board members, Supervisory Board members and our employees and have been incorporated into our Code of Conduct. Our business activities are orientated towards the legal systems in the various countries and markets in which we operate. We bear significant responsibility for the people living in these regions and for the environment as a whole.

Compliance within the adidas Group: Our compliance system creates the organisational requirements for Group-wide awareness of the respective governing law as well as of our internal rules and guidelines and for ensuring their observance. We perceive compliance as being all-embracing and significant to the product cycle from the supply chain to the final consumer.

In order to ensure standardised and exemplary actions and behaviour, in 2006 the adidas Group introduced a Code of Conduct which is applicable in all regions and business areas. Guidelines for day-to-day behaviour in everyday work are stipulated in this Code. The Code of Conduct is available both on our website and on our intranet.

The internal compliance programme based on the Code of Conduct includes, inter alia, web-based training which is available to all employees worldwide. Furthermore, on a global level we have designated local compliance officers reporting directly to the Chief Compliance Officer of the Group as contact persons, to whom complaints and information concerning possible compliance infringements can be reported. In the area of data protection, we have also established a web-based training programme for all employees. Additionally, the Group has a "Marketing Guide" to raise our employees' awareness with regard to data protection when in contact with customers. Employees who work in sales receive regular training concerning matters of competition law. Before our products are launched on the market, our Intellectual Property department researches the technologies, trademarks, logos and designs to identify possible infringements of the rights of third parties.

Further information on the principles of our management

More information on topics covered in this report can be found on our website at :// **WWW.ADIDAS-GROUP.COM**, including:

- Code of Conduct
- Sustainability
- Social commitment
- Information and documents on the Annual General Meeting
- Directors' Dealings
- Accounting and Annual Audit

The Group's Chief Compliance Officer reports to the Executive Board regularly concerning the implementation of the compliance programme as well as information about corporate issues. Further, he reports to the Audit Committee at one of its meetings at least once a year concerning the contents and the implementation of the compliance programme.

Compliance with working and social standards: The development of company guidelines with regard to social minimum standards, work safety as well as health and environmental protection and the monitoring thereof at the production facilities of the adidas Group and its business partners is an integral component of our Group policies. Our Group has an individual Code of Conduct for the supply chain, the "Workplace Standards" :// **WWW.ADIDAS-GROUP.COM/SUSTAINABILITY**. These standards are orientated towards the conventions of the International Labour Organization (ILO) and follow the code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). They help us to only choose such business partners who fulfil the Group's Workplace Standards and business practices in accordance with our values. We have appointed an expert team especially for the coordination of compliance with, and control of, the Workplace Standards. We report on our sustainability programme in this Annual Report and publish sustainability reports regularly / SEE SUSTAINABILITY, P. 107.

Environmental responsibility and social commitment: For long-term, successful management of the Group, sustainable actions that embrace in particular social and environmental responsibility towards present and future generations are essential. Our Social & Environmental Affairs department, with its worldwide team members, has for many years been dealing with the rights of employees in the supply chain and coordinating product safety standards.

In line with the Group-wide sustainability programme, the adidas Group developed the Environmental Strategy 2015. The objective of the strategy is to make processes more efficient at every stage of the value chain. This ranges from areas such as product design, development and sourcing, logistics and IT systems, to improving the efficiency of company-owned locations. Optimising the value chain will make it possible for the adidas Group to offer more sustainable products and improve the company's environmental performance in the future.

With our "Green Company" initiative, we combine all approaches regarding climate protection and resource conservation at our locations under one umbrella programme in order to realise the long-term goal of becoming a carbon-neutral company on a global level. A key element of the "Green Company" initiative is the introduction of uniform environmental management systems at adidas Group locations, in compliance with ISO 14001 :// WWW.ADIDAS-GROUP.COM/SUSTAINABILITY.

We strive to support the positive development of the regions in which our Group operates by cooperating with charity organisations in order to improve the quality of life for local people by means of sports. Moreover, we are involved in education projects as well as science and humanitarian initiatives in various projects around the world.

With the objective of making affordable shoes available for the poorest of the poor, we have started working on a "Social Business" project in Bangladesh within the framework of our cooperation with Nobel Peace Laureate Professor Muhammad Yunus. The project is based on the adidas Group's core competencies and is positioned within the Reebok brand. Currently, it is being considered whether the project can be realised in India as well, as a working "Social Business" based on the principles of Professor Yunus.

Transparency and protection of shareholders' interests

It is our goal to inform all institutional investors, private shareholders, financial analysts, employees and the interested public about the company's situation, at the same time and to an equal extent, by regular open and up-to-date communication. We publish all essential information, such as press releases, ad hoc announcements and voting rights notifications as well as all financial reports online. In addition, we also provide all documents and information relating to our Annual General Meeting on our website. At our next Annual General Meeting, taking place on May 10, 2012 in Fuerth (Bavaria), Germany, we will again provide our shareholders with the best possible service. All shareholders can follow the Annual General Meeting live and in full length online. Our Investor Relations department provides a full range of services to the financial community and our shareholders / SEE OUR SHARE, P. 54.

Appropriate risk management

The adidas Group has a company-wide risk management system which was comprehensively reviewed in 2010 and further developed in 2011. Within the scope of this system, strategic and operational risks, compliance-related risks as well as financial risks are identified and assessed throughout the company and cross-divisionally by key decision-makers, and are reported to the Executive Board. This approach aims to ensure that significant risks are reported to management in good time and that appropriate measures for minimising the risks are developed and initiated / SEE RISK AND OPPORTUNITY REPORT, P. 145.

Share ownership of the Executive Board and Supervisory Board

At the end of 2011, the total number of shares held by members of the Executive Board of adidas AG amounted to less than 1% of the shares issued by the company.

At the same time, members of the Supervisory Board owned 1.92% of the shares issued by the company.

A detailed overview of Directors' Dealings in 2011 is published on our website at :// WWW.ADIDAS-GROUP.COM/DIRECTORS_DEALINGS.

Accounting and annual audit

adidas AG prepares the annual financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the AktG. The annual consolidated financial statements are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) / SEE AUDITOR'S REPORT, P. 173.

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2011 annual financial statements and annual consolidated financial statements by the Annual General Meeting. The Supervisory Board had previously assured itself of the auditor's independence.

01.7 /

Compensation Report[1)]

For the adidas Group, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board are essential elements of good corporate governance. In the following, we summarise the principles of the compensation system and outline the structure and level of Executive Board and Supervisory Board compensation. We also report on the benefits which the members of our Executive Board will receive in case of resignation from office or retirement.

Compensation system for the Executive Board

Following preparation by the Supervisory Board's General Committee, the compensation system for our Executive Board and the total compensation of each member of the Executive Board is determined and regularly reviewed by the entire Supervisory Board. The compensation system is geared towards creating an incentive for successful, sustainable corporate development.

The compensation of the Executive Board members is designed to reflect the size and global orientation of the Group as well as its economic situation and prospects. It aims to appropriately remunerate exceptional performance, while diminishing the overall target compensation when targets are not met. Finally, the compensation is orientated towards the typical structure and level of executive board compensation at comparable companies. Taking into account the compensation structure at the adidas Group, the tasks and the contribution of each Executive Board member to the Group's success, his individual performance as well as the performance of the entire Executive Board are considered. Thus, an appropriate level of compensation can be ensured.

Components of the compensation system

The target annual income of our Executive Board members consists of a fixed compensation component amounting to around 35% and a variable, i.e. performance-related, compensation component amounting to around 65% in the case of 100% target achievement. The individual compensation components are outlined as follows:

– Fixed compensation consists of the contractually agreed, non-performance-related annual salary that is paid in twelve monthly instalments. Its amount is fixed upon appointment to the Executive Board, and remains unchanged for three years.

– Variable compensation consists of a Performance Bonus and a compensation component with a long-term incentive effect (LTIP Bonus), which is based on the Long-Term Incentive Plan 2009/2011 (LTIP 2009/2011) measured over a three-year period. The variable compensation components are designed in such a way that the incentive to achieve the sustainable targets set for granting the LTIP Bonus is significantly higher than the incentive to achieve the Performance Bonus. Corresponding contractual provisions ensure that this weighting will also be maintained in the future. More than 50% of the variable target compensation component is based upon multi-year performance criteria.

The variable compensation components feature the following criteria:

– The Performance Bonus serves as compensation for the Executive Board's performance in the past financial year in line with the short-term development of the Group. At the beginning of the financial year, the Supervisory Board determines the amount of the Performance Bonus based on a target achievement of 100% (Bonus Target amount) for each member of the Executive Board, as well as the performance criteria with their respective explicit targets. As criteria for the 2011 Performance Bonus, the Supervisory Board determined both the business-related criteria (increase of consolidated net income and of operating free cash flow) as well as the Executive Board member's individual performance. The target achievement of business-related criteria can be rated with a maximum of 150%. At the end of the financial year, the Supervisory Board resolves upon a concrete bonus for each Executive Board member depending on the respective degree of target achievement.
– The LTIP Bonus serves as compensation for the long-term performance of the Executive Board in line with corporate planning.
  When determining the LTIP 2009/2011, the Supervisory Board defined the following performance criteria with different weightings:
  – Increase of consolidated net income
  – Reduction of net debt (adjusted for non-operating effects)
  – Increase of sales growth with regard to the Reebok, Rockport and Reebok-CCM Hockey brands
  – Absolute and relative share price development
  When calculating the LTIP Bonus payable following the three-year period, the weighted degrees of target achievement of the performance criteria are accumulated and multiplied by the individual LTIP target amount determined by the Supervisory Board for each Executive Board member when the LTIP 2009/2011 was established. The payout of the LTIP 2009/2011 is capped at a maximum of 150% of the individual LTIP target amount. If the overall degree of target achievement lies below 50%, the Executive Board member is not entitled to the LTIP Bonus. Once the Supervisory Board has resolved upon the amount of the LTIP Bonus to be granted to each Executive Board member, the Bonus will be paid upon approval of the 2011 annual financial statements.

1) This Compensation Report is a component of the Group Management Report and is also part of the Corporate Governance Report including the Declaration on Corporate Governance.

01 ⁄ Executive Board Total Compensation in 2011 (€ in thousands)

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect[1]	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2009/2011	
Herbert Hainer (CEO)	1,400	27[2]	1,320	3,220	5,967
Glenn Bennett[3]	474	13	367	1,741	2,595
Robin J. Stalker	550	16[2]	418	1,610	2,594
Erich Stamminger	757	38[2]	770	2,070	3,635
Total	**3,181**	**94**	**2,875**	**8,641**	**14,791**

1) The indicated amount corresponds to the amount placed in the reserves for the 2011 financial year based on the degree of target achievement as at the balance sheet date. The payout amounts for the compensation components with a long-term incentive effect are shown in detail below.
2) Other benefits comprise contributions to pension insurance and non-monetary benefits resulting from the provision of a company car.
3) Glenn Bennett's compensation components were granted in US dollars: fixed annual salary $ 660,000, car allowance $ 18,000, Performance Bonus $ 510,400. An exchange rate of 1.3922 $/€ (annual average rate 2011) was used as the basis for calculation.

02 ⁄ Executive Board Total Compensation in 2010 (€ in thousands)

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect[1]	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2009/2011	
Herbert Hainer (CEO)	1,373	28[2]	1,752	1,680	4,833
Glenn Bennett[3]	497	14	510	840	1,861
Robin J. Stalker	550	16[2]	555	840	1,961
Erich Stamminger	700	37[2]	1,022	1,080	2,839
Total	**3,120**	**95**	**3,839**	**4,440**	**11,494**

1) The indicated amount corresponds to the amount placed in the reserves for the 2010 financial year based on the forecasted degree of target achievement as at the balance sheet date. The amount of a possible payout is not specified therewith. Only if targets are met will payment be due following the approval of the annual consolidated financial statements for the period ending on December 31, 2011.
2) Other benefits comprise entertainment expenses, contributions to pension insurance and non-monetary benefits resulting from the provision of a company car.
3) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 660,000, car allowance $ 18,000, Performance Bonus $ 677,000. An exchange rate of 1.3279 $/€ (annual average rate 2010) was used as the basis for calculation.

The payout of the LTIP Bonus resulting from the three-year LTIP 2009/2011 will be effected following the adoption of the annual financial statements for the period ending on December 31, 2011 in accordance with target achievement as follows: Herbert Hainer € 6,300,000, Glenn Bennett $ 4,567,500[2], Robin J. Stalker € 3,150,000, Erich Stamminger € 4,050,000.

A compensation component resulting from a management share option plan does not exist and is not planned.

For the 2011 financial year, the total compensation paid to our Executive Board amounted to € 14.791 million (2010: € 11.494 million) ⁄ TABLES 01 AND 02.

Starting in 2012, the Executive Board will be provided with a new Long-Term Incentive Plan, also covering a three-year period, as a compensation component with long-term incentive effect.

Benefits in case of resignation from office as Executive Board member

All Executive Board members have individual contractual pension commitments which essentially include the following provisions:

- Pension commitments
  - The pensions of our current Executive Board members are based upon a modular system; i.e. starting from a guaranteed base amount totalling 10% of the pensionable income, a module of 2% of the pensionable income is formed for each full year of tenure as an Executive Board member.[3] The basis for calculating the respective pension modules, the pensionable income, corresponds to the Executive Board member's fixed annual salary indicated in the table. The pension can reach a maximum level of 40% of the

2) This equals € 3,150,000. An exchange rate of 1.45 US $/€ as determined by the Supervisory Board was used as the basis for calculation.
3) Initial appointment of Herbert Hainer and Erich Stamminger: April 1, 1997; initial appointment of Robin J. Stalker: January 1, 2001; for Glenn Bennett, instead of his first appointment date (April 1, 1997), January 1, 2000 is used for the calculation of his pension entitlements. His base amount totals 20% of the pensionable income.

pensionable income. Pension payment commences upon reaching the age of 65. In the case of occupational disability, or of survivor's benefits in case of death, different provisions apply.
- In the event of occupational disability of an Executive Board member prior to reaching the retirement age, he receives a disability pension amounting to the pension entitlements achieved up to this point.
- If an Executive Board member dies during the term of his service contract or after reaching retirement age, survivor's benefits provide a pension for his spouse amounting to 50% of the pension entitlements, and a half-orphan's pension of 15% or an orphan's pension of 30% for each dependent child. Total survivor's benefits amount to a maximum of 100% of the pension entitlements. If an Executive Board member dies during the term of his service contract, his spouse receives or, alternatively, any dependent children additionally receive the pro-rata annual fixed salary for the month of death and the following three months but no longer than until the agreed end date of the service contract.

From the second year of pension payments, the current pension payments will increase on the anniversary of the initial pension payment by at least 1% of the amount of the prior year pension and additionally by any income from the pension trust fund allocable to the respective Executive Board member.

In the event that an Executive Board member leaves the company prior to reaching the retirement age, the non-forfeiture of the pension entitlement will be in line with the legal provisions.

- Commitments to Executive Board members upon premature termination of tenure
  In the case of premature termination of tenure by mutual consent and without good cause, the service contracts of Glenn Bennett, Robin J. Stalker and Erich Stamminger do not provide for severance payment caps due to the relatively short contractual terms of up to three years; i.e. a compensatory payment is made in the amount of the payment claims for the remaining period of the service contract. The service contract of Herbert Hainer, on the other hand, which has a contractual term of more than three years, does provide for a severance payment of a maximum of twice the overall annual compensation (Severance Payment Cap), limited to payment claims for the remaining period of his service contract. In this respect, the overall annual compensation means the overall compensation paid to him, as outlined in the compensation report, for the last full financial year prior to his resignation from the Executive Board while considering the expected total compensation for the current financial year. If the service contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap.
- Commitments to Executive Board members upon regular termination of tenure
  In case of regular termination of the service contract, i.e. in case of non-renewal of the service contract or termination due to reaching retirement age, the respective Executive Board member is entitled to a follow-up bonus as individually agreed. This bonus amounts to 75% for Glenn Bennett, 100% for Robin J. Stalker, and 125% each for Herbert Hainer and Erich Stamminger and is based on the Performance Bonus granted to the respective Executive Board member for the last full financial year. The follow-up bonus is payable in two tranches, 12 and 24 months following the end of the contract.

Other benefits and additional commitments to the Executive Board

- Except for the other benefits listed in the table, the Executive Board members did not receive any additional payments.
- The Executive Board members did not receive any additional compensation for mandates within the adidas Group.
- The Executive Board members did not receive any loans or advance payments from adidas AG.
- adidas AG maintains a consequential loss and liability insurance for Board members of the adidas Group (D&O Insurance). It covers the personal liability in the event of claims raised against Executive Board members for indemnification of losses incurred in connection with their acts and omissions. For cases of damage occurring as of July 1, 2010, there is a deductible in accordance with the statutory provisions and recommendations of the German Corporate Governance Code. This deductible amounts to 10% of the damage up to a maximum of one and a half times the fixed annual salary for all cases of damage within one financial year.

Payments to former members of the Executive Board and their surviving dependants

In 2011, pension payments to former Executive Board members or to their surviving dependants amounted to € 3.261 million (2010: € 3.235 million). As at December 31, 2011, the provisions for pension entitlements of this group of persons totalled € 46.150 million (2010: € 45.884 million). The dynamisation of the pension payments is made in accordance with statutory regulations or regulations under collective agreements unless a surplus from the pension fund is used after the commencement of retirement for an increase in retirement benefits.

Compensation of the Supervisory Board

The compensation of the Supervisory Board members is determined by the Annual General Meeting and regulated by § 18 of the Articles of Association of adidas AG. The compensation is linked to the size of the Group and to the responsibility and scope of activities of the Supervisory Board members. After the respective financial year, the members receive fixed compensation for their function as well as compensation for the chairmanship of or membership in committees, in accordance with the German Corporate Governance Code. There is no variable compensation granted in addition ⁄ SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 45. Supervisory Board members who have not been members of the Supervisory Board for the entire financial year receive a pro-rated amount of compensation.

Each individual member of the Supervisory Board receives € 40,000 as fixed annual compensation; three times this amount is paid to the Chairman of the Supervisory Board and twice this amount is paid to each Deputy Chairperson. Members of the General Committee or the Audit Committee receive additional compensation of € 20,000 and € 40,000, respectively. In addition to the fixed compensation, the Chairman of the General Committee receives annual compensation of € 40,000, while the Chairman of the Audit Committee receives € 60,000. The remuneration paid for committee chairmanship also covers the membership in such committee. The members of the Steering Committee, the Mediation Committee, the Nomination Committee and committees which are established ad hoc do not receive additional compensation. If a Supervisory Board member is in more than one committee, the member only receives compensation for his/her task in the committee with the highest compensation. The Supervisory Board members are reimbursed for all expenses incurred in connection with their mandates as well as for the VAT payable on their compensation, insofar as they charge for it separately.

For the 2011 financial year, the total compensation paid to our Supervisory Board amounted to € 0.92 million (2010: € 0.92 million) ⁄ TABLE 03.

Other benefits and additional commitments to the Supervisory Board

- The Supervisory Board members did not receive any loans or advance payments from adidas AG.
- adidas AG maintains a consequential loss and liability insurance for Board members of the adidas Group (D&O Insurance). It covers the personal liability in the event of claims raised against Supervisory Board members for indemnification of losses incurred in connection with their acts and omissions. For cases of damage occurring as of July 1, 2010, there is a deductible of 10% of the damage up to a maximum of one and a half times the fixed annual compensation for all cases of damage within one financial year in accordance with the recommendations of the German Corporate Governance Code.

03 ⁄ **Compensation of the Supervisory Board** (in €)

	2011	2010
Members of the Supervisory Board as at December 31, 2011		
Igor Landau (Chairman of the Supervisory Board, Chairman of the General Committee)	160,000	160,000
Sabine Bauer (Deputy Chairwoman of the Supervisory Board, Member of the General Committee)	100,000	100,000
Willi Schwerdtle (Deputy Chairman of the Supervisory Board, Member of the General Committee)	100,000	100,000
Dieter Hauenstein	40,000	40,000
Dr. Wolfgang Jäger (Member of the Audit Committee)	80,000	80,000
Dr. Stefan Jentzsch (Member of the Audit Committee)	80,000	80,000
Herbert Kauffmann (Chairman of the Audit Committee)	100,000	100,000
Roland Nosko (Member of the General Committee)	60,000	60,000
Alexander Popov	40,000	40,000
Hans Ruprecht (Member of the Audit Committee)	80,000	80,000
Heidi Thaler-Veh	40,000	40,000
Christian Tourres	40,000	40,000
Total	**920,000**	**920,000**

01.8 ⁄

Our Share

In 2011, international stock market performance varied considerably. The sovereign debt crisis in the euro area as well as a slowing global economic outlook were major concerns and catalysts for volatile markets throughout the year. The political unrest in the Middle East and Northern Africa as well as the devastating earthquake and tsunami in Japan also weighed on financial markets. As a result, the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index decreased 15% and 4%, respectively. Due to consistently strong financial results throughout 2011 and rising confidence in the adidas Group's strategic business plan Route 2015, the adidas AG share clearly outperformed both indices, gaining 3% over the period. With further balance sheet improvements and the strong increase in the Group's net income attributable to shareholders in 2011, we intend to propose a 25% higher dividend compared to the prior year at our 2012 Annual General Meeting.

01 ⁄ The adidas AG share

Number of shares outstanding	
2011 average	209,216,186
At year-end 2011 [1]	209,216,186
Type of share	Registered no-par-value share
Free float	100%
Initial Public Offering	November 17, 1995
Share split	June 6, 2006 (in a ratio of 1:4)
Stock exchange	All German stock exchanges
Stock registration number (ISIN)	DE000A1EWWW0
Stock symbol	ADS, ADSGn.DE
Important indices	DAX-30 MSCI World Textiles, Apparel & Luxury Goods Deutsche Börse Prime Consumer Dow Jones STOXX Dow Jones EURO STOXX Dow Jones Sustainability Indexes FTSE4Good Europe Index Ethibel Sustainability Index Excellence Europe ASPI Eurozone Index ECPI Ethical Index EMU STOXX Global ESG Leaders

1) All shares carry full dividend rights.

Mixed international stock market development in 2011

In 2011, the performance of international stock markets was mixed, with European and Asian indices suffering, while US equities showed resilience despite various negative headwinds. The adidas AG share price increased 3% in 2011, clearly outperforming the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index, which declined 15% and 4%, respectively ⁄ DIAGRAM 02. The Dow Jones Index gained 6%. At the beginning of the year, positive news flow during the 2010 earnings season and improving economic data points from the USA provided impetus for international stock markets. However, the political unrest in the Middle East as well as the devastating earthquake and tsunami in Japan weighed on investor sentiment towards the end of the first quarter. Despite headwinds, particularly the sharpening sovereign debt crisis in the euro area as well as rising inflationary pressures, international stock markets were resilient during the second quarter. This was mainly due to strong first quarter corporate earnings and buoyant M&A activity. In the third quarter, however, most international indices collapsed. The DAX-30 declined 25%, recording its highest quarterly loss since the third quarter of 2002, which reflected the escalating sovereign debt crisis, particularly in Greece, Spain and Italy. In addition, the downgrade of the US debt rating by Standard & Poor's at the beginning of August as well as a slump in leading economic indicators added to intensifying recessionary fears and unsettled equity markets. Following these massive losses, global stock markets recovered in the fourth quarter as the instalment of new governments in Spain, Greece and Italy increased investor confidence in the ability of policymakers to resolve the crisis. Furthermore, surprisingly robust US economic data provided additional support. Nevertheless, signals of a slowdown of economic growth in emerging economies, particularly China, growing concerns with regard to the euro area's economic outlook and deteriorating comments regarding corporate earnings led to volatile trading in the final weeks of the year.

adidas AG share price outperforms market

Following significant gains in 2010, the adidas AG share underperformed more cyclical companies at the beginning of 2011. In addition, rapid increases in raw material prices such as cotton put pressure on the overall sporting goods and apparel industries. However, from February onwards, investor sentiment towards our share started to improve amid more and more evidence of strong sales trends emerging with athletic footwear and apparel retailers. The adidas Group 2010 results publication as well as the increased revenue outlook for 2011 benefited the share price at the beginning of March. The positive trend, however, was reversed towards the end of the quarter following the tragic events in Japan. After trading sideways, and in line with

02 Historical performance of the adidas AG share and important indices at year-end 2011 (in %)

	1 year	3 years	5 years	10 years	Since IPO
adidas AG	3	85	33	138	420
DAX-30	(15)	23	(11)	14	169
MSCI World Textiles, Apparel & Luxury Goods	(4)	110	32	203	228

Source: Bloomberg.

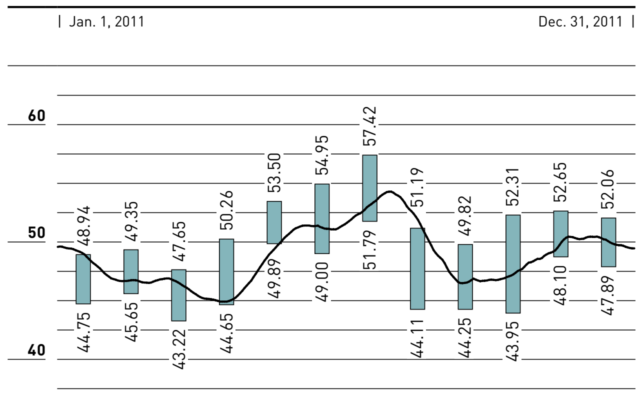
the general market at the beginning of the second quarter, positive analyst previews with regard to our first quarter results provided stimulus to our share. As a result of better than expected top- and bottom-line results, the share price closed at a then all-time high on May 5, the day of the results release. Throughout the rest of the quarter, several analyst upgrades and target price increases helped to sustain positive momentum in an otherwise sluggish market, which also continued into the third quarter. This resulted in the adidas AG share reaching a new all-time high of € 57.42 on July 15 DIAGRAM 03. The first half year results as well as the more optimistic outlook for 2011 published in early August provided further support for our share price in the following weeks. While international indices declined significantly, the adidas AG share lost only slightly. However, during September, share price losses accelerated due to a lack of positive stimuli. At the beginning of the fourth quarter, an Investor Field Trip to Moscow aimed at providing further insights into one of our three key attack markets – Russia/CIS – triggered a strong positive share price development. The event strengthened analysts' confidence in our ability to strengthen our dominant market position as well as to achieve our Route 2015 targets in that market. At the beginning of November, our third quarter results, a further increase in our 2011 full year outlook as well as the publication of a sales and earnings per share outlook for 2012 were well received by market participants. However, in light of a generally weak market, this did not provide further stimulus to our share price towards the end of the year. Nevertheless, the adidas AG share closed 2011 at € 50.26, representing a 3% increase and a significant outperformance versus the market. This implies a market capitalisation of € 10.5 billion at the end of 2011 versus € 10.2 billion at the end of 2010 DIAGRAM 04.

During 2011, the average daily trading volume of the adidas AG share on all German stock exchanges (excluding bank trades) remained almost unchanged at 1.2 million shares (2010: 1.2 million). The average daily trading volume of the adidas AG share on alternative trading systems, such as CHI-X, Turquoise and BATS Europe, remained at a high level of 0.7 million shares per trading day, similar to 2010.

ADR performs in line with common stock

Since its launch on December 30, 2004, our Level 1 American Depositary Receipt (ADR) facility has enjoyed great popularity among American investors. Deutsche Bank Trust Company Americas runs our Level 1 ADR Programme. Our Level 1 ADR closed 2011 at US $ 32.61, almost unchanged versus the prior year (2010: US $ 32.60). The unchanged Level 1 ADR price compared to the ordinary share price increase was due to the appreciation of the US dollar during 2011. The number of Level 1 ADRs outstanding significantly increased to 10.0 million at year-end 2011 (2010: 6.4 million). The average daily trading volume also increased 143% to 36,000 ADRs in 2011 (2010: 15,000). Since November 2007, the adidas AG ADR is quoted on the OTCQX International Premier market, the highest over-the-counter market tier. This electronic trading forum includes leading international companies with substantial operating businesses and credible disclosure policies. Further information on our ADR Programme can be found on our website at WWW.ADIDAS-GROUP.COM/ADR.

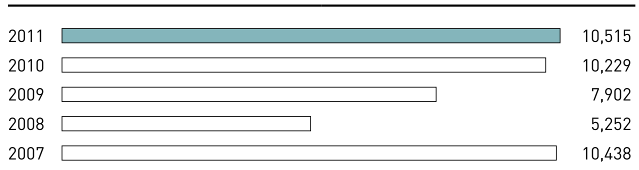
03 adidas AG high and low share prices per month[1] (in €)



Source: Bloomberg.

1) Based on daily Xetra closing prices.

04 adidas AG market capitalisation at year-end (€ in millions)



01.8 /

adidas AG share historically outperforms benchmark indices

The adidas Group is committed to continuously enhancing shareholder value. The long-term development of our share price reflects investor confidence and the growth potential of our Group. Over the last ten years, our share has gained 138%. This represents a clear outperformance of the DAX-30, which increased 14% during the period.

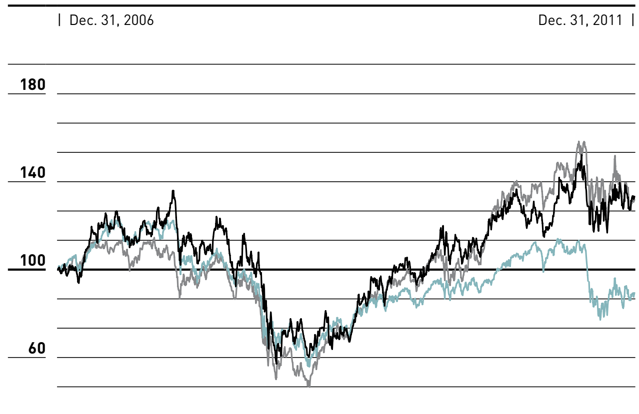
adidas AG share member of important indices

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index. The DAX-30 is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The MSCI World Textiles, Apparel & Luxury Goods Index comprises our Group's major competitors. At December 31, 2011, our weighting in the DAX-30, which is calculated on the basis of free float market capitalisation and twelve-month share turnover, was 2.05% (2010: 1.69%). Our higher weighting compared to the prior year was mainly a result of the increase in the market capitalisation of adidas AG, which compares to declines of most other companies included in the index. Within the DAX-30, we ranked 16 on market capitalisation (2010: 16) and 21 on turnover (2010: 23) at year-end 2011.

Strong sustainability track record reflected in index memberships

In recognition of our social and environmental efforts, adidas AG is listed in several sustainability indices. For the twelfth consecutive time, adidas AG has been included in the Dow Jones Sustainability Indexes (DJSI). The Indexes analyse and track the social, environmental and financial performance of more than 300 companies worldwide. In addition, adidas AG was again included in the FTSE4Good Europe Index, the Vigeo Group's Ethibel Sustainability Index Excellence Europe as well as in the ASPI Eurozone Index. Further, in 2011, the adidas Group was included for the seventh consecutive time in the list of The Global 100 Most Sustainable Corporations in the World. This is a project initiated by Corporate Knights Inc. with Innovest Strategic Value Advisors Inc., a research firm specialised in analysing extra-financial drivers of risk and shareholder value. Launched in 2005, the annual list of The Global 100 Most Sustainable Corporations in the World is unveiled each year at the World Economic Forum in Davos, Switzerland. In addition, as of September 2011, adidas AG is a constituent of the STOXX Global ESG Leaders indices. The index family is made up of three specialised indices for the categories environmental, social and governance (ESG), and one broad index which sums up the specialised indices. In detail, these are the STOXX Global ESG Environmental Leaders, STOXX Global ESG Social Leaders, STOXX Global ESG Governance Leaders and STOXX Global ESG Leaders indices. The index family is based on relevant key performance indicators (KPIs) provided by the index partner Sustainalytics, a leading global provider of ESG research and analysis / TABLE 01.

05 / Five-year share price development [1]



1) Index: December 31, 2006 = 100.

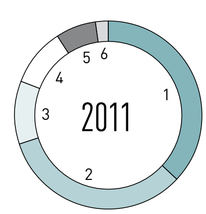
Dividend proposal of € 1.00 per share

The adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 1.00 to shareholders at the Annual General Meeting (AGM) on May 10, 2012 (2010: € 0.80). Subject to the meeting's approval, the dividend will be paid on May 11, 2012. This represents an increase of 25% compared to an increase of net income attributable to shareholders of 18%. The total payout of € 209 million (2010: € 167 million) reflects a payout ratio of 31% of net income attributable to shareholders versus 30% in the prior year. This is in line with our dividend policy where we intend to pay out between 20% and 40% of net income attributable to shareholders.

Strong international investor base

Based on our share register, we estimate that adidas AG currently has around 55,000 shareholders. In our latest ownership analysis conducted in February 2012, we identified 90% of our shares outstanding. Shareholdings in the North American market account for 37% of our total shares outstanding. Identified German institutional investors hold 10% of shares outstanding. The shareholdings in the rest of Europe excluding Germany amount to 33%, while 7%

06 / Shareholder structure [1]



1 / **37%** North America
2 / **33%** Rest of Europe
3 / **11%** Other, undisclosed holdings
4 / **10%** Germany
5 / **7%** Rest of the world
6 / **2%** Management

1) As of February 2012.

of institutional shareholders were identified in other regions of the world. adidas Group Management, which comprises current members of the Executive and Supervisory Boards, holds 2% in total SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 45. Undisclosed holdings, which also include private investors, account for the remaining 11% DIAGRAM 06.

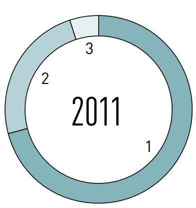
Voting rights notifications received

In 2011, adidas AG received nine voting rights notifications in accordance with § 21 section 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). All voting rights notifications received in 2011 and thereafter can be viewed on our corporate website :// WWW.ADIDAS-GROUP.COM/VOTING_RIGHTS_NOTIFICATIONS. Information on investments that have exceeded or fallen below a certain threshold can also be found in the Notes section of this Annual Report SEE NOTE 25, P. 198.

adidas AG share again receives strong analyst support

The adidas Group and the adidas AG share continued to receive strong analyst support in 2011. Around 35 analysts from investment banks and brokerage firms regularly published research reports on our Group. The majority of analysts are confident about the medium- and long-term potential of the Group. This is reflected in the recommendation split for our share as at December 31, 2011. 71% of analysts recommended investors to "buy" our share in their last publication during the twelve-month period (2010: 55%). 24% advised to "hold" our share (2010: 28%). 5% of the analysts recommended to "sell" our share (2010: 17%) DIAGRAM 07.

07 Recommendation split[1]



1 / **71%** Buy
2 / **24%** Hold
3 / **5%** Sell

1) At year-end 2011. Source: Bloomberg.

Award-winning Investor Relations activities

adidas AG strives to maintain close contact to institutional and private shareholders as well as analysts. In 2011, Management and the Investor Relations team spent around 30 days on roadshows and also spent 20 days presenting at 13 national and international conferences. Furthermore, in order to provide greater insight into one of our three key attack markets, Russia/CIS, we hosted an Investor Field Trip to Moscow from October 10 to 11, 2011, which was attended by more than 35 investors and representatives of the financial markets. Our efforts to deliver best-in-class services to our investors and analysts were again highly acknowledged in an investor relations survey conducted by Thomson Reuters. In the sector Consumer/Luxury Goods, the adidas Group was ranked number two by buy-side analysts in this survey. The print version of the adidas Group 2010 Annual Report was ranked second in manager magazin's "Best Annual Reports 2011" competition, the most comprehensive competition of its kind in Germany and one of the most comprehensive globally. manager magazin analysed the annual reports of around 160 corporations which are included in the DAX-30, MDAX, SDAX and TecDAX. The adidas Group achieved outstanding ratings in several categories and was ranked first in terms of overall content and language.

Extensive financial information available online

We offer extensive information around our share as well as the adidas Group's strategy and financial results on our corporate website at :// WWW.ADIDAS-GROUP.COM/INVESTORS. Our event calendar lists all conferences and roadshows we attend and provides all presentations for download. In addition to live webcasts of all major events such as our Analyst Conferences, the Annual General Meeting and Investor Days, we also offer podcasts of our quarterly conference calls. Furthermore, in order to give a regular update about the latest developments of the adidas Group and the adidas AG share, we also offer our shareholders and the financial market community the opportunity to subscribe to our quarterly Investor Relations Newsletter.

08 Share ratios at a glance

		2011	2010
Basic earnings per share	€	3.20	2.71
Diluted earnings per share	€	3.20	2.71
Cash generated from operating activities per share	€	3.79	4.27
Year-end price	€	50.26	48.89
Year-high	€	57.42	51.48
Year-low	€	43.22	35.01
Dividend per share	€	1.00[1]	0.80
Dividend payout	€ in millions	209[2]	167
Dividend payout ratio	%	31.2	29.5
Dividend yield	%	2.0	1.6
Shareholders' equity per share	€	25.46	22.06
Price-earnings ratio at year-end		15.7	18.0
Average trading volume per trading day[3]	shares	1,153,246	1,170,523
DAX-30 ranking at year-end[4]			
by market capitalisation		16	16
by turnover		21	23

1) Subject to Annual General Meeting approval.
2) Based on number of shares outstanding at year-end.
3) Based on number of shares traded on all German stock exchanges.
4) As reported by Deutsche Börse AG.

TOGETHER WE WIN

02 OUR GROUP

GROUP MANAGEMENT REPORT

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

Reebok

The Sport Of Fitness Has Arrived

Reebok launches the campaign "The Sport Of Fitness Has Arrived". Partnering with CrossFit, this multi-touchpoint campaign celebrates the passion and camaraderie that can be found in fitness, to make it fun and something everyone can do.

Together we win.

02.1 ⁄

Group Strategy

The adidas Group strives to be the global leader in the sporting goods industry with brands built upon a passion for sports and a sporting lifestyle. Inspired by our heritage, we know that a profound understanding of the consumer and customer is essential to achieving this goal. To anticipate and respond to their needs, we continuously strive to create a culture of innovation, challenging ourselves to break with convention and embrace change. By harnessing this culture, we push the boundaries of products, services and processes to strengthen our competitiveness and maximise the Group's operational and financial performance. This, in turn, will drive long-term value creation for our shareholders. To achieve this goal, we have made strategic choices and will prioritise our investments under our six key strategic pillars ⁄ DIAGRAM 01**.**

Creating long-term shareholder value

Creating long-term value for our shareholders through significant operating cash flow generation drives our overall decision-making process ⁄ SEE INTERNAL GROUP MANAGEMENT SYSTEM, P. 114. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth, and ultimately operating cash flow. Across our operations, we pursue the avenues for growth which we expect to be most value-enhancing, with particular emphasis on improving Group profitability. In addition, rigorously managing working capital and optimising our capital structure remain key priorities for us. Furthermore, we are committed to increasing returns to shareholders with above-industry-average share price performance and dividends ⁄ SEE OUR SHARE, P. 54.

Diverse brand portfolio

Consumers want choice. Whether it is the athlete looking for the best possible equipment, or the casual consumer searching for the next fashion trend, we are inspired to develop and create experiences that engage consumers in long-lasting relationships with our brands. To maximise our consumer reach, we have embraced a multi-brand strategy. This approach allows us to tackle opportunities from several perspectives, as both a mass and a niche player, providing distinct and relevant products to a wide spectrum of consumers. In this way, each brand is able to keep a unique identity and focus on its core competencies, while simultaneously providing our Group with a broad product offering, increasing our leverage in the marketplace ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68.

Investments focused on highest-potential markets and channels

As a Group, we target leading market positions in all markets where we compete. However, we have prioritised our investments based on those markets which offer the best medium- to long-term growth and profitability opportunities. In this respect, we place a considerable emphasis on expanding our activities in the emerging markets, particularly China and Russia, as well as building our market share in underpenetrated markets for the Group such as the United States ⁄ SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163.

No matter in which market we operate, we recognise that consumer buying behaviour and the retail landscape are unique. Therefore, to fully exploit market opportunities, we tailor our distribution strategy to present our brands to the consumer in the most impactful way. This is achieved by following a distinctive but coordinated channel approach. To this end, we strive to provide our customers with superior service to secure prime shelf space for our brands, while continuing our commitment to building a strategic competency in own retail and e-commerce ⁄ SEE GLOBAL SALES STRATEGY, P. 62.

Creating a flexible supply chain

Speed and agility are key to outpacing the competition. We are committed to meeting the full range of customer and consumer needs by ensuring constant product availability in the correct size and colour, providing game-changing technical innovations and also the latest high-end fashion products to the highest quality standards.

A key strategic priority is to enable faster product creation and production by continuously improving our infrastructure, processes and systems. By sharing information from point of sale to source and vice versa, we strive to connect and more closely integrate the various elements of our supply chain, to enable quick reaction to changing consumer trends. To this end, we focus on building maximum flexibility. While leveraging the efficiency of common infrastructure and processes, the Group strives to provide tailored solutions for all our business models, be it the wholesale or retail channels, or the performance-oriented or style-oriented businesses ⁄ SEE GLOBAL OPERATIONS, P. 90.

Leading through innovation

Every adidas Group employee is responsible for driving innovation. Therefore, we foster a culture of challenging convention and embracing change, and require all areas of the Group to generate at least one new innovation or meaningful improvement per year. In particular, we believe that technological evolution and cutting-edge design in our products are essential to achieving sustainable leadership in our industry ⁄ SEE RESEARCH AND DEVELOPMENT, P. 95. Beyond this, enhancing services for our customers, and implementing more efficient and effective internal processes are other areas where our organisation strives to innovate ⁄ SEE GLOBAL SALES STRATEGY, P. 62.

Develop a team grounded in our heritage

Our culture is continuously shaped by influences from the past and the present as well as our future aspirations. We perpetuate our founder's commitment to the athlete/consumer, pride in what we do, quality and love of sport. We win as a team through open communication, collaboration and our shared values found in sport **SHARED VALUES**. Therefore, we foster a corporate culture of performance, passion, integrity and diversity by creating a work environment that stimulates innovation, team spirit and achievement based on strong leadership and employee engagement **SEE EMPLOYEES, P. 101**.

Shared values

The adidas Group values help us to create brands that our customers believe in, and they commit us to playing by the rules that society expects of a responsible company:

- Performance
- Passion
- Integrity
- Diversity

SEE ADIDAS GROUP AT A GLANCE BOOKLET, CORPORATE MISSION STATEMENT, P. 2.

Becoming a sustainable company

Like any global business, the adidas Group must manage wide-ranging commercial and competitive pressure to deliver increased financial returns and growth. At the same time, we are accountable for our employees and have a high degree of responsibility towards the workers in our suppliers' factories and also for the environment. We are committed to striking the balance between shareholder interests and the needs and concerns of employees and workers, and the environment, or, in short, to becoming a sustainable company **SEE SUSTAINABILITY, P. 107**. We report publicly on the steps we take to have a more positive impact on society and the planet on our website at **WWW.ADIDAS-GROUP.COM/SUSTAINABILITY**.

Route 2015 strategic business plan

In November 2010, the Group unveiled its 2015 strategic business plan named "Route 2015", which defines strategies and objectives for the period up to 2015. This plan is the most comprehensive the adidas Group has ever developed, incorporating all brands, sales channels and Group functions globally. The key aspirations and targets of this plan are set out in the section Subsequent Events and Outlook **SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163**, and also in various other sections of this Annual Report.

Subsequently, at the beginning of 2011, we launched Driving Route 2015, to act as a key enabler to reach our Route 2015 aspirations. It addresses solutions for optimising our organisational set-up as, over the years, it has become too complex and inconsistent. The objectives of Driving Route 2015 are very clear: speed, consistency and consumer focus.

- Speed by implementing a leaner organisation that allows faster decision-making.
- Consistency by establishing a more aligned and efficient organisation across functions and geographies.
- Consumer focus by reducing internal complexity, enabling us to put more of our energy into what really matters – the consumer.

We have already taken key decisions in the first phase of Driving Route 2015, setting up clear roles and responsibilities for our brands, markets, channels and Group functions.

01 adidas Group strategic pillars

adidas GROUP

Markets/Channels	One Team	Supply Chain	Sustainable Company	Brand Portfolio	Innovation
Focus investment on the highest-potential markets and our distinct channel approach.	Develop a team that is grounded in our rich heritage and is committed to the positive values found in sport – performance, passion, integrity and diversity – and that values sustainability.	Become closest to every consumer by building and managing a supply chain that quickly responds to changing market needs and supports multiple distinct business models.	We strive to be a sustainable company, one that recognises its responsibilities towards the environment, our employees and the people who make our products.	Build and manage a diverse brand portfolio with distinctive brands covering consumers from sport performance to sport lifestyle.	Require a culture of continuous innovation through improvements of products, services and processes.

02.2 ⁄

Global Sales Strategy

The Global Sales function is responsible for the commercial activities of the adidas and Reebok brands. The function is organised in three distinctive channels – Wholesale, Retail and eCommerce. By catering to these three business models, the Group aims to service multiple customer and consumer needs in order to fully leverage brand potential, be more responsive to market developments and manage channel synergies by establishing best practices worldwide.

Global Sales defines strategic priorities until 2015

The Global Sales function directs all local market organisations responsible for the distribution of the adidas and Reebok brands. The key priority of Global Sales is to design and implement state-of-the-art commercial strategies that ultimately engage consumers with rewarding point-of-sale experiences.

As part of our Group-wide strategic business plan Route 2015, the Global Sales function has defined three strategic priorities:
– Increase the share of controlled space to 45% of Group sales by 2015
– Implement an Integrated Distribution Roadmap to ensure further growth and maximise brand potential in key demographic locations
– Support growth initiatives in the Group's three key "attack" markets North America, Greater China and Russia/CIS

Focus on controlled space

Our brands must be competitive at the point of sale, based on availability, convenience and breadth of product offering. As a result, we are continuously refining our distribution proposition with a strong focus on controlled space.

Controlled space includes:
– Own retail
– eCommerce
– Mono-branded franchise stores
– Shop-in-shops
– Joint ventures with retail partners
– Co-branded stores with sports organisations and other brands

These formats provide us with a high level of brand control, as we either manage the stores ourselves (i.e. Retail and eCommerce) or we work closely with our wholesale partners (e.g. for mono-branded franchise stores, shop-in-shops, joint ventures and co-branded stores) to ensure the appropriate product offering and presentation at the point of sale. We intend to increase our controlled space initiatives to 45% of Group sales by 2015 (2011: 36%). This will mainly be driven by growth in our Retail segment and the expansion of our own store base as well as by growth initiatives within our Wholesale segment, such as the expansion of our franchise business.

Integrated Distribution Roadmap (IDR) to increase brand presence and market share

In order to increase our global brand presence and ensure further growth of our business, our Global Sales function has set up a comprehensive initiative called "Integrated Distribution Roadmap". The initiative encompasses a joint approach between our three channels, allowing us to define how best to capture the consumer in the biggest and most attractive cities around the world without cannibalising our brands and distribution mix. The roadmap is designed to ensure market share growth in underpenetrated affluent metropolitan areas such as New York City, where the IDR has helped us to clearly map out several potential new locations for increasing our brands' presence, which we are now beginning to execute upon.

Focusing on three "attack" markets

The Global Sales function has identified North America, Greater China, Russia/CIS, Latin America, Japan and the UK as key growth markets ⁄ SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163. Of these markets, the three attack markets North America, Greater China and Russia/CIS are targeted to contribute over 50% of the sales increase we anticipate as part of Route 2015.

Wholesale Strategy

The main strategic objective of the Wholesale channel is to deliver profitable market share growth by becoming the leading sales organisation in the sporting goods industry in terms of effectiveness and efficiency. To realise this, Wholesale takes the go-to-market strategies handed over by Global Brands and commercialises them within a defined framework across various third-party retail channels.

Our most important third-party retail channels are sporting goods chains, department stores, independent sporting goods retailer buying groups, lifestyle retail chains and e-tailers. In this respect, Wholesale strives to establish strong partnerships with the most dynamic retailers in their respective channel of distribution by offering best-in-class and tailored services. To achieve this, Wholesale has established the following principles ⁄ **DIAGRAM 01**:
– Amplify our brands at the point of sale (POS) in all relevant channels
– Build strong relationships with leading and most dynamic retailers
– Build a highly motivated and highly skilled sales team
– Implement an industry-leading sales toolkit to drive sell-out
– Deliver the benchmark in servicing retailers with world-class efficiency

To reach our Route 2015 objectives, we have identified several focus areas, built upon these principles.

Retail Space Management to amplify our brands at POS

Retail Space Management (RSM) comprises all business models helping our Global Sales function to expand controlled space in retail. Under the premise that the selling process is not finished until the consumer has bought the product, Wholesale is cooperating with retailers along the entire supply chain to bring best-in-class service all the way through to the point of sale. By helping to increase profitability per square metre for the Group's retail partners as well as improving product availability, we can achieve higher customer satisfaction, thus driving share of retail shelf space.

The two predominant models to drive the success of RSM for the adidas Group are Franchising and Never-out-of-stock (NOOS).

– Franchising: Mono-branded store franchising is one of the Group's prime growth opportunities, as it offers superior brand presentation while limiting investment requirements and costs. Franchise stores are financed and operated by franchise partners. The adidas Group normally contributes to the costs for brand-specific fixtures and fittings each store has to be equipped with. Furthermore, we support our franchise partners with a comprehensive franchise concept, including range propositions, merchandising, training concepts, and guidelines for store building and store operations. This ensures that the quality of the brand presentation and the service offered to the consumer are at all times high and comparable to our own-retail stores.

– NOOS: The NOOS programme comprises a core range of basic articles, mostly on an 18- to 24-month life cycle, that are selling across all channels and markets. Overall, the NOOS replenishment model secures high levels of product availability throughout the season, allowing for quick adaptation to demand patterns. Retailers have to provide dedicated retail space, co-invest in fixtures and fittings and commit to a "first fill" representing about 25% of total expected seasonal demand to participate in this programme. In return, customers can profit from significantly reduced inventory risk on these products. Most NOOS articles are on an end-to-end supply chain, thus limiting the adidas Group's inventory risk and increasing availability of products sold at best price as we re-produce based on customer demand.

Harmonisation and standardisation of processes to exploit leverage

Wholesale is constantly working on further leveraging the size of our Group and reducing complexity by implementing best operational practices across our wholesale activities. The harmonisation and standardisation particularly of back-end processes can help to further reduce cost through simplified IT systems and processes.

Similarly, we are rolling out a trade terms policy globally that rewards customer performance either by higher efficiency (e.g. in logistics), cost savings or better sell-out support (e.g. by POS activation). As part of this effort, we have established regular reporting, delivering meaningful benchmarks that allow us to tightly control our third-party retail support activities.

01 ⁄ **Wholesale strategic pillars**

02.2 ⁄

PEAK people development programme to build the best sales team

When reaching for gold in business, just like in sports, the quality of the team is critical to score as high as possible. Therefore, at the beginning of 2012, we will introduce a new programme for developing our Wholesale sales organisation called PEAK (Performance, Excellence, Activation, Knowledge). The aim of the programme is to create the foundation for an educated and enabled sales organisation. To achieve this, we have defined competencies and capabilities required by our sales employees in a functional competency framework. With the right competencies and skills in place, our employees can follow our sales-specific career development roadmaps. In addition, PEAK also offers a guideline for desired behaviour and actions that support our employees to become successful leaders in the Wholesale organisation of the Group.

Customer and range segmentation to exploit market potential

Rolling out standardised product range packages around the globe is an important part of the Group's Wholesale strategy. The initiative, which was first designed and implemented in Europe, involves a customer segmentation strategy that facilitates the systematic allocation of differentiated product packages to groups of comparable customers. With 40,000 different partners around the world that operate more than 100,000 points of sale, this segmentation is broadly based on a distinction between sports and lifestyle retailers that either have an up-market "brand-driven" positioning or a value-oriented "commercial" positioning. By best suiting their specific needs, this provides a platform to better exploit market potential, while at the same time supporting the reduction of complexity and costs. In addition, Wholesale continues to partner with retailers on increasing the level and quality of sell-through information the Group receives on a regular basis. This creates a mutually beneficial understanding of their needs, which helps us to become a more valuable and reliable business partner. At the same time, this helps us to drive incremental business opportunities and ensure a globally consistent distribution logic.

Innovation key to accelerate speed to market

Accelerating product creation, while reducing complexity is a key element to gain competitive edge and, ultimately, to increase shelf space at our customers. We have therefore developed a virtual sell-in tool which allows us to continuously offer a holistic sample range to our retail partners. This gives the customer the benefit of having a "full range in his pocket". The reduced amount of samples used during the sell-in process as well as the streamlined image creation process increases speed to market, while at the same time saving costs. This new tool has already been introduced in several markets and product categories and is targeted to cover 60% of all Wholesale pre-orders by 2013.

Retail Strategy

Our vision for Retail is to become a top retailer by delivering healthy, sustainable growth with outstanding return on investment. Retail plays an increasingly important role for the future of our Group and our brands, and is a key driver on our Route 2015 journey. The reasons are manifold:

- To showcase the breadth of our brands (e.g. brand centres)
- To create distribution in markets which do not have traditional wholesale structures
- To grow another profitable distribution channel
- To leverage our learnings from own retail for the entire organisation
- To provide a clearance channel (i.e. factory outlets)

02 ⁄ adidas
Brand Centre in Shanghai

Over the past five to ten years, the adidas Group has evolved into a significant retailer, operating 2,401 stores for the adidas and Reebok brands worldwide ⁄ SEE RETAIL BUSINESS PERFORMANCE, P. 140.

In order to simplify the shape of our store chain, we have clustered it into three different formats, namely brand centres, concept stores and factory outlets.

- Brand centres are large stores carrying the full range of each of our adidas sub-brands under one roof. They are the bold and powerful statements about the adidas brand's strength, breadth and depth. This format will be kept to a limited number and only in exclusive locations such as New York, Paris or Shanghai ⁄ PICTURE 02.

03 Retail strategic pillars

To become a top retailer by delivering healthy, sustainable growth with outstanding return on investment			
Focus on the consumer	Achieve operational excellence	Exploit portfolio of brands	Leverage global presence and scale

– Concept stores are the commercial engine for sales and profit across the Group's retail organisation, upholding and accentuating each brand's reputation. There are adidas concept stores, Originals concept stores and Reebok concept stores.
– Our factory outlets facilitate the controlled sale of excess stock returned from our wholesale key and field accounts, franchise partners, own-retail stores as well as eCommerce. The returned stock is complemented with a portion of planned production which creates a balanced product offering aimed at maximising profitability.

The global strategic framework and guidelines for our own-retail activities are led by a central team, the "franchisor" of the Group. This central team works closely with our market organisations to translate the strategy into actions, and drive commercial performance of our adidas and Reebok retail operations around the globe.

To become a world-class retailer, four strategic pillars have been defined DIAGRAM 03:
– Focus on the consumer
– Achieve operational excellence
– Exploit portfolio of brands
– Leverage our global presence and scale

By focusing on these four strategic pillars, we are confident to become one of the top retailers in the world. In line with our strategic business plan Route 2015, we will further invest in our own-retail activities and will open up to 400 additional stores by 2015. The majority of these store openings are planned in the emerging markets, particularly Russia PICTURE 04.

In addition, we will further roll out adidas Originals concept stores to increase the number of distribution points for our lifestyle offering. Another area of focus in 2012 will be the further expansion of the store base of the adidas NEO label, the vertical business model for the Group SEE GLOBAL BRANDS STRATEGY, P. 68. Furthermore, we will test new single-category stores, e.g. running-specific stores, as we develop our store portfolio.

To execute on these pillars, the strategic priorities for Retail have been broken down into the "Five P's": People, Product, Premises, Processes and Profit.

04 Reebok Concept Store in Moscow

People

The consumer and our employees are the primary reference points in order to be successful. One of the cornerstones of Route 2015 is greater "consumer focus", an ambition Retail constantly strives towards. Within our stores, we aim to interpret and adapt to changing consumer demand, targeting a mix of new and loyal consumers, whether it be sports-active, sports-inspired or casual consumers. Therefore, we are building a commercially- and consumer-minded Retail back-office and field workforce that thinks and "trades" like a vertical retailer, and whose highest priority is to serve the consumer.

In 2010, we introduced SHINE, a Human Resources people strategy, to leverage existing best practices and create a single global standard for the field organisation. This ensures a set of broad and deep vertical retail and commercial skills to develop our staff globally. During 2011, the implementation and execution of SHINE throughout our markets has progressed and we are more than halfway through completing the global roll-out. In addition, we have also begun developing a programme aimed at training our Retail back-office workforce in a globally consistent manner, which will be introduced over the next 12 to 18 months.

02.2 ⁄

Product

The key element of our product strategy in Retail is to ensure that relevant products are presented through the Group's various retail formats to match the intended consumer profile. This requires a product offering that is price-competitive, simple to understand, easy to find and, most importantly, available at the right time and the right place. In 2010, we kicked off a number of strategic initiatives in areas such as product assortment and visual merchandising to achieve this goal. Correspondingly, the depth of our trading analysis against relevant KPIs has matured throughout 2011. This has made us better at displaying our products in the correct proportionality and in greater depth for best-sellers, ultimately leading to increased full-price sell-through.

Furthermore, as part of a joint initiative of the Global Sales and Global Brands functions, we have defined a "Global Foundation Range", which represents a set of products which must be sold through all of our sales channels globally. This increases the commonality of products displayed throughout our 2,401 concept stores and presents a consistent message to the consumer.

Premises

The start of a pleasant shopping experience is the store. It is the meeting point between the consumer and the brands. Therefore, it is of highest importance that our retail environments are inspirational, athletic, fun and interactive, while at the same time being laid out clearly and logically to make it easy to shop.

In order to drive our sales per square metre, Retail has set a clear priority on optimising its real estate management process.

Dedicated real estate teams have been set up who make sure that:
– Store location and store size fit to the local market.
– The store is designed to maximise sales per square metre.
– Market share growth and increased market presence are in line with our Integrated Distribution Roadmap, which has been developed to evaluate real estate locations in the top 100 cities globally, based on various factors such as consumer profile and competitive landscape.

Processes

To enable the adidas Group to become one of the top retailers in the world, it is essential to have systems and processes in place that fit to a retail business model. Accordingly, significant investments in retail systems have been made over the past 12 months, and global roll-out of several of these is well underway.

Our in-store operations are constantly being refined with the objective of achieving flawless execution and operational excellence. Visual merchandising standards have been defined and manuals rolled out globally, and the creation of a global store operations manual is progressing. The establishment of common communications procedures between our back-office teams and stores to ensure clear and concise delivery of commercial guidelines and standards also remain a key priority.

Similarly, supply chain enhancements have continued in 2011, led by the expansion of the adidas NEO label, which requires a shift from a sell-in push model to a more sell-through-driven pull model, to increase in-season flexibility, be more responsive to changing trends and, ultimately, compete in fast-fashion retailing. In the long term, leveraging best practices from applying a pull model will result in economies of scale for the activities of the entire Group.

While all of these activities will be ongoing in 2012, Russia in particular will be a key focus area with the transition to the globally defined standard systems template.

Profit

Increasing the commerciality and profitability of the Group's existing retail assets is the primary focus of all Retail teams, particularly in light of the pivotal role Retail has in achieving the adidas Group's Route 2015 targets. As such, we have introduced a set of operational KPIs benchmarked to best-in-class retailers in order to measure existing business performance and evaluate potential investments. Stores not achieving their required KPIs have been, and will continue to be, closed down. New stores must be supported by a business plan that meets predefined criteria. Each new store opening and remodelling is closely monitored to ensure that the targeted profitability and return on investment is accomplished. In addition, we will continue to implement our people, product, premises and processes strategies in order to maximise profit.

eCommerce Strategy

At the beginning of 2010, a leadership team was put in place to define and outline the strategic direction of the Group's eCommerce activities for the adidas and Reebok brands. Although both brands have made advances with their respective platforms in recent years, we believe there is considerable untapped potential for the Group in this distribution channel.

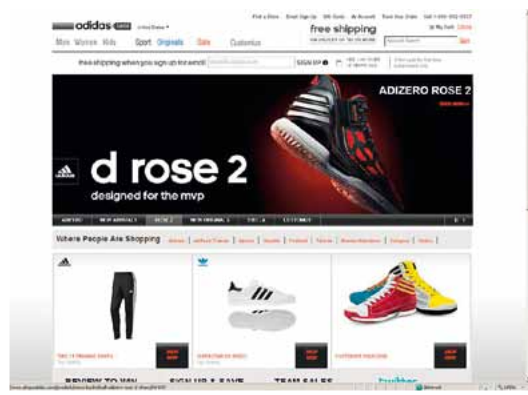
As part of Route 2015, eCommerce has defined its strategic priorities which include:
– Establish eCommerce as the third sales pillar
– Balance Wholesale and eCommerce activities by implementing a new distribution policy
– Create one consumer destination by integrating brand, shop and customisation sites
– Build a best-in-class technology platform
– Drive attraction, conversion and retention by building enhanced e-marketing capabilities

The success of our eCommerce strategy will rest on our ability to attract, convert and retain the consumer in a crowded marketplace. To attract the consumer, we need to optimise the visibility of our site and how it ranks in online searches.

We also have to improve our management of paid placement and link our own site to social media to attract larger numbers of the right type of consumer. To drive higher conversion rates, we intend to simplify and improve the functionality of our eCommerce platforms to create best-in-class shopping experiences. Finally, to retain consumers we will strive to create targeted communication as we gain a deeper knowledge through improved CRM solutions that will allow for more robust consumer interaction. In this respect, social media will play an important role as it facilitates a deepening of the dialogue with our consumers and a more evolving relationship with them ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68.

In 2011, we made good progress on our eCommerce strategic priorities, including the completion of establishing eCommerce as the third sales channel. In doing so, we hired external expertise, added young and talented digital/online addicts, and strengthened our leadership both on a global and a market level. Moreover, in North America we rolled out a new eCommerce platform built in-house that will give us more flexibility and an improved consumer experience over time ⁄ PICTURE 05. In 2012, we will integrate the Reebok brand onto the same platform to leverage the benefits for both brands. Similarly, accelerating our global expansion into new markets is at the top of our agenda as we plan to add at least 10 additional markets globally, including Latin America, where we intend to go live with our first online shops in 2012. In order to create one consumer destination, we will relaunch a new fully integrated brand and eCommerce platform in Western Europe in the first half of 2012 as well as implement a state-of-the-art customised experience (mi adidas/miTeam) to further build on our personalised interaction with the consumer.

05 ⁄ **adidas**
www.shopadidas.com



In summary, with the strategic initiatives we have already kicked off and which we will continue to build upon, our eCommerce business is well on track to achieve the target of € 500 million in sales by 2015.

02.3 ⁄

Global Brands Strategy

Global Brands is responsible for all the product and marketing functions and long-term development of the adidas and Reebok brands. The primary objective of this portfolio strategy is to ensure that our brands seize market and category opportunities through well-defined and coordinated go-to-market strategies. Each brand is responsible for the execution of its strategic focus by creating a constant stream of innovative and inspiring products and generating communication strategies that represent each brand and category in an engaging and compelling way.

Driving the long-term development of adidas and Reebok

To secure long-term sustainable growth for the Group, Global Brands is focused on driving the development of the adidas and Reebok brands. The overall strategic goal is to achieve qualitative, sustainable growth by building desirable brands in customers' and consumers' perception. Global Brands played a central role in the creation of Route 2015, the adidas Group's five-year strategic business plan that was unveiled in 2010. The adidas and Reebok brands are expected to deliver 90% of the targeted growth for the Group in this period.

Areas within adidas and Reebok that were identified as key contributors and game changers for the adidas Group include:

- Gaining sales and market share in the key global categories running and basketball with adidas Sport Performance
- Expanding adidas Sport Style into fast fashion with the adidas NEO label
- Establishing Reebok as the leading fitness brand
- Leading the industry in the fields of customisation and interactivity across categories

In addition, Global Brands is also playing a key role in our Driving Route 2015 programme, which is focused on speed, consistency and consumer focus. Among other things, we are striving to present adidas and Reebok in a more consistent way around the world in terms of ranges and pricing. In the long term, this should lead to range size efficiencies and gross margin optimisation. One example of this is the creation of a "Global Foundation Range", which will be mandatory for all of our markets and channels.

Focus on the consumer

The consumer is at the heart of everything we do. This is the first and most important realisation, and we must adhere to it to deliver long-term success. As part of its function, Global Brands has mapped out our target consumer universe, which spans from our roots in sport, the "pure performer", through to today's style setters who have embraced sporting goods brands ⁄ DIAGRAM 01.

To be successful across consumer segments, we acknowledge that a strategy of mass production or mass marketing is no longer sufficient. Only by identifying and understanding consumers' buying habits, their fitness level, their motivations and goals for doing sport and their individual lifestyle, can we create meaningful products, services and experiences that build a lasting impression. In this respect, we have identified five key global trends which will be important to address with our brands and sub-brands over the duration of Route 2015:

– Fit for life: Sport is no longer just about competing and winning. Sport is becoming more embedded in consumers' everyday lifestyles. Motivations and goals are becoming more holistic, relating to fun, socialising and quality of life.

– You are what you know and what you do: Society is embracing a life-long learning attitude, and placing more emphasis on what we know and do versus what we have and where we come from.

– Celebrating individuality: Consumers increasingly fulfil their desire to differentiate from one another by being more creative – on the one hand mixing and matching products and services they need, and on the other hand seeking personalised offerings tailored for them.

– Together is better: There is an increasing need for meaningful social interaction, both online and offline, as consumers become more mobile, and the rise of digital technologies makes it easier for them to connect with like-minded people.

– Back to basics: For everyday life, products and services are desired to be simple and authentic, making consumers' lives easier, rather than more complicated. There is a growing interest in outdoor activities, reflecting the desire to reconnect and be in tune with nature.

To match these trends and fulfil consumer demands, Global Brands teams adhere to the following principles:

- Create the unexpected in terms of product and brand experience
- Create the highest emotional connection between our brands and the consumer
- Be prepared for the next generation, anticipating change
- Simplify to the maximum
- Show excellence in execution, being consistent in whatever we do, from idea creation to communication at the point of sale, and in the digital world

Brand architecture and differentiation

We believe that our Group's multi-brand structure gives us an important competitive advantage. Through our brand architecture, we seamlessly cover the consumer segments we have defined, catering to more consumer needs, while at the same time keeping clarity of brand message and values. In each case, the positioning of adidas and Reebok and their respective sub-brands is based on their unique DNAs – their history and their values.

As a true global brand with German roots, adidas is targeting competitive sports based on innovation and technology with adidas Sport Performance. This sub-brand is the multi-sport specialist. Our positioning in this respect clearly starts in producing the best products for use in specific sports such as football, basketball and running. We then seek to leverage brand loyalty and strength in innovation in other categories. The other sub-brands, adidas Originals and Sport Style, strive to take the brand's unique heritage and design leadership to capture further potential in sports lifestyle and fashion markets.

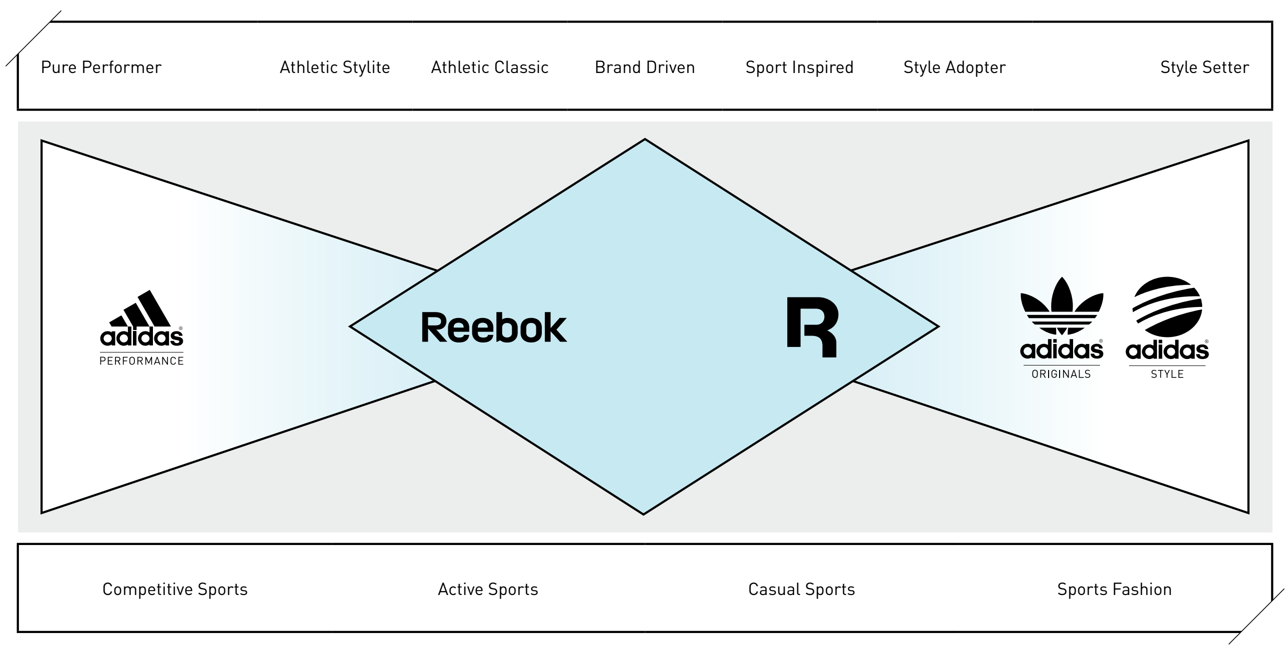
Reebok, in contrast, is an American-inspired global brand, starting with fitness as the backbone for the brand's global positioning. With Reebok, we aspire to make our consumers "fit for life". Innovation at the brand is rooted in developing technologies and concepts that enable consumers to train at their best every day, whether they are running to keep fit, exercising in the gym or participating in other fitness activities. Reebok Classics leverages the fitness attitude and roots of the brand into the lifestyle segment. Reebok thus focuses in-between the two ends of the consumer spectrum DIAGRAM 01.

Through these differences in positioning, our brands are therefore not cannibalising each other in the market, but rather challenging and supporting each other as friendly competitors with different target groups in mind.

Each brand and sub-brand is responsible for bringing its respective positioning to life, through the creation of products and communications that not only support the commercial functions in their day-to-day business activities, but also provide the platform and framework for long-term market share and profitability improvements. While adidas and Reebok each have unique identities, heritages, technologies, designs and reputations, the strategic principles and methods for driving future sales growth and profitability improvements are common to both. These include:

- Leadership in product innovation to excite and inspire the consumer
- Marketing and communication leadership
- Activation and validation via a relevant set of promotion partnerships
- Extending brand reach and appeal through strategic partnerships

01 **Brand architecture – portfolio strategy**



Leadership in product innovation to excite and inspire the consumer

Through Global Brands, we are determined to address every consumer in a specific and unique way – with product initiatives that generate trade and consumer interest.

We believe that technological innovation is essential to sustainable leadership in our industry. By leveraging the extensive R&D expertise within the Group, adidas and Reebok continuously challenge the boundaries of functionality and performance. In addition, innovation plays a significant role in differentiating the adidas and Reebok product offerings in the minds of consumers.

For example, at adidas, personalisation is one of the brand's lead innovation concepts, and it is an adidas goal to be the most personal sports brand by 2015. At Reebok, innovation focus is on fitness, where the priority is creating products that provide a material benefit to the consumer's fitness activities (e.g. flexibility, lightweight) ⁄ SEE RESEARCH AND DEVELOPMENT, P. 95.

By creating inspiring product and brand experiences, adidas and Reebok strive to enhance their positions as premium brands. This, in turn, is an important catalyst to sustaining and improving the brands' gross margins, therefore making continuous innovation an important enabler for future profitability improvements.

Marketing and communication leadership

To be competitive in the sporting goods industry, brands must have a clear profile towards their target consumer. To achieve this, adidas and Reebok are focused on creating inspirational and innovative brand marketing campaigns and developing communication techniques that build brand equity and support the achievement of the Group's commercial goals.

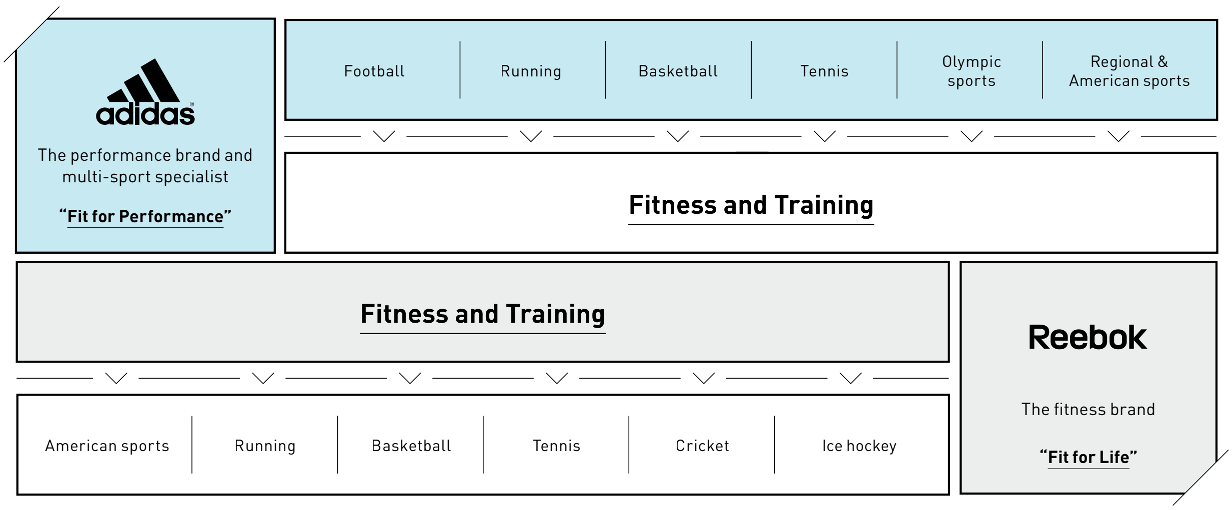
A key tenet of our marketing and communication strategy is to harness the emotion of sport and the benefits of a sporting lifestyle across all communication channels. Both adidas and Reebok regularly bring new global marketing concepts to life, which can be easily leveraged to create simple and powerful brand messages and support an array of product offerings. For example, in 2011, the "all adidas" campaign brought together the diversity of the adidas brand, transcending all key categories and sub-brands, in the biggest marketing campaign the brand has ever executed. It reached an estimated 370 million people, or 80% of next-generation consumers. In 2012, the campaign continues and will leverage the brand's assets, product initiatives and major sporting events locally, globally and across categories, with a key goal of amplifying our impact on the consumer through social media engagement. In 2012, Reebok will begin to declare the brand's ambition to bring the "Sport of Fitness" to consumers around the world. Through a comprehensive campaign that will run throughout the year, the Reebok brand will show consumers how the competition, joy and camaraderie found in traditional sports can be discovered in fitness as well.

In addition, Global Brands also endeavours to ensure all of its brands are at the forefront of new communication techniques, particularly as information flow becomes faster and faster. To increase the pace and relevance of our brands' communication with the consumer, digital marketing now acts as a backbone for all brand marketing activities. Whether through in-store or online customisation platforms, digital social networks, mobile apps or digital broadcast mediums, these methods are providing a new scope of consumer experiences in a real-time and cost-efficient way. With consumers spending more time online, the adidas and Reebok digital strategies allow the brands to move from campaign-based communication to developing deeper relationships with their respective target audience. In addition to adding significant value to all our communication efforts, our digital marketing and social interaction with consumers also provide the brands with accessible insights, learnings and measurable results, which in turn can be utilised to drive long-term brand equity.

Activation and validation via a relevant set of promotion partnerships

The utilisation of promotion partners such as federations, teams, leagues, events and individuals is an important part of endorsing brand positioning, and an area to which the Group dedicates significant resources. This not only serves as a vehicle to showcase the credentials of adidas and Reebok products in the performance arena, but also to facilitate the extension of the adidas and Reebok brands in the sports-inspired lifestyle market. Both adidas and Reebok follow a partnership strategy geared to best reflect their respective positioning in the market.

02 **Brand differentiation**



One of the guiding principles of adidas is to equip all athletes to achieve their "impossible". As such, adidas brings its passion for great products to the biggest stages in the world with sponsorship agreements for the FIFA World Cup, the NBA, the European Rugby Cup and the upcoming London 2012 Olympic Games. In addition, adidas has an extensive roster of high-profile sports teams such as AC Milan, Chelsea FC, FC Bayern Munich and Real Madrid in football, the New Zealand All Blacks in rugby, American universities like UCLA and Notre Dame, as well as high-profile individuals such as three-time FIFA World Player of the Year Lionel Messi, football icon David Beckham, basketball stars Derrick Rose and Dwight Howard, marathon legend Haile Gebrselassie, athletic stars Yohan Blake and Tyson Gay and tennis stars Caroline Wozniacki and Andy Murray.

To activate and validate its key concepts, Reebok is partnering with top women's and men's sport athletes in traditional sports, as well as new activities emerging in the sport of fitness. In Women's, Reebok is partnering with some of the world's top women's fitness instructors renowned for their inspirational approach to fitness. In Men's, some of the most recognisable athletes support Reebok, including Peyton Manning, John Wall as well as Lewis Hamilton. In 2011, Reebok entered into a long-term sponsorship agreement for the CrossFit Games, in addition to sponsoring local and national events. Furthermore, the brand holds exclusive, long-term licensing agreements with the National Lacrosse League in North America, giving Reebok the exclusive rights to manufacture and market authentic and replica uniform jerseys as well as sideline apparel.

Extending brand reach and appeal through strategic partnerships

adidas and Reebok have both successfully pursued design and co-branding strategies with complementary partners. For example, adidas has partnered with Yohji Yamamoto, Stella McCartney and Porsche Design, designing sports-inspired fashion, high-end functional ranges or even luxury sportswear. adidas Originals continues to engage in unique collaborations with well-known brands such as Vespa and Star Wars, ensuring that adidas remains relevant to the style-conscious streetwear consumer.

In 2011, Reebok partnered with CrossFit to revolutionise the fitness space. The fastest-growing functional training programme CrossFit, brings a new approach to training that is rooted in the core Reebok values of competition – fun and camaraderie. To support Reebok's repositioning in Classics, Reebok also began a multi-faceted partnership with platinum music producer Swizz Beatz in 2011, collaborating on a wide range of creative content in the realms of dance, music, art and style.

02.3

adidas Strategy

03 adidas at a glance

About adidas	**adidas Sport Performance:** The guiding principle of adidas Sport Performance is to make athletes better by making them faster, stronger, smarter, cooler and natural. The main focus is on five key categories: football, basketball, running, training and outdoor. **adidas Originals:** adidas Originals is the authentic, iconic sportswear label for the street, and its philosophy is "Celebrate Originality". **adidas Sport Style:** adidas Sport Style is defined as the "Future of Sportswear" and includes the labels Y-3, Porsche Design Sport, adidas SLVR and adidas NEO. adidas Sport Style's positioning statement is "Style your Life".
Brand mission	To be the leading sports brand in the world
Brand values	Authentic, passionate, innovative, inspirational, committed, honest
Brand attitude	Impossible Is Nothing
World presence	A true global brand with German roots
Focus areas	Football, Basketball, Running, Training, Outdoor, adidas Originals, adidas NEO Label, Customisation, Interactive
Key strategic pillars	– Gaining sales and market share with key growth categories such as running and basketball within adidas Sport Performance – Leading the industry in the fields of customisation and interactivity across categories – Expanding adidas Sport Style in the fast-fashion business with the adidas NEO label
Net sales in 2011	€ 9.867 billion

adidas – the performance brand and multi-sport specialist

adidas' mission is to be the leading sports brand in the world. One major lever to achieve this is the brand's broad and unique product portfolio spanning from apparel and footwear for professional athletes to premium fashion. It allows adidas to address multiple consumer needs, exploit market opportunities from various angles as well as be less affected by one-dimensional market risks. adidas' commitment to product innovation and its rich heritage differentiates the brand from competitors and provides a solid platform for future growth.

adidas Sport Performance – play to win

No other brand has a more distinguished history or stronger connection with sport than adidas. adidas is everywhere where the best meet the best, like the FIFA World Cup or the Olympic Games, but also everywhere else around the globe where sports are simply played, watched, enjoyed and celebrated.

Everything at adidas Sport Performance reflects the spirit of our founder, Adi Dassler. The main objective is simple: make athletes better. Therefore, innovation is at the core of all adidas Sport Performance products.

The target consumers of the sub-brand are clearly those consumers who call themselves athletes, are active in sport, or simply are inspired by and love sport.

While adidas has a pivotal strength with the 20- to 29-year-olds, a clear focus of the brand is on strengthening its resonance with the high school athlete and 14- to 19-year-olds.

adidas Sport Performance offers products in most sports categories. The key focus categories are:
– Football
– Basketball
– Running
– Training
– Outdoor

adidas, as "the" multi-sport specialist within the industry, also supports a wide range of other sports, e.g. American football, rugby, tennis, baseball, handball, badminton, table tennis, boxing and wrestling. During 2011, the brand had a highly successful Rugby World Cup, with 43% of players wearing adidas boots and with the winning team, the adidas endorsed All Blacks of New Zealand. In 2012, the Summer Olympic Games in London are clearly a key platform for the brand to launch new innovations and demonstrate again adidas' leadership across virtually all sports. At these Games, adidas will supply products for 25 of the 26 Olympic sports.

Furthermore, adidas Sport Performance focuses on interactive and customisation as key growth drivers across categories. A perfect example of this is adidas miCoach, which is the world's first web-based personalised training service. It combines state-of-the-art training with a personalised web service and real-time audio coaching.

In 2011, the miCoach offer was expanded with the introduction of the revolutionary speed cell. With the miCoach Speed_Cell, athletes of every level are able to track their unique stats including average speed, maximum speed, number of sprints, distance at differing intensity levels, steps and stride.

Five performance benefits

To be relevant to our target consumer as the performance brand, adidas has identified five consumer benefits which form the basis of the brand's innovation pipeline. By serving these benefits, adidas will remain at the forefront of the industry, building brand image and allowing the brand to leverage its technologies and positioning seamlessly across categories.

- **Faster:** To help athletes be faster, adidas focuses on reducing product weight, making the lightest products on the market. The franchise will be built with the adizero platform. Already prominent in the past two years, this will continue to be a key initiative for 2012 across all major categories.
- **Stronger:** With adiPower, adidas intends to create a franchise to own power enhancement in sport. This platform includes products such as the Barricade in tennis and TechFit apparel.
- **Smarter:** Through interactive products, adidas is helping athletes and consumers of all fitness levels to be, train and perform smarter. The brand works with the best athletes and coaches around the world. Through platforms such as miCoach, adidas is taking this knowledge and making it available to every consumer, helping them to define and work towards their individual goals.
- **Cooler:** Utilising advanced materials and technologies, these products are geared to help the athlete to always have the right temperature (cooler, warmer, wind protection, etc.). This will be served through the Clima franchise, which is already one of adidas' best-known franchises around the world.
- **Natural:** Natural motion is a major trend in our industry. Drawing on our long history, experience and understanding of the shape of the foot and movement of the body, adidas is creating a new platform of products around natural motion and will tailor these products to individual sports.

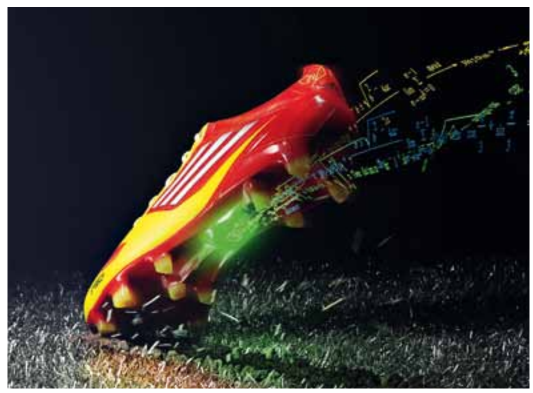
In 2012, adidas will continue to innovate around all five benefits, supplementing and expanding upon existing product technologies and franchises created over the past 18 months.

Football: expanding strong market position

Being the most popular sport worldwide, football is clearly one of adidas' key strategic priorities. For over 50 years, adidas has led all major developments in boot, ball and apparel technologies. Building on its success around major sporting events, the brand strives to increase its strong market position by continuously creating the industry's top products and fully leveraging its outstanding portfolio of sports marketing partners.

Partners include leading football associations (e.g. FIFA, UEFA), events (FIFA World Cup, UEFA EURO Championship, UEFA Champions League), national federations (e.g. defending FIFA and UEFA Champion Spain, Germany, Argentina, Russia, Mexico, China, Greece, Japan), leagues (e.g. Major League Soccer in the USA), clubs (e.g. Real Madrid, AC Milan, Chelsea FC, FC Bayern Munich) and individual players (e.g. three-time FIFA World Player of the Year Lionel Messi, Thomas Müller, David Villa, Nani, Steven Gerrard and David Beckham).

04 / adidas Sport Performance adizero f50 miCoach



2011 was one of the most successful years in adidas Football history. The highlight was the launch of the first smart football boot, the adizero f50 miCoach, the first football boot with a "brain" / PICTURE 04. But also the new adiPower Predator, the UEFA Champions League, the Copa América and the FIFA Women's World Cup 2011, with the adidas endorsed Japanese team lifting the trophy, were additional highlights of the year.

The UEFA EURO 2012 will be the focal point for showcasing the brand's key initiatives in 2012, when we expect a new record level of sales above € 1.5 billion for the category.

02.3 ⁄

Basketball: increasing global footprint via innovation and icons

adidas is committed to strengthening its position in basketball by expanding its footprint in the critical North American and Chinese markets and capitalising on the growing popularity of the sport in the emerging markets.

To achieve this, adidas Basketball strives to build brand equity by leveraging its status as the official NBA outfitter, capitalising on relationships with some of the most promising stars of the NBA, such as 2011 MVP Derrick Rose and three-time defensive player of the year Dwight Howard, and offering the best products in the game from the courts to the streets.

05 ⁄ **adidas Sport Performance adizero Crazy Light**

In the current season, adidas Basketball is focusing in particular on the adizero franchise – the lightest products in basketball. With the introduction of the lightweight NBA Revolution 30 Uniforms, the lightest NBA uniforms adidas has ever created, and the 9.8oz adizero Crazy Light shoe, adidas has positioned itself as the basketball brand that makes the lightest and fastest products in the game ⁄ PICTURE 05.

Running: building credibility with core runners, young urban runners and next-generation athletes

Running continues to be high on the adidas agenda and is crucial to the brand's future success. adidas' philosophy is to inspire and enable runners on all levels, with the aim to be the most trusted, desired and loved running brand in the world. In recent years, the brand's focus has been on building credibility with the core performance runner. This credibility now provides a strong foundation to leverage broader opportunities in running communities worldwide.

06 ⁄ **adidas Sport Performance adizero Feather**

adidas sees significant market share opportunities among young urban runners and next-generation athletes in the future. To achieve growth and market share increases in this category, adidas Running will continue to promote younger multi-sport running products, allowing runners to be faster and cooler through the adizero and Climacool ranges ⁄ PICTURE 06. adiStar and Supernova offerings remain the lead franchises for core runners and young urban runners ⁄ PICTURE 07.

07 ⁄ **adidas Sport Performance Supernova Glide 4**

Moreover, adidas Running will introduce the adipure "natural" silo, featuring products that help to make every runner more efficient. miCoach continues to be an integral part of all things running as part of the "smarter" franchise. New miCoach introductions include both the Speed_ Cell and heart rate/mobile devices, ensuring all runners have the ultimate in personalised coaching and training tools.

Training: creating new consumer experiences

At adidas, training is the biggest category for both men and women. Training supports the preparation and recovery needs of serious athletes across all sports disciplines and is the industry's largest apparel category. Its positioning is driven by the philosophy "you train, you win", and by adidas' desire to support athletes, no matter what the sport. To achieve this goal, adidas Training develops concepts and products for sport-specific categories to support athletes in becoming the best in their sports.

A key strategic priority for future growth in the training category is adidas' dedication to complement its best-in-class product offering with revolutionary new consumer experiences that bring to life the adidas vision to be the leading personalised brand in the world. Insights from adidas Training's intense activity with athletes and the world's leading authorities on athlete performance have led to some significant updates to our miCoach and adidas Core Performance digital initiatives. Our aim is to continue to refresh our digital content to interact with consumers, providing exercise guidelines and best-in-class services.

08 adidas Sport Performance adipure Trainer

Linked to this, adidas launched several new technologies and product updates in 2011. In footwear, the brand successfully pre-launched its new natural adipure Trainer in the USA and Japan PICTURE 08. In apparel, Clima365 was relaunched, forming the key part of the "cooler" performance pillar. And under the "faster" pillar, a holistic adizero training range was introduced. All of these products are designed to help athletes make the most of their workouts, whatever their level is.

In 2012, adidas Training will launch several new training concepts and products, such as Studio Power, a new apparel range for top female athletes, featuring new bra and pant collections. The adipure Trainer 360 training shoe for men and women will also be introduced, which offers unrestricted foot movement and flexibility, to aggressively go after the natural segment. Further focus will also be put on improving quality, increasing colour offerings and strengthening in-store marketing. For example, a new and commercially relevant Performance Essentials collection will be launched and executed through a fully integrated never-out-of-stock business model SEE GLOBAL SALES STRATEGY, P. 62.

Outdoor: the athletic brand in the outdoors

adidas has a long history in outdoor, going back as far as 1978, when adidas and climbing legend Reinhold Messner developed a new generation of boots which he used to reach base camp on his way to becoming the first man to climb Mount Everest without artificial oxygen. With this heritage and the projected growth in the outdoor sports sector, adidas has invested in building an authentic and performance-orientated outdoor market position. Today, adidas offers a holistic product range for mountaineers, climbers, hikers and other outdoor athletes. The collection features technical footwear, apparel, backpacks and eyewear including the latest adidas developments and renowned technologies of partners such as Gore-Tex, Windstopper, Primaloft and Continental.

A strong cooperation with active mountaineers, climbers and other outdoor enthusiasts is an important factor in creating relevant products for the outdoor athlete's needs. Therefore, adidas puts significant effort into building close industry relationships, which include the mountain guides from the traditional Alpine Centre in Zermatt as well as athletes like Alexander and Thomas Huber (known as the Huber Brothers), Reinhold Messner and Sasha DiGiulian, who is currently one of the strongest female climbers in the world.

09 ⁄ **adidas Sport Performance Terrex Active Shell Jacket**

In 2012, adidas will continue to build on its growing momentum, in particular with the technical and athletic Terrex product range, which will include highlight products like the Terrex Active Shell Jacket ⁄ PICTURE 09 and the award-winning Terrex Fast R ⁄ PICTURE 10. With this new lightweight hiking boot, adidas has been rewarded with the Editor's Choice Award 2012 from the most important German outdoor magazine, and has won the notable OutDoor Industry Award for the third time in a row for three different footwear models. Moreover, adidas is launching an athletic kids' collection and the Everyday Outdoor apparel and footwear line for the young outdoor consumer in 2012.

10 ⁄ **adidas Sport Performance Terrex Fast R Mid GTX**

In 2012, adidas will also continue to promote the whole outdoor brand image through a fully integrated marketing campaign including products, technologies and exceptional imagery of athletes in action. In addition, cooperation activities with key partners in the sporting goods and specialty outdoor channels play an important role in creating visibility, gaining credibility and driving market share growth.

adidas Originals – celebrating originality

The market for streetwear and lifestyle sports fashion represents a unique opportunity for sporting goods companies as it is more fragmented and larger in size than the market for products used in sports activity. In addition, profitability in the sports lifestyle market is typically higher as a result of lower product complexity. adidas was the first brand to credibly leverage its sports assets in the lifestyle arena and, as a result, is regarded as a legitimate sports lifestyle brand. adidas Originals with its iconic Trefoil logo has become a relevant part of many people's lives, whether they are skaters, rockers, artists, musicians, sneakerheads, sports fans, etc. ⁄ PICTURES 11 AND 12.

11 ⁄ **adidas Originals Mega Torsion Flex Mid**

With a holistic offering in products and communications, adidas Originals is primarily focusing on 16- to 24-year-old consumers, male and female, from all walks of life.

To address the needs of its diverse consumer groups and maximise business opportunities, adidas Originals takes a three-tier strategy to brand and product marketing:

– First, the brand invests and innovates in new concepts, whether it is street fashion collections, such as those designed by Jeremy Scott or by the fashion brand and retailer Opening Ceremony, or opening up entirely new categories such as Skate and Surf through Originals' new Action Sports division.
– Second, this permanent creation of newness and buzz around adidas Originals then allows us to broaden our messages and expand into wider business segments such as denim, Blue or our Women's collection.
– Third, we commercialise the sub-brand to the widest audience with concepts such as adicolor, where consumers can find their most-loved and trend-driving footwear and apparel and accessories silhouettes in a wide range of colours and executions.

12 ⁄ **adidas Originals College Hoody**

To stay connected to its core teenage consumers, adidas Originals uses a constant stream of digital content to keep them interested 365 days a year. On digital media such as Facebook, adidas Originals meanwhile has over 12 million fans :⁄⁄ WWW.FACEBOOK.COM/ADIDASORIGINALS. This is an area where adidas Originals is currently a leader in the digital marketplace.

adidas Sport Style: style your life

What once started as a niche business has developed into a significant contributor and future opportunity for the Group. To best tap the potential of the sports fashion market, adidas Sport Style is targeting this market with a clear multi-label strategy.

Y-3: pioneering

The "Y" stands for Yohji Yamamoto, the "3" represents adidas' three signature stripes and the "-" signifies the link between the two. Y-3 targets a sophisticated, forward-thinking fashion consumer and has enabled adidas to enter the premium sports fashion market segment. In the market now for over ten years, it remains the pioneering sportswear label that fuses sport and avant-garde design. Yohji Yamamoto's signature design aesthetic is combined with adidas' expertise in functionality in each collection ⁄ PICTURE 13.

13 ⁄ **Y-3 Y-3 Oriah**

Growing demand from consumers has led Y-3 to open its own mono-branded stores, and today it has stores in major cities such as New York, Los Angeles, Miami, Las Vegas, Tokyo, Paris, Milan, Dubai, Singapore, Shanghai and Beijing. The coming years will see the opening of additional Y-3 stores in other influential cities in the USA, Asia and Europe, and Y-3 will expand its business by further developing the global e-commerce site :⁄⁄ WWW.Y-3STORE.COM.

adidas SLVR: smart design

Since its launch in February 2009, adidas SLVR has redefined casualwear with a uniquely elegant perspective. adidas SLVR represents casualwear as smart, sleek and effortlessly chic, carving out a niche for innovative style that matches the pace of 21st century lives ⁄ PICTURE 14.

14 ⁄ **adidas SLVR Desert Buckle**

02.3 ⁄

Since launching adidas SLVR, adidas has opened mono-branded stores in New York and Berlin. adidas SLVR is also carried in all major adidas brand centres in Paris, New York and Beijing as well as in adidas online stores in the USA, Asia and Europe. adidas SLVR is also available in leading department stores, boutiques and concept stores globally.

adidas NEO label: fast and fresh

The adidas NEO label is targeted to appeal to the fashionable teen (14 to 19 years old) who is fully engaged in life, be it through social networking, family, friends, outdoor or sporting activities. The NEO label brings stylish products for more price-conscious consumers who are looking for seasonal fashion items with a sports-casual flavour and constant newness, expressing their personality and reflecting their lifestyle and values ⁄ PICTURE 15.

15 ⁄ **adidas NEO Label**
NEO SC RVS WB

Incorporating footwear, apparel and accessories, adidas NEO label focuses more on accessible price points, however maintaining a premium to competitors. From a gender split, adidas NEO is targeting primarily the girls, who should account for two-thirds of the business over time. In further expanding the label, a vertical business model is considered the most effective way to approach the target group, taking into account the competitive environment and future demands of successful fashion brands and retailers. Therefore, an entirely new business model has been built to accommodate shorter lead times and quicker processes in brand and product marketing, design as well as in retail operations. In 2012, we will start to pilot our own retail solution in Germany, where we plan to open 10 stores. In these test stores, new technology, processes and merchandising techniques including RFID (Radio Frequency Identification) will be leveraged to support and optimise daily product delivery.

Reebok Strategy

16 ⁄ **Reebok at a glance**

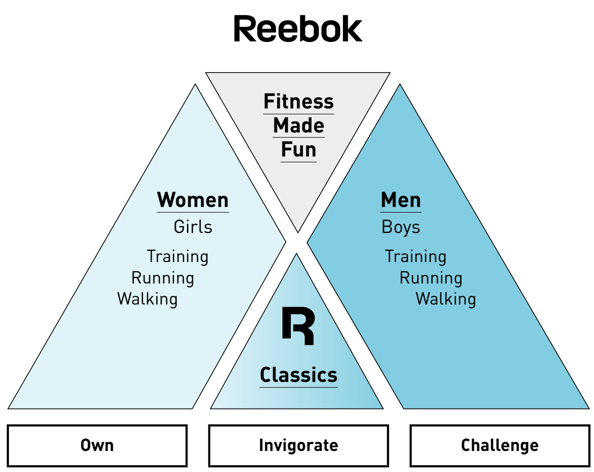
About Reebok	Throughout its history and again today, Reebok's success is based on its courage to challenge convention: developing innovative products, creating new markets and the latest athletic style. Inspired by its roots in fitness, Reebok is a global sports brand that is committed to empowering consumers to be "fit for life".
Brand mission	Challenge and lead the fitness world through creativity
Brand values	Authentic, empowering, individualistic, innovative, courageous and real
Brand attitude	Fit for Life Fun – Bold – Provocative
World presence	An American-inspired global brand
Focus areas	Training, Running, Walking, select team sports, Classics
Key strategic pillars	– Own Women's Fitness – Challenge in Men's Fitness – Invigorate Classics
Net sales in 2011	€ 1.962 billion

In 2011, Reebok continued to gain momentum with its strategy of leading in fitness through its premium sport and lifestyle offering. Reebok's target consumer is one who sees staying in shape as a way to lead a healthy lifestyle and have fun. In the sports business, they are the 25+ year-olds who value style with performance. In Classics, they are 21+ and see athletic-inspired footwear and apparel as a staple in their wardrobe.

The core business focus of Reebok is on fitness, in the key categories of training, running and walking, as well as on select regionally relevant sports. Reebok also closely monitors the latest fitness trends to ensure that it is leading the way through new and innovative propositions.

Based on its roots and heritage in fitness, Reebok continues to make progress along its roadmap for its key businesses going forward: Own Women's Fitness, Challenge in Men's Fitness, Invigorate Classics DIAGRAM 17.

17 **Reebok strategy and focus areas**



Making fitness fun

Unlike many other brands, Reebok is committed to making fitness aspirational and fun for everyone – by providing consumers with experiences, products and the inspiration to be fit for life.

To bring its fitness philosophy to life, Reebok has partnered with CrossFit to introduce consumers to a new way of approaching fitness. This signature partnership will create an experience that leverages and extends beyond the brand's current product and programme offerings. As part of this collaboration, Reebok sponsors the CrossFit Games, a competition designed to find the World's Fittest Man and Woman.

In conjunction with this partnership, Reebok launched the Reebok CrossFit product line, a range designed with the input of top CrossFit athletes PICTURE 18. Created to be the best functional training gear on the market, this line currently has limited distribution with select retailers and online. In 2012 and beyond, Reebok will expand the offerings by taking the pinnacle influences into broader product lines.

18 **Reebok CrossFit Long Sleeve 1/4 Zip**

02.3 ⁄

Evolving communication strategy to match long-term brand positioning

To communicate its positioning in fitness, Reebok is launching the "Sport Of Fitness Has Arrived" campaign in 2012 ⁄ PICTURE 19. This multi-touchpoint campaign will leverage traditional media such as TV, print and in-store, but will carry an even higher emphasis on digital and social elements, including a relaunched Reebok.com site, as well as several grassroots and local events. Throughout the year, consumers will learn about Reebok's passion for fitness, its partnership with CrossFit and how its products meet the needs of fitness consumers worldwide. By uncovering the passion and camaraderie that can be found in fitness, Reebok will reintroduce everyday consumers to what they love about sport through fitness.

19 ⁄ **Reebok**
CrossFit "The Sport Of Fitness Has Arrived" Campaign

Performance product platform meets needs of the fitness enthusiast

With a holistic approach to fitness, Reebok provides consumers with proprietary technologies based on the three key elements of total fitness: strength, conditioning and flexibility. Through a focused approach to these elements, Reebok has developed three key product concepts:

– **EasyTone:** Launched in 2009, EasyTone is based on Reebok's proprietary Moving Air Technology. It incorporates two balance pods under the heel and forefoot of the shoes to create natural instability with every step. Reebok remains committed to the EasyTone franchise and recently shared results of a study that reaffirms EasyTone's effectiveness in helping consumers transform their body mass composition. In 2012, Reebok will continue to bring valued product innovations based on the EasyTone franchise to its consumers, evolving it into more lifestyle and sleeker products.

– **ZigTech:** ZigTech has been the source of remarkable buzz around the world since its introduction in 2010. Its unique sole creates a distinct running and training shoe with superior cushioning, which is designed to conserve and return energy ⁄ PICTURE 20. In 2012, ZigTech will continue to expand its footwear and apparel offerings based on its iconic geometric shape.

20 ⁄ **Reebok**
ZigTech

– RealFlex: RealFlex was launched in a number of markets in 2011, to outstanding reception. This running and training shoe answers the lightweight, natural movement needs of the consumer, delivering multi-directional flexibility and optimal foot feel / PICTURE 21. In 2012, the focus will be on fully launching the product line in remaining global markets, as well as continuing to expand the product offerings to meet a broader array of consumer needs.

21 / **Reebok RealFlex Train**

These product concepts are designed and commercialised across genders. The three concepts enable Reebok to meet the varied needs of its consumer base across the core focus areas of training, running and walking. In 2012, Reebok will continue to introduce product innovations in footwear and apparel through these concepts as well as new offerings that will serve fitness consumers better each day.

Invigorate Classics

Reebok Classics leverages the fitness attitude and roots of the brand into the lifestyle segment. Classics targets consumers who want to be "fit for the street" and value trend-right products that fit their mobile lifestyle.

Reebok Classics is focused on three key areas:

- Always Classic: timeless, athletic-inspired silhouettes that are the foundation of Reebok's business and are wardrobe staples balancing fashion and tradition
- New Classics: retro silhouettes that are either true bringbacks (re-engineered from the archives) or inspired by Reebok's heritage in the '80s and '90s
- Heritage: new silhouettes that are inspired by the Reebok Classics DNA and modernised with trend influences for today's fashion consumer

In 2011, Classics developed an integrated global marketing campaign called the "Reethym of Lite", with world-renowned music producer Swizz Beatz as Creative Director, which celebrated the Reebok Lite collection / PICTURE 22.

22 / **Reebok Classics "Reethym of Lite" Campaign**

In 2012, Reebok will celebrate milestones for some of its most iconic fitness models: the 25th anniversary of the Workout Plus and the 30th anniversary of the Freestyle. Additionally, the brand will feature both Always Classic and New Classics products in a new campaign called "It Takes A Lot To Make A Classic". This campaign focuses on the parallels between the effort Reebok puts into making every shoe that carries the Classics brand name a classic, and the journey of individuals who have worked hard and persevered in order to pursue their dream of becoming classic. As Reebok Classics resides at the intersection of music and street/pop culture, the campaign features relevant musicians and performers from around the world.

02.4 ⁄

Other Businesses Strategy

Other Businesses primarily include the TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey segments. Each of these segments has its own strategy in place in order to address its specific target groups directly and further expand its market share. In this way, they contribute together to our Group's overall goal: to be the global leader in the sporting goods industry.

TaylorMade-adidas Golf Strategy

TaylorMade-adidas Golf's mission is to be the leading global performance golf company in terms of sales and profitability. The company combines three of golf's best-known and respected brands: TaylorMade, adidas Golf and Ashworth. The segment's primary strategic pillars are to continuously develop and commercialise the most innovative, technologically advanced products while, at the same time, building brand credibility through high visibility on the world's major professional golf tours. In addition, leveraging brand equity through the creation and execution of new marketing and retail initiatives as well as improving global distribution are key priorities for long-term growth.

Capitalising on the strength of three well-respected and well-established brands

TaylorMade-adidas Golf implements a multi-brand strategy comprised of three well-defined golf brands under one roof. TaylorMade is the market leader in the metalwoods category, and is among the leaders in irons after becoming the market-leading iron brand in the USA in 2011. TaylorMade is also increasing its market share in putters as well as golf balls. adidas Golf develops high-performance, technology-infused footwear and apparel for athletes who want to maximise their potential to improve their play. Ashworth is a more traditional golf brand, complementing adidas Golf's athletic position. Combining adidas Golf and Ashworth, TaylorMade-adidas Golf is a global leader in golf apparel and ranks number two in footwear sales.

Unwavering focus on innovation and technology

TaylorMade-adidas Golf's core objective is to create the best performance golf products in the marketplace, starting with a clear commitment to innovation and technology ⁄ SEE RESEARCH AND DEVELOPMENT, P. 95. The segment therefore strives to extend its leading position by introducing at least two major product innovations or evolutions every 12 to 18 months. For example, in 2011, TaylorMade unveiled the new R11 driver allowing the player to independently adjust the club's face angle, loft angle and centre of gravity.

01 ⁄ TaylorMade-adidas Golf at a glance

About TaylorMade-adidas Golf	TaylorMade-adidas Golf implements a multi-brand strategy comprised of three well-defined golf brands under one roof: TaylorMade, adidas Golf and Ashworth. The segment's strategy is to continuously develop and commercialise innovative, technologically advanced products, while building credibility through high-level visibility on the world's professional golf tours.
Brand mission	To be the leading performance golf company in the world in terms of sales and profitability.
Brand attitude	TaylorMade, adidas Golf and Ashworth each strive to remain authentic, passionate, competitive and innovative, helping the company to create ever better products for the golfers we serve.
Key markets	North America, United Kingdom, Japan
Focus areas	Golf clubs, balls, accessories, footwear and apparel
Key strategic pillars	– Continue to develop and distribute technologically advanced metalwoods, irons, wedges, putters, balls, footwear and apparel that give golfers of all skill levels a competitive advantage – Maintain TaylorMade's status as the No. 1 driver brand on the world's major professional golf tours – Maintain the adidas Golf brand's high visibility on the world's major professional golf tours – Increase Ashworth's visibility on the PGA Tour and incorporate performance fabrics with the quality, comfort and feel the brand is well-known for
Net sales in 2011	€ 1.044 billion

Tour validation remains a crucial strategic pillar

Golfers of all levels are influenced by what equipment the best professional players in the world play with and wear. Hence, TaylorMade-adidas Golf's leadership and presence on the world's major professional golf tours is imperative to increasing brand exposure and traction among consumers.

To attract the most talented players, TaylorMade-adidas Golf offers a comprehensive service to the world's leading players. For example, the TaylorMade support fleet travels the PGA Tour and the European Tour with 18-wheel tractor-trailer trucks, each with a fully staffed, state-of-the-art workshop where thousands of clubs, balls, apparel and footwear items are custom-built each year for TaylorMade-adidas Golf's Tour endorsed players.

Today, the TaylorMade-adidas Golf Tour Staff is arguably the strongest in the world, including high-profile players like Sergio García, Dustin Johnson, Martin Kaymer, Darren Clarke, Justin Rose, Jason Day, Sean O'Hair, Y.E. Yang, Camilo Villegas, Retief Goosen, Greg Norman, Nick Faldo, Paula Creamer and Natalie Gulbis. In China, a market where golf offers significant growth opportunities, TaylorMade-adidas Golf entered into an agreement with the China Golf Association, which has appointed TaylorMade-adidas Golf as the exclusive equipment supplier of the national golf team.

Marketing excellence a critical success factor

Compelling consumer-relevant and well-coordinated marketing strategies are paramount to attaining sustainable market leadership. Therefore, the product marketing, brand communication and retail marketing teams work closely together and use a variety of marketing tools to achieve TaylorMade-adidas Golf's objectives. Product launches are supported by substantial PR, social media and marketing campaigns, involving key assets and best-in-class point-of-sale support to drive sell-through of new products.

02 ⁄ TaylorMade
Sergio García at the "White Out" event in New York

In addition to traditional marketing manoeuvres, TaylorMade-adidas Golf is also dedicated to executing new and innovative ways to promote its products and attract consumer awareness. For example, in February 2011, TaylorMade teamed up with a retail partner to build a temporary, all-white driving range on a New York City street in which Sergio García and Martin Kaymer fired Penta TP golf balls with R11 drivers at a target ⁄ PICTURE 02. Furthermore, throughout the final round of the U.S. Open 2011, TaylorMade held a sweepstake to give away a new R11 driver every 11 minutes. In August, a unique Facebook app called "Raise Your Game" was launched to promote R11 irons. Featuring renowned instructor Hank Haney, the app helps participants identify flaws in their swing and puts them on a programme to promote improvements in their ball striking.

Intelligent and effective retail and e-commerce strategies

TaylorMade-adidas Golf works with retail partners that can effectively showcase the performance advantages and modern design credentials of TaylorMade, adidas Golf and Ashworth products. In order to drive retail sell-through, each brand offers a multitude of useful tools to attractively display products and communicate key messages regarding product features and benefits, both in-store and on retailer websites. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments.

Close working relationships with key accounts will continue in 2012, as will efforts to build additional brand presence at smaller retailers and on-course golf shops. In emerging markets around the world, the company employs established adidas Group infrastructures to distribute products, promote awareness and drive growth.

TaylorMade-adidas Golf is also focusing on aggressively growing its e-commerce business. Current plans include the integration of the TaylorMade brand and e-commerce websites into a single site in order to simplify the buying process for the consumer.

Pricing strategically determined to increase market share

Expanding market share in golf is mainly achieved by delivering best-in-class products at multiple price points. Accordingly, TaylorMade-adidas Golf's pricing policy mirrors the positioning of its three brands. TaylorMade's pricing strategy is to dominate the market at premium price points and compete aggressively in the high-volume mid-price segment. adidas Golf supports its market reputation as the innovation leader by selling its products primarily at premium price points. Ashworth positions its products in both premium and mid-price segments.

02.4 ⁄

TaylorMade: determined to be the leading golf brand in every key equipment category

TaylorMade's priority is to become the leader in each individual golf equipment category. That means strengthening its position as the number one metalwood brand, expanding its leading position in irons and ascending to the top market position in wedges, putters, balls and accessories.

– Metalwoods: TaylorMade is the clear market leader in metalwoods (drivers, fairway woods and hybrids), bolstered by a particularly strong presence in the USA, where it forged an all-time high of a 45% share in March 2011. The brand's primary focus going forward is to remain the innovation leader and expand its metalwood business outside the USA.

03 ⁄ **TaylorMade RocketBallz Driver**

From a product perspective, the brand will launch the new R11S driver and fairway woods, as well as the new RocketBallz line in 2012 ⁄ PICTURE 03. Compared to the R11, the R11S driver has a larger and more aerodynamic head, offering more adjustability settings. The RocketBallz driver combines light weight with TaylorMade's Flight Control Technology, helping to increase ball speed and distance. All of TaylorMade's new metalwoods feature the white crown and black clubface.

– Irons: In 2011, the Tour Preferred MB, MC and CB irons helped solidify TaylorMade as the leading iron brand in the USA. Two major introductions in 2012 will play a key role to further growth in the category: RocketBallz irons and RocketBallz Max irons. Both utilise TaylorMade's expertise in developing thin and fast clubfaces that promote long distance. RocketBallz irons are engineered to deliver the optimum combination of speed, forgiveness, playability and feel. RocketBallz Max irons incorporate multiple performance technologies, including hollow head construction learned from years of making metalwoods.

– Wedges: Leveraging TaylorMade's success in metalwoods and irons to other categories such as wedges continues to be a strategic priority. Innovation is critical in this respect and, in 2011, TaylorMade continued to validate its innovation leadership with the introduction of the All Terrain Versatility (ATV) wedge. Its unique sole design allows the golfer to play a wide variety of different types of shots with one wedge. The ATV wedge also incorporates a new, high-spinning groove design, and the flat areas of the face are covered with a micro-texture that helps hold the ball to impart backspin.

04 ⁄ **TaylorMade Penta TP5 Ball**

– Putters: TaylorMade has achieved excellent growth in putters during the past few years amid the performance benefits of white putter-heads integrated in products like the Tour-proven Corza Ghost and Ghost Spider. To build on this momentum in 2012, the brand will launch further additions to the Ghost line of putters, which will all be white-coloured and incorporate PureRoll face insert technology to promote smooth, accurate roll.

– Golf balls: Success in this category depends on the ability to create high-performance golf balls, bring them to market and build credibility among Tour professionals. In 2011, TaylorMade's status as a maker of premium golf balls solidified as more Tour pros and consumers used the five-layer Penta TP. TaylorMade's plans to increase golf ball market share in 2012 include the introduction of the Penta TP5 ⁄ PICTURE 04, which is faster and softer than the original Penta TP, as well as the lower-priced Penta TP3, a three-layer ball with a cast urethane cover. Together, these two models should help TaylorMade capture a larger share of the Tour ball market. Additionally, a two-piece distance model called RocketBallz is being introduced.

– Accessories: Golfers need more than equipment to play the game at their highest level, they also need accessories like gloves, bags, head covers, towels and umbrellas. TaylorMade is committed to improving its position in the accessories market, starting by taking the accessories business in-house (the brand had licensed its name to an outside company for the past six years), which will allow closer control over design and help the brand gain a larger share of a category which offers significant growth opportunities.

adidas Golf: setting new standards in high-performance footwear and apparel

adidas Golf develops high-performance golf footwear and apparel for athletes seeking products to elevate their game by maximising their athletic potential. In footwear, leveraging proprietary technologies from various other adidas categories such as adiPrene+ or the Torsion System with golf-specific technologies offers a significant competitive advantage over "pure play" golf footwear brands.

05 ⁄ adidas Golf Tour360 ATV

In 2011, adidas Golf was again able to bring cutting-edge products to market including the Tour360 ATV ⁄ **PICTURE 05**. The shoe is designed to give golfers a combination of lateral stability with better adaptability through a new sole engineered to fit to any lie, slope and terrain in all types of conditions. For 2012, adidas Golf is scheduled to introduce PureMotion footwear, a light and flexible shoe helping golfers to activate improved footwork in order to promote better ball striking.

In apparel, adidas Golf is well respected as a leader in incorporating advanced technology and design into tops and bottoms to help the player perform better. Highly visible adidas Golf lines like Climacool, Climawarm, Climaproof and Formotion are universally worn by Tour professionals and casual golfers alike. In 2012, adidas Golf is confident in its ability to attract a completely different demographic group by introducing the new Fashion Performance line, which features bold colours and unique patterns combining Tour-proven performance technologies with contemporary, fashion-forward styling ⁄ **PICTURE 06**. Each piece offers a tailored, comfortable fit without sacrificing performance, resulting in a dynamic, confident new line of apparel.

06 ⁄ adidas Golf Fashion Performance 3-Stripes Rugby Polo

Ashworth: focus on performance fabrics and Tour presence

Ashworth is an authentic golf brand with powerful name recognition among true, authentic golfers who live the game at all times. Ashworth's iconic Golfman logo symbolises authenticity, quality and style. Highlights for 2011 included the brand's re-entry into the footwear marketplace with the Cardiff, a highly successful spikeless shoe that can be worn on and off the course.

In 2012, Ashworth will focus on incorporating comfortable performance fabrics into a full line of golf polos consisting of clean, modern designs in a wide range of attractive colours.

In addition, in order to gain Tour visibility and credibility, Ashworth's PGA Tour presence has increased significantly for the 2012 season, from a handful of players to more than 20. The new Ashworth Tour Staff includes long-time brand ambassadors Fred Couples, Sean O'Hair, Ryan Palmer and Justin Leonard, making Ashworth one of the most visible brands on Tour. Similarly, raising Ashworth brand awareness will also be an integral part of its marketing initiatives, including print advertising, social media and online initiatives.

02.4 ⁄

Rockport Strategy

Rockport, based in Canton/Massachusetts, USA, is a manufacturer of leather footwear. Founded in 1971, Rockport has a long history of selling walking and comfort leather shoes for both men and women. Rockport's mission is to become one of the world's leading leather footwear brands through the combination of contemporary style and engineered comfort. The leather footwear market is a large, highly attractive market where few players have been able to achieve significant market share. Rockport's brand position in select markets and its heritage provide a strong foundation for growth.

07 ⁄ Rockport at a glance

About Rockport	Building on four decades of engineering expertise and a commitment to innovation, Rockport designs and markets dress, casual and outdoor leather footwear that uses performance technology to make style comfortable for the metropolitan consumer.
Brand mission	To become a leading leather footwear brand in the world through the innovative combination of contemporary style and engineered comfort.
Brand attitude	Sexy, savvy, modern, American, metropolitan
Key markets	USA, Russia, Canada, Japan, South Korea
Focus areas	Dress, Dress Casual, Relaxed Casual, Active Casual
Key strategic pillars	Globalise, Women's, Retail, Operational Capabilities
Net sales in 2011	€ 261 million

Leather footwear market offers significant opportunity

The leather footwear industry is highly attractive in terms of size, growth and profit potential. The market is estimated at over US $ 70 billion. It is currently a highly fragmented global market. Rockport has a strong brand heritage and recognition in the leather footwear industry, particularly in its home market, the United States. Rockport has the opportunity to be one of the winners in this industry by achieving sustainable, profitable growth in the years to come.

Brand positioning relevant to target consumer

Rockport's brand positioning is "Walkability" – which comes to life by using performance technology to make style comfortable. This positioning builds on Rockport's existing brand equity in comfort and technological innovation while also focusing on developing a stylish and contemporary brand. Rockport's world-class and international design resources appeal to a large consumer base.

The combination of these brand elements is designed to attract Rockport's globally relevant main target consumer, the metropolitan professional. The brand is currently focused almost exclusively on the footwear category.

Build dual-gender business

Following on Rockport's commitment to offer women both fashion and comfort, the brand has introduced comfortable and stylish high-heeled shoes, which will enable metropolitan professionals to look good longer. The progress in the women's business further accelerated in 2011.

The Janae women's footwear collection launched globally in 2011, setting new industry benchmarks in style and comfort, particularly with the Janae Boat Pump ⁄ PICTURE 08.

08 ⁄ Rockport Janae Boat Pump

Key strategic product initiatives and innovation

In 2011, Rockport further increased its focus on product design. The brand continues its commitment to incorporate new innovation concepts and advanced technologies into its products, while delivering a "no compromise" solution to the style needs of the metropolitan professional. For example, the DresSports collection with truWalk men's footwear combines all the attributes of attractive and very comfortable leather shoes / **PICTURE 09**.

In spring 2012, Rockport will globally launch its newest footwear innovation for men and women, truWalk Zero. truWalk Zero is the lead concept to claim ownership of lightness in the brown shoe industry.

09 / Rockport
DresSports with truWalk men's shoe

International expansion continues

Given the strong global presence the adidas Group enjoys, Rockport sees significant potential for leveraging the Group's infrastructure in order to more rapidly expand the brand and its product offerings to international markets. Rockport's international expansion will continue in 2012 and beyond, and sales outside of the United States will further increase. Regional offices have already been established in Europe and Asia to further support growth in these regions.

Roll out a profitable mono-brand retail concept

Full-price own-retail stores are planned to be the main growth driver within the brand over the next years. The target is that a fifth of total sales should originate from full-price own retail by 2014.

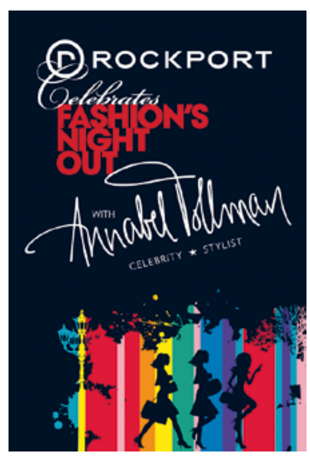
In 2011, Rockport opened more than 80 points of sale in Russia, China, South Korea and other markets around the world, with the majority being opened as mono-brand concept stores / **PICTURE 10**. Based on encouraging results to date in our existing store base, Rockport will continue to further roll out its mono-brand retail concept in key markets during 2012.

10 / Rockport
Concept Store in London

Focus of marketing activities on fashion

On the marketing side, Rockport is continuing to drive a fashion agenda. Fashion-oriented campaigns as well as close collaborations with stylists and style leaders solidify this position consistently.

11 / Rockport
Fashion's Night Out



In 2011, Rockport participated in Vogue's "Fashion's Night Out", a worldwide after-hours shopping extravaganza where celebrities, designers and stars mingle with shoppers at exclusive events / **PICTURE 11**. Through initiatives like these, Rockport aims to further enhance the brand's fashion credibility among media and consumers. Similar consumer-facing fashion events, combined with exclusive Rockport specific activities, are envisaged for 2012 and beyond.

02.4 /

Reebok-CCM Hockey Strategy

Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of ice hockey equipment and related apparel under two of the most recognised ice hockey brand names: Reebok Hockey and CCM. Reebok-CCM Hockey equips more professional hockey players than any other company, including NHL superstars such as Sidney Crosby and Pavel Datsyuck. Reebok-CCM Hockey is also the official outfitter of high-profile leagues such as the NHL as well as several NCAA and national teams. Reebok-CCM Hockey's strategy is to increase market share by leveraging its multi-brand approach to speak to different consumer groups, supported by its dedication to innovate for the leading athletes in the sport.

12 / **Reebok-CCM Hockey at a glance**

About Reebok-CCM Hockey	Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of ice hockey equipment and apparel with two of the world's most recognised ice hockey brand names: Reebok Hockey and CCM.
Brand mission	To lead in the high-end performance segment of the hockey market.
Brand attitude	Reebok Hockey: Your Move CCM: Performance Within
Key markets	Canada, USA, Scandinavia, Russia
Focus areas	Skates, sticks, NHL licensed apparel, protective & helmets
Key strategic pillars	– Product innovation – Pro validation – Dual brand portfolio
Net sales in 2011	€ 210 million

Focus on high-end performance

Reebok-CCM Hockey has a dual brand portfolio consisting of Reebok Hockey and CCM. Reebok Hockey is a global hockey brand. Its products are designed with emphasis on innovative visible technologies that speak to an expressive, image-conscious consumer. CCM is hockey's most authentic brand, having been in existence since 1899. CCM embraces the physical side of the game and speaks to a consumer seeking performance and quality.

Reebok-CCM Hockey's primary goal is to lead in the high-end performance segment of the hockey market. Therefore, Reebok-CCM Hockey has a clear focus on product innovation, supported by professional player validation achieved by having the best athletes in the world play with Reebok-CCM Hockey products. Furthermore, differentiated marketing and brand campaigns are targeted towards the intended consumer segments, for example players or fans.

In-arena and partnership-based marketing programmes, consumer campaigns and web-based initiatives are designed to create brand exposure, increasing demand for Reebok-CCM Hockey products.

13 / **CCM**
U+ Crazy Light Protective

Product innovation matches brand positioning

The key priority for Reebok-CCM Hockey's innovation team is to design and market products that are targeted to be different and better than those of the competition, with a dedication to providing elite athletes with high-performance products. With its emphasis on continued product innovation, products incorporate proprietary and patented technological advances / SEE RESEARCH AND DEVELOPMENT, P. 95. Reebok Hockey's The Pump skates, KFS protective equipment, Sickick and A.i sticks, the 5-Point Safety System 11K helmet and the Edge uniform exemplify the brand's breakthrough technologies. CCM's product innovation story is led by its family of U+ high-performance equipment, including the customisable CCM U+ Crazy Light skate, the CCM U+ stick and U+ Crazy Light protective, the lightest high-performance protective in the world / PICTURE 13.

Professional player validation

Reebok-CCM Hockey recognises that success with the consumer is heavily influenced by exposure generated at the Pro League level. Product usage by the best players in the game validates Reebok-CCM Hockey's product performance credentials, and both brands are highly visible among professional ice hockey leagues worldwide.

- Reebok-CCM Hockey has the strongest league partnerships within the industry. It is the exclusive licensee of jerseys for the National Hockey League (NHL), the American Hockey League (AHL), the Canadian Hockey League (CHL) and many of the European National (8) and Elite League (60) teams. Reebok-CCM Hockey is also the official equipment supplier of the United States Hockey League (USHL), the East Coast Hockey League (ECHL) and numerous National Collegiate Athletic Association (NCAA) Division 1 institutions.

– Reebok-CCM Hockey has formed endorsement partnerships with many of the best athletes in the world. With development capabilities close to the world's major leagues, the two brands can respond rapidly with customised solutions. This provides a strong competitive advantage in attracting key pro athletes. Reebok Hockey is currently endorsed by NHL players such as Sidney Crosby, Pavel Datsyuk, Patrice Bergeron, Dion Phaneuf, Matt Duchene, Roberto Luongo and Marc-Andre Fleury. CCM's roster of player endorsees includes Joe Thornton, Vincent Lecavalier, John Tavares, Marián Hossa and the revelations of the 2011-2012 season Ryan Nugent-Hopkins, Gabriel Landeskog and Sean Couturier.

Key strategic categories to drive growth

Reebok-CCM Hockey intends to accomplish growth through a continuous stream of product launches in its key category priorities: skates, sticks, protective & helmets and licensed apparel.

14 ⁄ **Reebok Hockey A.i 9 Sticks**

– Skates: The focus in the skate category is to drive market share increases through products addressing critical aspects such as fit, weight and durability. An example of this is the U+ platform which features the CCM U+ Crazy Light skate, the brand's most thermoformable and customisable skate to date. In addition, in September 2011, a new line of Reebok Hockey skates, led by the 20K Pump, was successfully presented to retailers. It features an advanced fit element and is designed with a focus on lightweight and durable materials. The full line will be delivered to markets in spring 2012.

– Sticks: To drive future growth in the sticks category, Reebok-CCM Hockey focuses on developing new technologies that incorporate enhanced power, feel, flexibility and weight. Launched in the fourth quarter of 2011, Reebok Hockey's A.i sticks feature the new 2:1 Power Taper ratio for maximum power transfer and Xlerated Blade technology for better reaction time with the puck ⁄ PICTURE 14. In 2011, CCM launched its new CCM U+ Crazy Light stick, the lightest performance stick in the marketplace, along with the launch of the U+ Crazy Strong stick, a high-performance stick engineered to offer greater durability.

– Protective: In summer 2011, the 11K helmet was launched, featuring the 5-Point Safety System. This product is the first in a series of products to enhance players' safety and was developed in collaboration with universities and medical experts. In September 2011, CCM presented to retailers the lightest protective equipment, the U+ Crazy Light, which will be delivered in spring 2012.

– Licensed apparel: Reebok-CCM Hockey will strive to further leverage its league partnerships and exclusive uniform status to drive growth. In addition to official uniforms, Reebok-CCM Hockey will take advantage of its status as the official NHL locker room performance apparel supplier, and its exclusive rights related to the NHL Players' Association (NHLPA) for name and numbered apparel and headwear. Reebok-CCM Hockey is also developing its capacity to perform in a reactive market and maximise sales potential linked to special events such as the Stanley Cup Final, All-Star Game and Winter Classic.

Increase profitability through supply chain efficiencies

Another strategic priority for Reebok-CCM Hockey is to continue to pursue a movement away from own manufacturing to sourcing goods. In 2011, for example, the transfer of helmet production from North America to China was finalised, and the transfer of high-end skates production from Canada to Thailand in 2012 was also announced. Manufacturing activities will be maintained mainly to develop and manufacture performance products for pro level athletes.

Pricing strategy mirrors product positioning

Reebok-CCM Hockey's pricing strategy is consistent with its high-performance positioning in the sport. Through a commitment to product innovation, Reebok-CCM Hockey's pricing strategy is to dominate the market in the premium price segments and to be a strong competitor within the mid-price segment of the market.

02.5 ⁄

Global Operations

Global Operations manages the development, production planning, sourcing and distribution of the majority of our products. The function continually strives to increase efficiency throughout the Group's supply chain and ensure the highest standards in product quality and delivery performance for our customers and our own-retail and eCommerce activities at competitive costs.

The vision of Global Operations is to be closest to every consumer. The function strives to provide the right product to consumers – in the right size, colour and style, in the right place, at the right time, across the entire range of the Group's channels and brands.

Global Operations has a strong track record for establishing state-of-the-art infrastructure, processes and systems. The function has been successfully consolidating and improving legacy structures, reducing complexity and cost for the Group. By taking strong ownership for quality, cost and availability, we have proven that we are able to respond to the fast-changing requirements of both our consumers and customers.

To support our Route 2015 strategic business plan, Global Operations focuses on five strategic priorities driven by several key initiatives ⁄ TABLE 01. The implementation of these initiatives is well underway, with three already completed in 2011 (adidas NEO label, Fast and Lean Creation and FlexPLM). By continuing to deliver on these initiatives, Global Operations will not only enable the Group to achieve its goals, it will also ensure our supply chain remains a competitive advantage in making us the partner of choice for our consumers and customers alike.

Ensuring cost competitiveness

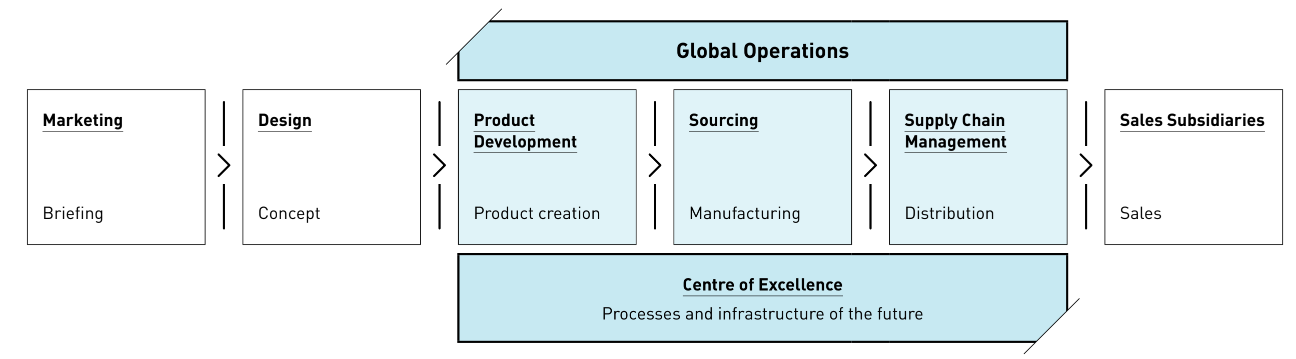
Global Operations focuses on further optimising product creation through an efficient material and colour selection process. This, coupled with increased automation in manufacturing, will enhance productivity, shorten lead times and improve overall quality. These improvements are expected to enhance profitability for the Group and ensure we provide our consumers with the best value proposition possible.

In 2011, a joint effort between Global Operations and Global Brands yielded initial results on consolidating material and colour numbers, which will already start to deliver benefits in spring/summer 2013. In the area of automation and manufacturing efficiency, pilot lines were established in several factories for most categories. Parts produced per hour for these lines have improved in some instances

01 ⁄ Five strategic priorities for Global Operations

Strategic priorities	Specific goals	Implemented through strategic initiatives
Ensuring cost competitiveness	Reduce product and supply chain costs	– Optimise product creation through efficient material and colour selection – Increase the level of automation in the manufacturing processes – Pool supply chain activities at a central level
Providing industry-leading availability	Enhance existing logistics services to create a flexible and cost-efficient supply chain	– Offer tailored replenishment models to customers, using improved planning processes and systems – Develop flexible planning and production models – Plan and build inventory buffers at different locations in the supply chain
Enabling later ordering	Allow customers to order products later, i.e. closer to the time of sale	– Reduce production lead times for footwear and apparel to 60 days – Establish a regional source base
Supporting the Group's growth projects	Support the company's Route 2015 priorities	– Build fast-fashion creation, sourcing and supply chain management capabilities – Further roll-out of processes and systems – Offer short lead time production models
Modernising the Group's infrastructure	Build the required operational backbone to support the Group's growth plans	– Consolidate legacy systems and distribution structures – Build state-of-the-art systems, processes and distribution facilities

02 Global Operations in go-to-market process



by almost 40%. The function will continue to look for opportunities to semi-automate process steps in production where possible, while supporting this effort with the endorsement of lean manufacturing principles throughout its supply base.

The Profitability Management department within Global Operations assumes a central role in realising cost competitiveness by driving our strategic costing efforts and optimising our buying strategies. Throughout 2011, the function has been developing a model of profit and productivity incentives that serves as a basis for productivity improvement discussions with our supply base. As part of this initiative, data and documenting processes were analysed across the adidas and Reebok brands to make differences in cost policies transparent in order to align them longer-term.

Providing industry-leading availability

Building on the solid platform that has been established to ensure product availability, Global Operations is further shortening our order-to-delivery lead times. This will be accomplished by establishing and offering a set of tailored and sophisticated replenishment models to our customers and own-retail activities via improvements in our planning systems and processes. The overarching goal of these initiatives is to delay decisions on customer-specific order adjustments to the latest possible point in time for increased flexibility in how we plan, produce, deliver and stock product.

As part of this priority, Global Operations is building five new supporting system solutions that use SAP as a basis to standardise, automate, bundle and execute market processes and system functionalities. The roll-out of these systems and processes is a prerequisite to enable enhanced value-added services (e.g. labelling, price tags and RFID tags) at our factories and distribution centres. These are also critical for our flexible make-to-stock service which aims to improve product availability and inventory utilisation by planning and building inventory buffers at different locations further up the supply chain.

Other capabilities that the function is building include an increased level of transparency on lead times in our supply chain. This will allow for more pro-active and accurate instructions on delivery times, planning and purchasing, resulting in a reduction of workload and increased customer satisfaction. Another important aspect will be the introduction of the capability to transfer inventory between locations in a more automated manner.

Enabling later ordering

Enabling later ordering is a cross-functional priority in Global Operations aimed at allowing our customers and own-retail network to order our products closer to the time of sale, facilitating buying decisions that are based on better market knowledge.

This priority focuses on reducing production lead times on footwear and, ultimately, apparel to 60 days. In 2011, we succeeded in bringing 70% of Reebok footwear articles onto this lead time. Since the majority of adidas footwear is already on 60 days, the change will allow us to align sales processes across the brands and improve efficiencies. For apparel, Global Operations has now developed a 60-day lead time concept, which will be rolled out in three phases starting in the second half of 2013.

Further order-to-delivery lead time reductions will be achieved through a greater regional source base, which will enable us to manufacture closer to our key markets to deliver and replenish products faster. Today, Global Operations already sources significant portions of apparel for the US market regionally. Business cases for additional countries and specific business categories are currently being reviewed.

On Group level, Global Operations is also a key contributor to the company's Integrated Business Planning (IBP) project SEE INTERNAL GROUP MANAGEMENT SYSTEM, P. 114. IBP forms part of the Group's Driving Route 2015 programme and aims at establishing a coherent end-to-end demand and supply planning process across finance, marketing and operations.

02.5 ⁄

Supporting the Group's growth projects

Global Operations supports the Group's key growth projects outlined in the Route 2015 strategic business plan, such as the adidas NEO label, market and channel programmes as well as brand programmes such as customisation ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68 ⁄ SEE GLOBAL SALES STRATEGY, P. 62.

With the establishment of three- and ten-month concept-to-shelf processes and a dedicated source base, the framework to service the fast-fashion adidas NEO label model was successfully completed and handed over for implementation in 2011. The focus in 2012 will now be on providing supply chain services for all adidas NEO stores.

In 2011, Global Operations also provided support in further harmonising customisation processes and systems. It has clearly defined supply chain capabilities that support the demand growth for the customisation business until 2015 and supported the evaluation of existing customisation processes for adidas and Reebok footwear.

For Retail, Global Operations continues to offer its short lead time capabilities with the ultimate goal of enabling a demand-driven supply chain that leverages existing short lead time production models to improve availability without excessive inventory.

Modernising the Group's infrastructure

Global Operations continues to focus on building the required infrastructure, processes and systems to support the Group's growth plans. This includes further process simplification, consolidation of legacy systems and distribution structures, as well as the creation of state-of-the-art systems required to support new business demands.

As a significant milestone under this priority, Global Operations announced the building of a state-of-the-art Central Distribution Centre (CDC) near Osnabrueck, Germany, to service European markets. The CDC will open in 2013. By 2015, the CDC will be capable of holding 35 million pieces during peak times and will handle a throughput of more than 100 million pieces annually for the adidas, Reebok and Rockport brands across all channels. In 2011, Global Operations also successfully moved and integrated logistics flows for TaylorMade-adidas Golf and Rockport into the Spartanburg Distribution Centre (USA). In addition, Global Operations successfully rolled out the Group's standard warehouse management system "Manhattan" to warehouses in Panama and China. Manhattan will also be introduced in other new distribution facilities the function is building, e.g. in Mexico and South Korea.

Other important milestones in 2011 were the completion and handover of the new, streamlined Fast and Lean Creation (FLC) process and the new product life cycle management system for apparel (FlexPLM). The FLC programme was introduced in February 2009 with the goal of simplifying the Group's product creation process across operations, sourcing and the supply base, as well as harmonising processes between the adidas and Reebok brands. Global Operations has also been supporting the company's continued efforts in introducing virtualisation to 3D design, product prototyping and sampling. It has helped to enable the first completely virtual sell-in process tested in France in 2011, which saw a fully virtual product presentation with just one physical colourway for all articles. As increasing numbers of internal and external customers embrace the technology, this will drive a longer-term reduction in product samples and therefore cost ⁄ SEE GLOBAL SALES STRATEGY, P. 62. Finally, Global Operations is also about to complete the implementation of the Group's Global Procurement Solution, GPS. The final system release will see an improved integration of and connectivity to suppliers and third-party logistics providers. Pilot systems have already gone live for factories in China, Vietnam and Cambodia with the global go-live scheduled for 2012. With the final phase of the project, Rockport and the company's Sports Licensed Division in the USA will start using GPS in late 2012.

Supporting Driving Route 2015 initiatives

The implementation of the company's Driving Route 2015 programme ⁄ SEE GROUP STRATEGY, P. 60 sees the addition of three new initiatives to the Global Operations strategy until 2015.

– Superior service for the adidas brand's "Global Foundation Range": Global Operations will give products ranged as part of the "Global Foundation Range" preferred treatment in terms of availability and replenishment ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68.

– Establishing an above-market European supply chain: Global Operations will work on centralising supply chain capabilities such as purchasing and inventory management to provide a central service to all European markets. The pooling of supply chain services on above-market level aims at reducing supply chain cost and increasing product availability.

– Organisational integration: Global Operations will assume end-to-end responsibility for the Group's supply chain with all market operations and local sourcing functions moving into Global Operations by 2013. Local systems and processes are being reviewed and harmonised for ultimate integration into global structures.

The function will also set up a dedicated Fashion Group for and within the adidas brand to service this important area of our business with the right processes and organisational set-up. In addition, the function will be looking at pooling the creation of more basic products. The generated efficiencies will be re-invested in the development of technical products.

Project teams have already been set up to drive the implementation of these new initiatives with progress being monitored at Group level.

Majority of production through independent suppliers

To minimise production costs, we outsource almost 100% of production to independent third-party suppliers, primarily located in Asia. While we provide them with detailed specifications for production and delivery, these suppliers possess excellent expertise in cost-efficient high-volume production of footwear, apparel and hardware. The latest list of our suppliers can be found on our website :// WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/SUPPLIERS_AND_WORKERS.

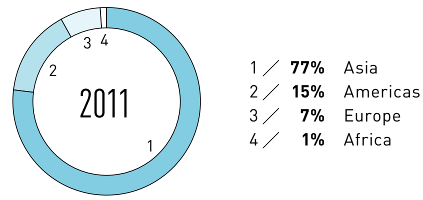
The adidas Group also operates a limited amount of own production and assembly sites in Germany (1), Sweden (1), Finland (1), the USA (4), Canada (3) and China (1). In order to ensure the high quality consumers expect from our products, we enforce strict control and inspection procedures at our suppliers and in our own factories. In addition, we promote adherence to social and environmental standards throughout our supply chain ⁄ SEE SUSTAINABILITY, P. 107.

Our Global Operations function manages product development, commercialisation and distribution, and also supervises sourcing for adidas and Reebok as well as for adidas Golf ⁄ DIAGRAM 02. Due to the specific sourcing requirements in their respective fields of business, TaylorMade, Rockport, Reebok-CCM Hockey and the Sports Licensed Division are not serviced through Global Operations, but instead utilise their own purchasing organisation. In order to quickly seize short-term opportunities in their local market or react to trade regulations, Group subsidiaries may also source from selected local suppliers outside the realm of Global Operations. Local purchases, however, account only for a minor portion of the Group's total sourcing volume.

Overall number of manufacturing partners increases

In 2011, Global Operations worked with 308 independent manufacturing partners (2010: 270), representing an increase of 38 versus the prior year. The number of suppliers increased throughout all product categories (footwear, apparel and hardware) and was mainly the result of the significant growth in volumes and expansion into new sourcing countries (e.g. Cambodia). Of our independent manufacturing partners, 77% were located in Asia, 15% in the Americas, 7% in Europe and 1% in Africa ⁄ DIAGRAM 03. 30% of all suppliers were located in China.

03 ⁄ **Suppliers by region**[1)]

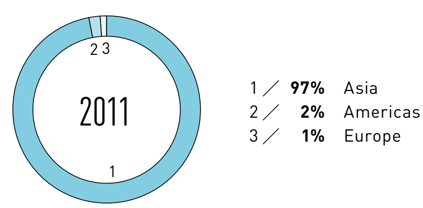


1) Figures include adidas, Reebok and adidas Golf, but exclude local sourcing partners, sourcing agents, subcontractors, second-tier suppliers and licensee factories.

China share of footwear production decreases

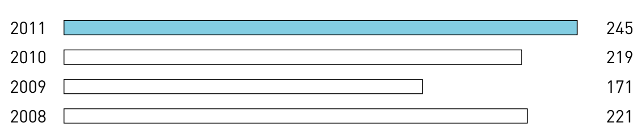
97% of our total 2011 footwear volume for adidas, Reebok and adidas Golf was produced in Asia (2010: 97%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2010: 3%) ⁄ DIAGRAM 04. China represents our largest sourcing country with approximately 35% of the total volume, followed by Vietnam with 29% and Indonesia with 26%. As part of our strategy to increase the regional diversity of our supplier base, the overall representation of China in our sourcing mix declined 4 percentage points. At the same time, the footwear volumes sourced from Cambodia more than tripled in 2011 from a low comparison base. In 2011, our footwear suppliers produced approximately 245 million pairs of shoes (2010: 219 million pairs) ⁄ DIAGRAM 05. The year-over-year increase was driven by the strong sales growth in 2011. Our largest footwear factory produced approximately 9% of the footwear sourcing volume (2010: 9%).

04 ⁄ **Footwear production by region**[1)]



1) Figures include adidas, Reebok and adidas Golf.

05 ⁄ **Footwear production**[1)] (in million pairs)



1) Figures include adidas, Reebok and adidas Golf.

02.5 /

Rockport purchased approximately 9 million pairs of footwear in 2011, which represents an increase of 6% versus the prior year. Products were primarily sourced from factories in China (66%), Vietnam (23%), India (8%) and Indonesia (2%). The largest factory accounted for 31% of the total sourcing volume of the Rockport brand.

Volume of apparel production increases

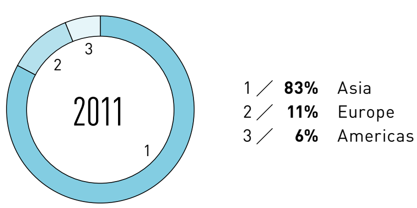
In 2011, we sourced 83% of the total apparel volume for adidas, Reebok and adidas Golf from Asia (2010: 82%). Europe remained the second-largest apparel sourcing region, representing 11% of the volume (2010: 12%). The Americas accounted for 6% of the volume (2010: 6%) / **DIAGRAM 06**. China was the largest source country, representing 35% of the produced volume, followed by Thailand with 14% and Indonesia with 11%. In total, our suppliers produced approximately 321 million units of apparel in 2011 (2010: 301 million units) / **DIAGRAM 07**. The largest apparel factory produced approximately 8% of this apparel volume in 2011 (2010: 9%). In addition, Reebok-CCM Hockey sourced around 4 million units of apparel in 2011. The majority of this volume was also produced in Asia, while small portions were sourced from the Americas (particularly Canada) and Europe. The Sports Licensed Division sourced approximately 31 million units of apparel and 21 million units of headwear (2010: 23 million and 15 million, respectively). The majority of purchased apparel products were sourced as unfinished goods from Latin America (58%), Asia (28%) and the USA (13%), and were subsequently finished in our own screen-printing facilities in the USA. The majority of headwear sourced was finished products manufactured predominantly in Asia (97%) and the USA (3%).

Approximately 66% of adidas and Reebok branded hardware produced in China

In 2011, the bulk (i.e. 98%) of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2010: 98%). China remained our largest source country, accounting for 66% of the sourced volume, followed by Vietnam with 21% and Pakistan with 10%. European countries accounted for 2% / **DIAGRAM 08**. The total hardware sourcing volume was approximately 51 million units (2010: approximately 48 million units), with the largest factory accounting for 23% of production / **DIAGRAM 09**.

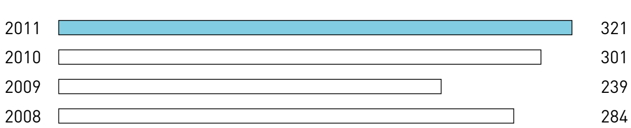
TaylorMade and Reebok-CCM Hockey sourced 98% and 81% of their hardware volumes from Asia, respectively (2010: 98% and 72%). In addition, both brands sourced a portion of hardware products in the Americas. At TaylorMade, the majority of golf club components were manufactured by suppliers in Asia (China, Vietnam and Taiwan) and assembled in Asia, the USA and Europe.

06 / Apparel production by region [1]



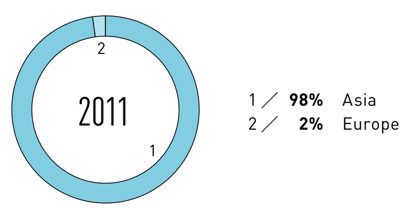
1) Figures include adidas, Reebok and adidas Golf.

07 / Apparel production [1] (in million units)



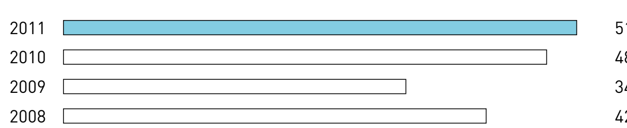
1) Figures include adidas, Reebok and adidas Golf.

08 / Hardware production by region [1]



1) Figures include adidas, Reebok and adidas Golf.

09 / Hardware production [1] (in million units)



1) Figures include adidas, Reebok and adidas Golf.

02.6 ⁄

Research and Development

Creating innovative products to meet the needs of both professional and everyday athletes and consumers is a prerequisite to strengthening our market position in the sporting goods industry. In a rapidly changing world, research and development (R&D) is essential to help us find new product concepts, processes and production methods that are both beneficial to the business as well as facilitate our ambitions in the area of sustainability. Each year, we therefore invest considerable resources into developing and commercialising new technologies as well as fresh design ideas, in order to offer the best experience for our users. Our R&D teams have diverse professional competencies and backgrounds. Their activities are highly integrated and cross-functional, supported by a significant degree of functional co-location to create synergies and efficiencies in innovation. In 2012, R&D will focus on customisation, digital sports technologies and sustainable product innovation.

R&D an integral part of the product creation process

R&D within the adidas Group follows a decentralised approach. However, fundamental research as well as expertise and competencies in sustainable product creation are shared across the Group. In line with their strategic and long-term visions and distinctive positioning, each brand runs its own research, design and development activities. These teams generally have either a category or a technology focus.

R&D is closely integrated with the sourcing, design and product marketing functions. At the beginning of the product creation process, marketing defines a development priority, which may also include certain sustainability targets. This is derived on a case-by-case basis from a combination of consumer research and feedback, competition analysis and own product testing.

Independently from specific development requests, our innovation teams also analyse new materials, production processes or scientific research – often even from other industries – to increase the exchange and scope of idea generation. The sourcing team, together with the innovation and material teams within product development, work closely with our suppliers to identify innovative materials as well as integrate sustainability, cost and production process aspects into the development phase.

Once conceptualised, new technologies are engineered using state-of-the-art systems. Extensive virtual prototype testing and engineering loops are carried out on each technology, which promotes faster development phases as well as improved concept and quality, while simultaneously reducing physical material and resource requirements. Once a new technology is deemed viable, it is produced as a physical sample. These are then comprehensively tested by a broad range of users including top athletes. Only when these comprehensive tests have been successful, are these technologies handed over to product marketing, which commercialises the technology to a final product.

Selective purchase of external R&D expertise

In addition to its internal R&D efforts, the adidas Group also purchases a limited amount of R&D expertise from well-established research partners. This strategy allows for greater flexibility and faster access to know-how that may otherwise require considerable time and resources if built up within the Group. To increase efficiency and protect research results, collaborations are usually long-term and exclusive. All projects carried out with external partners are based on a clearly defined mandate outlining the project scope to ensure consistency with the Group's R&D focus. Major adidas relationships exist with the University of Loughborough, England, the University of Calgary, Canada, the University of Michigan, USA, the University of Erlangen-Nuremberg and the University of Freiburg, Germany, as well as Waseda University, Tokyo, Japan. In 2011, we intensified our research initiatives in the field of "digital sports" and funded an endowed professorship at the University of Erlangen-Nuremberg. adidas also partnered with German tyre company Continental, to develop industry-leading traction rubber materials that offer security and stability while minimising weight. These compounds were integrated into the sole of the Terrex Fast R GTX hiking boot and in the adizero adios 2, which was worn by Patrick Makau when he set a new world record at the Berlin Marathon in September 2011. In 2011, joint loading and injury prevention studies were carried out on the adidas f50 adizero football boot in association with the University of Freiburg. Also in 2011, specific basketball and running performance studies were carried out at the University of Calgary. These formed an integral part of the development of the adizero Crazy Light basketball shoe and adizero adios running shoe. In 2011, Reebok also continued its research with R&D institutes around the world, which included testing on EasyTone footwear with Arizona State University, EasyTone apparel with Colorado State University and lacrosse biomechanics with the University of Las Vegas. In 2011, TaylorMade-adidas Golf continued its long-term cooperation with researchers at the University of Calgary, with extensive joint swing dynamic studies, identifying the influence of shaft variations on player performance and perception.

02.6

01 Major R&D activities and locations

	Main activities	Major locations	
adidas	The adidas innovation team is divided into groups that focus on performance footwear, apparel and hardware innovation, within which there are individual product focus categories. These reflect adidas' business needs with an emphasis on our five key Sport Performance attributes – i) faster ii) smarter iii) stronger iv) cooler and v) natural. The teams are closely integrated with associated functions and resources to increase efficiencies and flexibility in all aspects of innovation and technology development.	Global Development Centre (ait.)	Herzogenaurach
		Global Development Centre (ait.)	Portland/ Oregon, USA
	Dedicated innovation development centres in Asia, working closely with these teams, concentrate on the realisation of concepts through functional product development as part of the creation process. These centres are important in terms of development efficiencies, as product and technology development takes place in real production environments.	Product Creation Centre	Shanghai, China
		Product Creation Centre	Tokyo, Japan
Reebok	R&D teams at Reebok create footwear, apparel and hardware with the primary emphasis being on fitness. Teams are structured along the brand's category priorities. In addition, there are certain cross-category groups such as the Reebok Advanced Concepts (RAC) team, which ensures specific concepts can be taken right through from initial idea to production.	Global Development and Testing Centre	Canton/ Massachusetts, USA
	Collaboration partners at Advanced Development Centres in China and Vietnam, which focus on new technology developments, cutting-edge materials and treatments as well as manufacturing solutions.	Advanced Development Centre	Fuzhou, China
		Development and Testing Centre	Ho Chi Minh, Vietnam
TaylorMade-adidas Golf	TaylorMade-adidas Golf's R&D team is focused on continually designing and developing industry-leading products. The team is structured according to the different product categories in golf.	Global Development and Testing Centre	Carlsbad/ California, USA
Rockport	Rockport's R&D function is a vertically integrated organisation that covers all aspects of strategy, innovation, research, design, engineering and testing, while incorporating the Group's advanced proprietary athletic footwear technologies into the shoe collections.	Global Development and Testing Centre	Canton/ Massachusetts, USA
Reebok-CCM Hockey	The R&D team at Reebok-CCM Hockey is dedicated to continuously creating state-of-the-art ice hockey equipment designed to improve the experience for both professional and recreational players. R&D teams are category-specific, combining the design, engineering and product management functions. The goal of this structure is to create category expertise and improve speed to market.	Development and Testing Centre	Montreal/ Quebec, Canada

Active trademark and patent protection policy

To capitalise on the Group's R&D achievements, we seek patent protection for our innovations. We also own a substantial portfolio of registered trademarks for the Group's brands and related proprietary names. As part of our business policy, we enforce the Group's trademarks and patents by monitoring the marketplace for infringements and taking action to prevent them. This includes a vigorous anti-counterfeiting programme. We also have comprehensive processes, and undertake significant research, to avoid infringement of third-party intellectual property rights. As we use a wide range of different technologies in our products, we are not dependent upon any single technology, or any patent rights related to any single technology SEE RISK AND OPPORTUNITY REPORT, P. 145.

Highly skilled technical personnel

Our R&D departments comprise experienced and skilled people from different areas of technical expertise and also from diverse cultural backgrounds. A significant part of our innovation process and therefore personnel and skill base relates to consumer and user insights. Mechanical, biomechanical and engineering specialists, as well as material engineering and process experts focus on the development of high-performance and innovative products, concentrating on providing beneficial experiences for users as well as creating more sustainable products. For the development of footwear and apparel, our expertise extends to technical competencies in temperature and moisture management. Process and production specialists also form an essential part of our product development strength. Other professional backgrounds include software development, industrial and graphic design, electronic engineering, Finite Element Analysis, advanced CAD design and kinesiology. The number of people employed in the Group's R&D activities at December 31, 2011 was 1,029, compared to 1,002 employees in the prior year. This represents 2% of total Group employees. In 2012, we expect the number of R&D employees to increase slightly.

Initiatives to further streamline product creation process

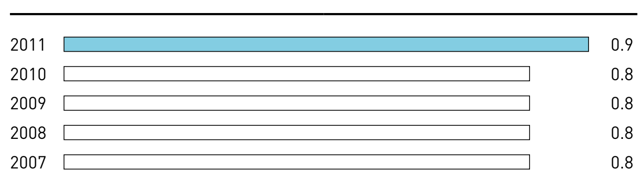
We aim at improving our ability to adapt to changing consumer preferences more quickly, flexibly and efficiently. We achieve this by facilitating the direct interaction with and involvement of our suppliers in product creation, quality control, product testing and commercialisation. In 2011, we completed our Fast and Lean Creation programme which saw the implementation of direct development processes for footwear and apparel. In addition, we also made further progress on strengthening the cross-functional collaboration between marketing, design and our development teams early in the creation process. The resulting improved and closer interaction reduces the amount of costly and time-consuming product changes in the latter stages of the development process.

R&D expenses increase 13%

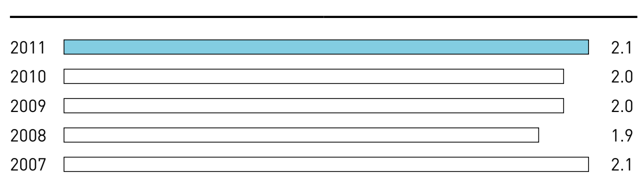
R&D expenses include expenses for personnel and administration, but exclude other costs, for example those associated with the design aspect of the product creation process SEE NOTE 02, P. 182. In 2011, as in prior years, all R&D costs were expensed as incurred. adidas Group R&D expenses increased 13% to € 115 million (2010: € 102 million) as a result of increases at the adidas brand from initiatives relating to the development of intelligent products DIAGRAM 02. Personnel expenses represent the largest portion of R&D expenses, accounting for more than 68% of total R&D expenses. In 2011, R&D expenses represented 2.1% of other operating expenses versus 2.0% in the prior year DIAGRAM 04. R&D expenses as a percentage of sales increased slightly to 0.9% (2010: 0.8%) DIAGRAM 03.

02 **R&D expenses** (€ in millions)

03 **R&D expenses** (in % of net sales)



04 **R&D expenses** (in % of other operating expenses)



Successful commercialisation of technological innovations

We believe developing industry-leading technologies is only one aspect of being an innovation leader. Even more important is the successful commercialisation of those technological innovations, while consistently increasing our commitment to sustainable product development. The awards we attained in 2011 highlight our technology leadership within the sporting goods industry ⁄ DIAGRAM 06.

As in prior years, the majority of adidas Group sales was generated with products newly introduced in the course of 2011. New products tend to have a higher gross margin compared to products which have been in the market for more than one season. As a result, newly launched products contributed over-proportionately to the Group's net income in 2011. We expect this development to continue in 2012 as our launch schedule includes a full pipeline of innovative products ⁄ SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163.

Successful product launches across all major adidas categories

In 2011, adidas sales were again driven by the latest product offerings, with products launched during the course of the year accounting for 74% of brand sales (2010: 75%). Only 3% of sales were generated with products introduced three or more years ago (2010: 2%). The major R&D innovations for the adidas brand were created and aligned to support and strengthen its five key Sport Performance attributes – i) faster ii) smarter iii) stronger iv) cooler and v) natural. The faster attribute became a reality through the evolution of the ultra-lightweight adizero family of products. In running, the adizero Prime, the lightest commercial sprint spike ever created, was worn by Yohan Blake and helped him become the World 100m Champion at the 2011 IAAF World Championships. In the basketball category, the adizero Crazy Light, the lightest shoe in basketball, and the adizero Rose, enjoyed considerable commercial success. This ultra-lightweight shoe was built to help players to be faster, jump higher and perform better on the court. In 2011, the lightest and fastest football boot also became the smartest in the game, with the introduction of the adizero miCoach football boot. Utilising the miCoach Speed_Cell technology in the sole of the boot, it is the ultimate digital training tool, allowing users to track and upload key performance data and to compare and share stats via the miCoach football app. For stronger, the adiPower Howard basketball shoe – Dwight Howard's signature shoe – provides outstanding power and reinforcement required for hard lateral and rotation movements. This is made possible through the Sprintskin upper technology combined with the Z-torsion system. In 2011, adidas launched the adipure Trainer, the first barefoot training shoe designed specifically for the gym. This shoe promotes pure and natural movement by harnessing the body's natural mechanics, activating and strengthening muscles, building balance and promoting dexterity. The adidas Terrex Feather jacket, featuring Gore-Tex pro shell materials, was engineered for endurance in extreme conditions, while providing excellent waterproofness, breathability performance and lightweight packability. The adidas Tango 12 is the eleventh official match ball

05 ⁄ Major 2011 product launches

Product	Brand
adilibria and TechFit women's training apparel	adidas
adidas by Stella McCartney gym collection	adidas
adizero f50 football boot	adidas
adizero f50 miCoach football boot	adidas
miCoach Speed_Cell digital performance technology	adidas
adizero f50 Runner running shoe	adidas
Supernova Sequence 4 running shoe	adidas
adizero Trainer training shoe	adidas
Fluid Trainer training shoe	adidas
adizero Crazy Light basketball shoe	adidas
adiPower Predator football boot	adidas
adizero Feather running shoe	adidas
adizero Feather tennis shoe	adidas
TechFit PowerWeb men's training apparel	adidas
Terrex Conrax CP outdoor shoe	adidas
Terrex Feather outdoor jacket	adidas
adiPower Howard basketball shoe	adidas
adizero Rose 2.0 basketball shoe	adidas
Climawarm men's training apparel	adidas
Zig Dynamic running shoe	Reebok
Zig Encore – John Wall's basketball shoe	Reebok
ZigTech apparel	Reebok
Classic Lite footwear and apparel collection	Reebok
Reebok x Basquiat Classics footwear and apparel collection	Reebok
RealFlex footwear	Reebok
Classic Modern Lite footwear	Reebok
Classic Kamikaze footwear	Reebok
R11 drivers, fairway woods and irons	TaylorMade
Burner SuperFast 2.0 drivers, fairway woods and rescue hybrids	TaylorMade
Tour Preferred MB, Tour Preferred MC and Tour Preferred CB irons	TaylorMade
Ghost putter series	TaylorMade
CGB Supermax irons	TaylorMade
Corza Ghost putters	TaylorMade
Climacool apparel with CoolMax Energy fabric technology	adidas Golf
Climacool apparel with Soft Touch fabric technology	adidas Golf
adicross footwear	adidas Golf
Tour360 Carbon golf shoe	adidas Golf
Tour360 ATV golf shoe	adidas Golf
Cardiff spikeless golf shoe	Ashworth
Leucadia spikeless golf shoe	Ashworth
Janae women's footwear collection	Rockport
DresSports with truWalk men's footwear collection	Rockport
Peakview Lux Lodge men's winter boot	Rockport
11K KFS protective equipment	Reebok Hockey
11K roller hockey skate	Reebok Hockey
A.i 9 stick	Reebok Hockey
Larceny goalie equipment	Reebok Hockey
CCM U+ Crazy Light II stick	CCM

produced by adidas for the UEFA EURO tournament. It is the most tested ball adidas has ever produced and exceeded all FIFA approved standards for an official match ball. Apart from quantitative lab testing, the ball also underwent rigorous player testing which was conducted across eight countries, using players, federations and clubs from both elite and grassroots football ⁄ SEE ADIDAS STRATEGY, P. 72.

Reebok expands both Toning and ZigTech platforms and introduces RealFlex technology platform

In 2011, Reebok's latest products continued to generate the majority of Reebok's sales, with an estimated 69% of footwear sales coming from products launched in 2011 (2010: 63%). Only 10% of footwear product sales relate to products introduced three or more years ago (2010: 15%). Reebok expanded its toning offering with the introduction of EasyTone+, SlimTone and SimplyTone. Each toning platform is designed to be softer and less stable than conventional shoes, conceived to mimic the effect of walking on a soft beach. Reebok expanded the highly successful ZigTech technology platform, which features a unique zig-shaped lightweight foam sole that is designed to absorb the impact of heel strike and sends a wave of energy along the length of the shoe. A lower-profile, firmer version of ZigTech called ZigNano was also introduced in 2011. In addition, Reebok introduced a new technology pillar called RealFlex, which provides a point of difference in the emerging lightweight/barefoot running segment. Featuring 76 sensors on the bottom unit, it is designed to naturally flex to give a barefoot/natural feel while offering more protection by virtue of the geometric shape and height of the nodes as well as the proprietary foam used ⁄ SEE REEBOK STRATEGY, P. 78.

Innovation a key success factor for TaylorMade-adidas Golf

At TaylorMade-adidas Golf, current products (i.e. products launched in the last 18 months, which is the typical product life cycle in golf) represented 78% of total hardware sales in 2011 (2010: 58%). Products that had been brought to market three or more years ago accounted for 5% of sales in 2011 (2010: 5%). Among the highlight product launches in 2011 was the R11 line of drivers. This driver incorporates new Adjustable Sole Plate technology into TaylorMade's proven Flight Control Technology and Movable Weight Technology to create the ultimate golf driver experience. The Burner SuperFast 2.0 driver, also launched in 2011, is lighter, faster and longer than the previous generation thanks to lighter components and better aerodynamics. With their stand-out white colour finish, both lines of driver, the R11 and the SuperFast, were retail hits in 2011. Their striking appearance, which enhances visual perception by making the clubhead appear larger, helps improve alignment, while also reducing hot spots. This unique and new finish combined with breakthrough technology contributed to TaylorMade capturing over 40% of the U.S. metalwoods market share in March a month after their launch, and they went on to maintain this early success all year long. Following the success in the driver line, the R11 irons were launched in September and also achieved strong retail demand. The R11 iron, featuring a highly visible red Precision Weighting System in the back of the clubhead, helps users to achieve precise swing weight without modifying the position of centre of gravity, which controls ball flight. Capitalising on the success of the Corza Ghost putter, the Ghost Spider putter and Ghost Series putters were launched in 2011, also featuring signature white colour finishes and delivering the same visual benefits as those in the driver lines ⁄ SEE TAYLORMADE-ADIDAS GOLF STRATEGY, P. 82.

Rockport extends truWalk architecture and delivers athletic-inspired pumps

Due to the different business model for the Rockport brand as a leather shoe company, the impact from new styles is significantly lower compared to our other brands. Products launched in 2011 accounted for an estimated 58% of sales (2010: 52%). In 2011, R&D efforts concentrated on making shoes more walkable and this was achieved by extending Rockport's innovative truWalk architecture into dress, casual and rugged casual shoe products. This included DresSports shoes, making them some of the most lightweight, walkable shoes in the industry. The truWalk architecture works with the foot's natural motion, resulting in a more comfortable, energised stride. Using adiPrene technology by adidas, truWalk enables a soft heel-strike, transitioning to a smooth roll through the arch, and finishing with a forefoot flex for an energised push-off. On the women's side, R&D efforts concentrated on creating athletic-inspired comfort in stylish business-oriented high-heel silhouettes. The Janae collection was launched in 2011, with pumps featuring NanoGlide lining, adiPrene technology, and thick-latex arch support for extra cushioning, resulting in a more walkable shoe for women ⁄ SEE ROCKPORT STRATEGY, P. 86.

Reebok-CCM Hockey innovates in sticks and skates

At Reebok-CCM Hockey, products launched in 2011 accounted for 55% of sales in North America. Only 15% of sales were generated with products introduced three or more years ago. CCM launches were headlined by the roll-out of the remaining U+ Skate line offering, following the launch of the flagship U+ Crazy Light in the fourth quarter of 2010. The new U+ line offers market-leading heat customisation and fit at all price points. The U+ Crazy Light II stick continued to push the performance boundaries with its lightweight aerial grade carbon construction and new sweet spot technology. Reebok Hockey launch highlights were the 11K ReeFit helmet and the A.i 9 composite stick. The 11K helmet provides players with a unique 5-point safety system based on the fact that the helmet that "fits the best, protects the best". The A.i 9 stick driven by the needs of elite professional players offers the power player a unique Power Taper ratio for ultimate energy transfer from the player to the stick ⁄ SEE REEBOK-CCM HOCKEY STRATEGY, P. 88.

02.6 ⁄

Ambitious 2012 R&D targets

Our Group remains committed to maintaining a full and innovative product pipeline, bringing new groundbreaking technologies and evolutions of concepts to the market each year ⁄ SEE GROUP STRATEGY, P. 60. In 2012, customisation, digital sports technologies and sustainable product innovation will be at the forefront of adidas R&D activities as we aim to position the brand as both a sustainable and technology leader in the sporting goods industry. Reebok's R&D activities in 2012 will centre on the brand's strategy to continue to target fitness through three technology pillars: ZigTech, RealFlex and Toning. Each platform will be expanded to provide additional user experience and retail opportunities. The key in all the platform evolutions will be that no technology is considered complete unless it offers consumers a unique experience that they can feel.

TaylorMade-adidas Golf's development efforts will reinforce industry leadership by enhancing golfers' performance through adjustability features in metalwoods, delivering a new level of distance with the breakthrough technology in the new RocketBallz club line, precise customisation in irons, and increased distance of Tour balls. Rockport will focus its product development on light weight, comfort and walkability. In April 2012, Rockport will introduce the next evolution of truWalk with truWalk Zero. truWalk Zero is the lead concept for Rockport to claim ownership of lightness in the brown shoe industry. It is the culmination of years of research and testing, and is one of the lightest shoes that Rockport has ever designed. Reebok-CCM Hockey R&D efforts will focus on introducing new technologies and at the same time advancing existing product platforms with a focus on performance skates and sticks.

06 ⁄ **Product Awards 2011**

Product	Award	Category	Brand
Response Trail 18 running shoe	Editor's Choice – Best Cushioned Shoe Award / Trail Runner magazine	Running	adidas
Response Trail 18 running shoe	Best Update / Runner's World magazine	Running	adidas
adizero Aegis 2 running shoe	Get Fit Shape Shoe Awards – Best Running Shoe / Shape magazine	Running	adidas
ZigTech apparel collection	GQ Awards / GQ Magazine Mexico	Running	Reebok
Terrex Gore Windstopper outdoor jacket	Best Soft Shell Jacket for women / Bergleben.de (German outdoor online magazine)	Outdoor	adidas
Terrex Fast R outdoor boot	OutDoor Industry Award / OutDoor Show Friedrichshafen (Germany)	Outdoor	adidas
Terrex Conrax CP outdoor boot	Editors' Choice Snow Award / Backpacker magazine	Outdoor	adidas
Evil Eye Half-Rim Pro Sports eyewear	Best Product Design / red dot Awards	Eyewear	adidas
SuperBeast basketball shoe	Most Improved Player Award / Eastbay Basketball Product Performance Awards	Basketball	adidas
Premier Road Supreme II running shoe	Get Fit Shape Shoe Awards – Best for Stability / Shape magazine	Running	Reebok
Burner SuperFast driver	Best Driver Award / Golf Magazin (German golf magazine)	Golf	TaylorMade
adipure golf shoe	Best Golf Shoe Award / Golf Magazin (German golf magazine)	Golf	adidas Golf

02.7 ⁄

Employees

Becoming the global leader in the sporting goods industry depends upon the potential, dedication, knowledge and performance of our employees and the excellence of our leaders. Therefore, we foster a corporate culture of performance, passion, integrity and diversity, as we are convinced this is crucial to stimulate innovation, team spirit and engagement.

Engagement drives performance

We believe that employee satisfaction drives commitment, commitment drives engagement, and engagement drives business performance. Consequently, we have defined engagement as one of our Group's key performance indicators for measuring our efforts to sustain a "performance culture". To capture employee perceptions, we carry out formal engagement surveys to evaluate our position as the employer of choice for our employees and to provide a framework for benchmarking.

In 2010, we conducted the first Group-wide employee engagement survey. We achieved an outstanding participation rate of 90% and an engagement score which places us close to the top-performing organisations within the consumer goods industry. This score was underpinned by our employees' high level of confidence in our senior leaders, their perception of clarity concerning the Group's strategic direction, as well as an open and constructive work climate. Areas for further improvement identified by employees included career development and transparency, availability of IT tools, and performance recognition.

Our senior leaders are responsible for, and committed to, increasing the engagement scores. As in previous years, based upon the feedback received, Results-to-Action teams were established to drive initiatives to enhance the Group's performance. In 2011, the focus of our Results-to-Action initiative was to maintain our top-scoring areas and improve upon areas of weakness. Since implementing the Results-to-Action teams, we have action plans in over 83% of the organisation. This means in more than four out of five adidas Group teams our managers are evaluating their engagement scores and working with their employees to improve the engagement within their teams. The adidas Group also took action at a global and strategic level, focusing on areas such as workspace, collaboration and knowledge management, employee careers, work-life integration and more. Results-to-Action is becoming a way of working for the adidas Group. In 2012, some functions of the adidas Group will conduct a pulse check survey to review the impacts of our actions. In 2013, we will conduct our next global employee engagement survey across the adidas Group.

Three-pillar Human Resources strategy

We strive to have the right team in place by focusing our activities on the implementation and execution of our Group's Human Resources strategy, which is based upon three pillars:

- Creating a working environment that stimulates team spirit, passion, engagement and achievement
  ⁄ SEE "ENGAGEMENT DRIVES PERFORMANCE", P. 101
  ⁄ SEE "INTERNAL COMMUNICATION ACTIVITIES TO DRIVE EMPLOYEE ENGAGEMENT", P. 103
- Expanding our performance culture based upon strong leadership
  ⁄ SEE "ENABLING EMPLOYEES TO REACH THEIR PERSONAL BEST", P. 101
  ⁄ SEE "PERFORMANCE-DRIVEN REMUNERATION SYSTEM", P. 103
  ⁄ SEE "CREATING AN ATTRACTIVE WORK ENVIRONMENT", P. 104
- Being an "employer of choice"

Measures taken in order to implement our strategy are explained in the text sections referred to above.

Enabling employees to reach their personal best

To reach their personal best, our Group employees are offered a wide variety of training and development opportunities, building on their strengths, improving their skills and overcoming their own challenges. Our highest priority is to match individual employee aspirations with our organisational needs. The framework for all development activities is set by the adidas Group Competency Model. Detailed out for all hierarchy levels, it ensures consistent and transparent performance, talent and career/succession management ⁄ DIAGRAM 01.

Performance management: Our global Performance Evaluation and Planning tool (PEP) is the cornerstone of performance management at the adidas Group. Based on business targets as well as job tasks and competencies, each employee is evaluated and receives feedback at least once a year. Building on defined development goals, we offer and support our employees with targeted development activities both on- and off-the-job. Today, PEP is consistently used in all business units of the adidas Group. The online version has a coverage of 76% Group-wide. The target for 2012 is to reach an online coverage of 96%.

02.7 /

Talent management: The quality of current and future leadership within the adidas Group is key to our success. With specifically designed talent management tools, we identify employees at all management levels of our Group who have the potential to become future leaders within the organisation. In order to prepare them for more complex future roles, they participate in targeted development programmes / **DIAGRAM 02**:

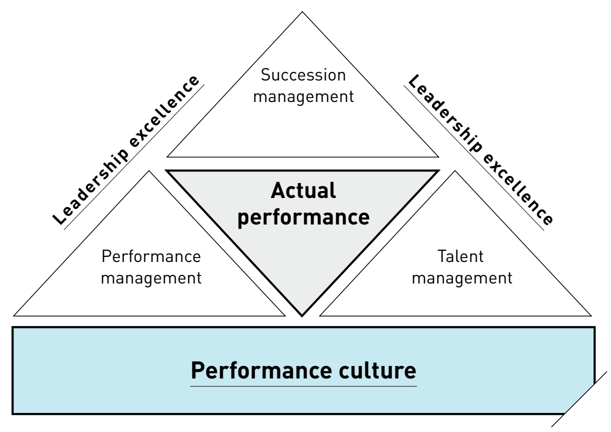
– Executive Development Programme (EDP): A global programme (cross-brand and cross-functional) for employees who show potential for the executive level. The programme is centrally managed and executed.
– Management Development Programme (MDP): A global programme which is executed regionally. This programme is tailored to employees from different functional areas and brands that show potential for director positions.
– People Manager Development Programme (PDP): A global programme which is executed locally. The programme targets employees at team leader level who show potential to become senior leaders.

In addition, we offer tailored graduate programmes. The Business Management Programme (BMP), a 24-month international, cross-functional and cross-brand programme, is aimed at attracting professionals with MBA degrees and three to five years of work experience. The goal of this programme is to prepare them for future management positions within our Group. At year-end 2011, 10 employees were participating in the BMP globally (2010: 6).

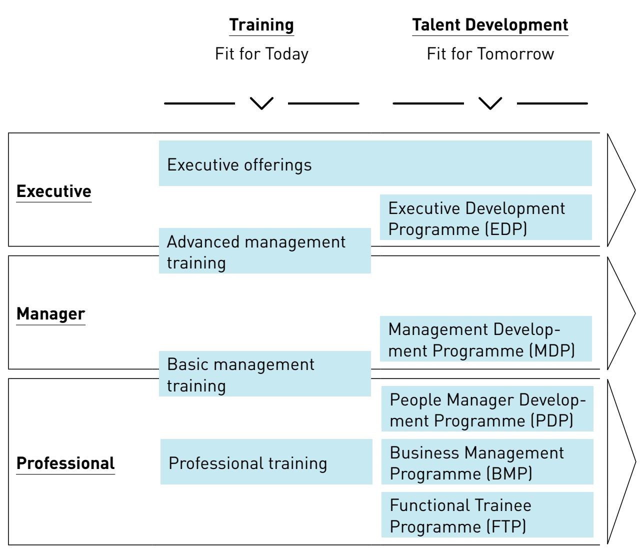
The Functional Trainee Programme (FTP) is an 18-month programme providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within the adidas Group. The programme comprises six three-month assignments in various departments. At least one of these assignments takes place abroad. At year-end 2011, we employed 47 participants in our global FTP (2010: 36).

Our development programmes are complemented by apprenticeship and internship programmes. The adidas Group apprenticeship offers young people who want to join our Group directly out of school the opportunity to gain business experience in a three-year rotation programme. The programme includes vocational training in retail, industrial management and IT, as well as integrated study programmes. At the end of 2011, we employed 76 apprentices in Germany (2010: 58), including 30 integrated study programme students (2010: 18).

01 / Success drivers for performance



02 / Development and training framework



Our global internship programme offers students three to six months of work experience within the adidas Group. It plays a key role in our recruiting strategy. At the end of 2011, we employed 330 interns in Germany (2010: 331).

Succession management: The adidas Group succession management approach aims to ensure business continuity. We achieve this through a globally consistent succession plan which covers successors for director level positions and above. These positions and the respective successors are regularly discussed by senior management. The succession management information shows a clear picture of the successor readiness and development needs. Based upon this information, we draft individual development plans to prepare the successor for their potential next tasks. In addition, we use the successor information to create dynamic talent pools which provide us with further flexibility in our succession management process. All information is consolidated in a succession management risk analysis.

The succession management process is supported by a system solution which hosts position and employee data related to performance, potential, career aspirations, mobility, etc. Our system solution is applied in 91% of the adidas Group business units. The target for 2012 is to reach a full Group-wide online coverage.

Performance-driven remuneration system

We are committed to rewarding our employees with compensation and benefit programmes that are competitive in the marketplace. Remuneration throughout the Group comprises fixed and variable monetary compensation, non-monetary rewards, as well as other intangible benefits. The cornerstone of our rewards programme is our Global Salary Management System which is used as a basis for establishing and evaluating the value of employees' positions and salaries in a market-driven and performance-oriented way. In addition to a fixed base salary, we offer our employees various variable compensation components.

Bonus programme: In order to allow our employees to participate in the Group's success, and to reward them for their target achievement, we have implemented a Global Bonus Programme. This programme combines individual performance (measured in the PEP process) and corporate performance (actual financial results measured against Group, brand, channel, division and/or business unit targets).

Profit participation programme: For employees at our Group headquarters and our other locations in Germany who do not participate in the bonus programme, we have introduced a profit participation programme called the "Champions Bonus".

Additional compensation components: For senior management and Executive Board members, we offer Long-Term Incentive Programmes (LTIP). Other benefits include our 401-K pension plans in the USA and the adidas Group pension plan for our employees in Germany. In 2011, 2,220 employees participated in the latter, which represents about 51% of all eligible employees.

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

Internal communication activities to drive employee engagement

We believe that a robust internal communication platform is essential for driving employee engagement and fostering open collaboration within our organisation. For example, the Group Intranet has been transformed over the past few years into blogs, allowing departments and teams to quickly build and edit their own internal communication platforms. It also enables employees to comment on news, share knowledge, collaborate and discuss current topics. Since 2010, a Group-wide idea forum allows our employees to receive recognition for their ideas and participate in the implementation process. For 2011, our focus was on knowledge management and collaboration. We started to implement a Microsoft SharePoint platform, which will enable us to have one global, integrated tool for knowledge management. This is part of a longer-term project to create a modern and continual learning organisation.

02.7

Creating an attractive work environment

We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees. Our Work-Life Integration Programme includes family-oriented services, flexible work time and place, people development and leadership competence related to work-life integration.

Diverse workforce to achieve global goals: As a global company, we understand that it takes people with different ideas, strengths, interests and cultural backgrounds to ensure we achieve our goals. A high degree of diversity is already represented within our workforce. At our Group's global headquarters, for example, we have employees from more than 60 nations. We act to assure an environment that embraces diversity through various initiatives, such as networking events, intercultural training and the activities of our work-life integration department.

Increasing proportion of women in management positions: The adidas Group has set specific goals which are in line with our corporate culture as well as our employee structure. We plan to increase the proportion of women in management to between 32% and 35% by 2015 (currently: 27% worldwide) TABLE 03. To reach this goal, we are increasing the proportion of women in our leadership development programmes to 35% in order to support our female employees to take leadership positions in all areas of the company. At the beginning of the year, the Supervisory Board of adidas AG already committed to increase the degree of female representation to at least three female members at the next election in 2014, with at least one to be on the shareholders' side SEE SUPERVISORY BOARD REPORT, P. 40. In addition, the adidas Group is focusing on programmes which give employees with children the option to combine their careers with family life, regardless of gender. For example, since 2002, more than 70 children have been able to attend a child-care facility at our company premises in Canton, USA, and a day-care centre for 100 children is scheduled to open in 2013 at the Group's global headquarters in Herzogenaurach, Germany.

Diverse sports activities for employees: In addition, we offer our employees a wide range of sports activities at our major sites, in which partly also their partners and family members can participate. Employees in Herzogenaurach, Portland, Canton and at other subsidiaries have access to a company gym and numerous other sports facilities. Our Company Sports department in Herzogenaurach also organises various team and individual sports activities such as Nordic walking, mountain biking, kayaking, yoga or ski tours. Special events such as a one-week sports camp for employees' children, trans-alpine mountain bike tours and the annual Berlin Marathon weekend (with a suitable training programme prior to the event) are also available. Even current trends such as CrossFit, zumba and sling training as well as special workshops like photography courses and nutrition seminars are included in the programme. In 2011, the Company Sports department in Germany offered 226 courses and 34 events, which were attended by more than 3,900 participants (2010: >3,600).

03 Key employee statistics

	2011
Total number of employees	46,824
Total employees (in %)	
Male	50%
Female	50%
Management positions (in %)	
Male	73%
Female	27%
Average age of employees (in years) [1]	30
Average length of service (in years)	3.5
Annual training hours by employee (in hours)	17.0

1) At year-end.

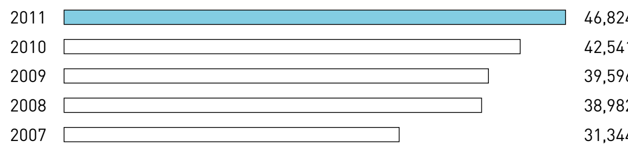
Global employee base continues to grow

On December 31, 2011, the Group had 46,824 employees, which represents an increase of 10% versus 42,541 in the previous year ⁄ DIAGRAM 04. This development is primarily related to the expansion of the Group's own-retail activities in emerging markets. An increase in the sales force as well as additional hirings within our Global Operations function, in order to support the Group's sales growth, also contributed to the overall increase in the number of employees. Furthermore, a change in the internal definition of full-time equivalents also impacted this development.

On a full-time equivalent basis, our Group had 40,637 employees on December 31, 2011 (2010: 36,444). Due to the high share of employees working on a part-time basis in the Retail segment, this figure is lower than the figure reported on a headcount basis ⁄ TABLE 07. Personnel expenses increased 8% to € 1.646 billion in 2011 from € 1.521 billion in 2010, representing 12% of Group sales (2010: 13%) ⁄ SEE NOTE 31, P. 209.

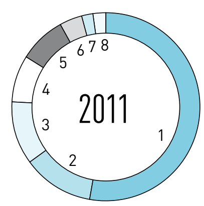
At the end of 2011, 23% of our Group's staff were employed in Western Europe (2010: 23%), 33% in European Emerging Markets (2010: 34%), 25% in North America (2010: 24%), 4% in Greater China (2010: 4%), 9% in Other Asian Markets (2010: 9%) and 6% in Latin America (2010: 6%) ⁄ DIAGRAM 06. As a global company with less than 10% of our employees located in Germany, we actively encourage global mobility and offer our employees the opportunity to go on international assignments. To support relocating professionals and their families in new living and working environments, we provide, for example, relevant language and cultural training.

04 ⁄ adidas Group number of employees[1]



1) At year-end.

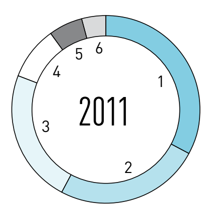
05 ⁄ Employees by function[1]



1 ⁄ **53%** Own retail
2 ⁄ **12%** Logistics
3 ⁄ **11%** Sales
4 ⁄ **8%** Marketing
5 ⁄ **8%** Central administration
6 ⁄ **4%** Production
7 ⁄ **2%** Research & development
8 ⁄ **2%** IT

1) At year-end.

06 ⁄ Employees by region[1]



1 ⁄ **33%** European Emerging Markets
2 ⁄ **25%** North America
3 ⁄ **23%** Western Europe
4 ⁄ **9%** Other Asian Markets
5 ⁄ **6%** Latin America
6 ⁄ **4%** Greater China

1) At year-end.

02.7 /

Being an "employer of choice"

The so-called "war for talent" continues to be a forefront issue. Top-calibre talent is a premium around the world. More than ever, we challenge ourselves to do what it takes to be and remain the employer of choice. During 2011, we again received some highly rated rankings as an employer of choice, proving that the adidas Group is one of the leading employers for school leavers and students/graduates. In order to further strengthen this position, we continued to push our activities at schools and universities throughout 2011, to foster our strong employer image through direct contact with top graduates and students. Members of the Executive Board and other senior executives of the Group shared their business insights at selected top universities and business schools such as the London Business School, the IESE in Barcelona and universities in Germany such as in Mannheim and Nuremberg.

When it comes to highly qualified personnel, the adidas Group continues to face increasing competition in the international labour market. We will continue to give priority attention to this challenge with innovative programmes, such as the Employee Referral Programme which was introduced in 2010 and will be further expanded in 2012.

Looking further to the future, as part of our Group-wide strategic business plan Route 2015, Human Resources will also further build upon existing programmes and concepts, adding new capabilities to enhance our performance, learning and leadership culture. Through specific initiatives and workstreams, we are looking at new and innovative ways to incentivise and reward our employees, based upon performance criteria. In addition, we are looking at ways to ensure that we begin training, developing and building the skills and competencies that will be necessary for the future, whilst also developing a better understanding of the company, the employee and the consumer of the future. All these will combine to form the backbone of a progressive and pro-active Human Resources programme that will play a strong contributing role to the ongoing success of the adidas Group.

07 / Number of employees [1]

	2011		2010	
	Employees [2]	Full-time equivalents [3]	Employees [2]	Full-time equivalents [3]
Own retail	24,649	19,454	22,884	17,560
Sales	5,067	4,697	4,191	4,046
Logistics	5,334	5,167	4,672	4,542
Marketing	3,847	3,716	3,573	3,460
Central administration	3,923	3,703	3,370	3,165
Production	1,969	1,931	1,901	1,776
Research & development	1,029	990	1,002	961
IT	1,006	979	948	934
Total	46,824	40,637	42,541	36,444

1) At year-end.
2) Number of employees on a headcount basis.
3) Number of employees on a full-time equivalent basis. Due to the high share of part-time employees in our Retail segment, this figure is lower than the number of employees counted on a headcount basis.

02.8 ⁄

Sustainability

The adidas Group is responsible and accountable for developing and implementing sustainable business practices that adhere to our operational needs as well as our social and environmental obligations. As a consequence, we continuously engage with our various stakeholders in a collaborative way with the goal of enhancing the social and environmental performance of the Group. We believe that acting as a good corporate citizen will improve our reputation and hence our economic value.

Engaging with a variety of stakeholders

At the adidas Group, we openly engage with numerous stakeholders, involving them in key social and environmental decisions that shape day-to-day operations. Through active participation in, for example, the Better Cotton Initiative, the Sustainable Apparel Coalition, the Leather Working Group and the AFIRM Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organisations such as the World Business Council for Sustainable Development (WBCSD), the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA). In addition, we recognise that open and honest communication enhances the transparency of our business and demonstrates our commitment to being accountable.

Workplace Standards set rules in the supply chain

We have a responsibility to our employees and the workers in our suppliers' factories as well as the environment. Malpractice in these areas, in particular human rights violations and dubious employment practices, can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. Therefore, covering labour rights, health and safety, and environmental protection at our own sites and our suppliers' factories is of the highest importance to us. We have defined rules or standards embedding our own corporate values as well as those society expects of global businesses. These standards follow International Labour Organization (ILO) and United Nations conventions relating to human rights and employment practices, as well as the WFSGI model code of conduct. We have condensed our rules into a supplier code of conduct that we call our "Workplace Standards". These Standards help us select manufacturing partners and serve as guiding principles in the early identification and treatment of potential issues of concern at our suppliers' sites.

More information online

More information on the following topics is available on our website at :⁄⁄ **WWW.ADIDAS-GROUP.COM/SUSTAINABILITY**:

- Our Group's sustainability programme
- Sustainability targets and progress
- Stakeholder engagement
- The "Better Place" programme
- Performance data
- Our Group's Environmental Strategy

To illustrate how suppliers should implement our Standards, we have created a set of detailed guidelines for use in factory settings, which are updated on a regular basis by our Social and Environmental Affairs (SEA) team. The guidelines are also used to determine suppliers' compliance with our Standards and to advise and train our suppliers in improving their social and environmental performance.

Careful supplier selection

To improve working conditions throughout our supply chain, the Group function Global Operations works closely with our SEA team on supplier selection. The SEA team assesses all potential new suppliers, and orders can only be placed with a new supplier when SEA approval has been granted.

Encouraging self-governance

We help our core business partners in establishing management systems with internationally recognised standards such as ISO 14001 for environmental management or OHSAS 18000 for health and safety management systems as we believe good management systems help factories improve their day-to-day operations and support the process of self-governance. By running a certified management system, our suppliers demonstrate commitment to continuously enhancing their performance. We help them build or improve human resources systems to maintain proper working conditions, including factory grievance systems to routinely find and fix non-compliance issues. Furthermore, by enforcing employment standards at the sites of our manufacturing suppliers, we empower workers to protect their own rights and take an active role in decision-making.

02.8

Training to achieve sustainable compliance

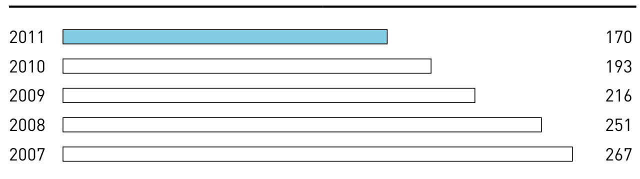
Our SEA team offers specific training courses and workshops for factory supervisors and managers to help them apply our Standards and implement best practices. These workshops include, for example, introductory training on our Workplace Standards and SEA operating guidelines and detailed training on effective health, safety and environmental practices. Furthermore, we promote the establishment of structures that actively involve workers and management of our suppliers, as well as local employee associations and non-governmental organisations (NGOs). In order to strengthen personnel capacities throughout our company, our SEA team also organises workshops for licensees, agents and adidas Group business entities. In this way, the consideration of acceptable working conditions becomes a routine part of business activities. In 2011, the SEA team conducted 170 training sessions and workshops (2010: 193) DIAGRAM 01.

Monitoring through factory inspections

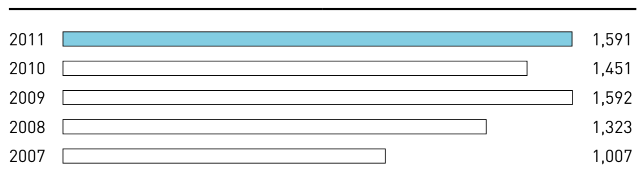
The SEA team assesses compliance with our Workplace Standards by means of factory inspections. Our auditors check performance against a customised risk list for each factory that is monitored. The methodology is linked to a factory rating which measures the effectiveness of compliance systems and the work of their administrators. This enables us to precisely determine training needs at our suppliers' factories. During 2011, we conducted 1,591 factory visits (2010: 1,451 visits) involving management and worker interviews, document reviews, facility inspections and training sessions at different levels in our supply chain DIAGRAM 02.

In addition to our own monitoring activities, we value independent and unannounced assessment by third parties to demonstrate the credibility of and provide verified information about our programme to stakeholders. As a member of the Fair Labor Association (FLA), the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. In 2008, the monitoring programme of the adidas Group was re-accredited by the FLA. This decision was based on independent factory monitoring and verification reports of supplier facilities, and a thorough audit of monitoring protocols, training programmes and auditing systems. The next review and accreditation cycle is scheduled for 2012. Since joining the FLA, more than 280 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers.

01 **Number of trainings**



02 **Number of factory visits**



Warning-letter system to enforce compliance

Where a manufacturing supplier is performing poorly in terms of Workplace Standards compliance, we will work closely with them to find solutions. However, when we find ongoing and serious instances of non-compliance and a lack of commitment from factory management to address the issues, we send out a formal warning letter including a notification to factory management that their business relationship with the adidas Group is in jeopardy. Three warning letters result in a termination. In 2011, we terminated our business relationship with 13 suppliers for compliance reasons (2010: 0 terminations).

Strategic approach to driving environmental progress and tackling climate change

Tackling climate change poses a number of challenges for our company and our manufacturing partners. As a result of an analysis of our environmental impacts, we have put the Environmental Strategy 2015 in place. The Strategy is targeted to substantially improve our environmental footprint. This will enable us to offer more sustainable products to our consumers. The Strategy follows a vision and mission and sets clear targets to be reached by 2015. These targets cover our whole value chain across all management processes, reaching from product design and creation to sourcing and manufacturing to our stores and all other points of sale. The focus is on energy, water conservation and discharge, waste and chemicals, and on becoming more thoughtful and efficient in using resources as well as helping reduce operational costs. More details on our Environmental Strategy can be found on our website at :// WWW.ADIDAS-GROUP.COM/SUSTAINABILITY.

Improving our environmental footprint at own sites

An important part of our Group's Environmental Strategy is the Green Company initiative, which targets reducing the environmental footprint of our own sites. The initiative provides a supporting framework, guidance and communication platform for all Group entities to improve their environmental footprint.

As part of this initiative, we have set Group-wide and site-specific 2015 targets related to carbon emissions, savings in energy, water and paper consumption as well as sourcing green energy. One of the key goals within the Green Company initiative has been to obtain ISO 14001 certification for environmental management systems established at six major administration sites of the adidas Group. This was already achieved for five major sites in 2010, all located in North America (Portland, Carlsbad, Canton, Montreal and Spartanburg). The certification of the adidas Group Headquarters site "World of Sports" in Herzogenaurach, Germany, and our Distribution Centre in Indianapolis, USA, was achieved in 2011.

Sustainable materials

One key goal of our Environmental Strategy is to reduce the overall environmental impact of materials used in our products. We aim to find materials that will reduce waste or have less of an impact throughout their whole life cycle. The adidas Group has various initiatives in place that help to achieve its goal to increase the usage of sustainable materials. One example is the participation in the Better Cotton Initiative which the adidas Group co-founded. We are committed to using 100% Better Cotton by 2018 in all of our products. Better Cotton can be described as sustainable cotton going mainstream, i.e. decreasing negative impacts of growing cotton by cutting water consumption considerably and addressing pesticide management, crop rotation and sound working conditions. In 2012, we will continue to launch products containing Better Cotton. More information about Better Cotton can be found on our website at :⁄⁄ WWW.ADIDAS-GROUP.COM/SUSTAINABILITY.

One example of how sustainable materials, environmental design and manufacturing are implemented is the adidas "Better Place" concept. The adidas brand consolidates its sustainable product research and development within this sustainable product creation programme. The first adidas "Better Place" products were introduced globally in 2009 in response to increasing consumer demand for sustainable sports apparel and footwear. The products feature environmentally innovative design, construction, material composition and packaging that distinguish them as environmentally preferred. All materials that are used for "Better Place" have to pass an in-depth assessment.

adidas reached a considerable milestone with all global footwear products created in 2011 either reaching or exceeding the baseline "Better Place" criteria. Along with strong performance in apparel, this represents a considerable increase in "Better Place" products during the year. This growth is supported by ongoing innovation in the area of sustainable product construction and manufacturing techniques, such as the zero-waste hot-runner injection technologies used on several 2011 running footwear models. Hot runners are a technology brought over from the automotive industry, where injectable materials travel through a heated channel directly from the machine into the mould, only using the amount of material needed, and resulting in no production overflow from the mould. We see sizeable business opportunities for our Group in the area of sustainable product concepts ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145, and have already planned increased growth in the sustainable product segment as well as a rise in consumer engagement in the topic for 2012.

Driving environmental improvements in our supply chain

In the supply chain, activities focus on helping suppliers establish sound environmental management systems at their manufacturing plants to best reduce their negative environmental impacts. We have guidelines and training programmes in place for our suppliers, using the environmental performance of our own production sites as examples of best practice.

The majority of our footwear sourcing volume is produced in factories which are OHSAS 18000 and/or ISO 14001 certified. The remaining part of our footwear sourcing volume is produced in factories that have management systems in place but have not been certified. All footwear factories are regularly assessed against the adidas Group's standards on environment and workplace health and safety. A range of other activities have been implemented to reduce our carbon footprint in the supply and distribution chain. Examples of these are in the areas of transportation and energy use. In the transportation of our products, our policy is to minimise the impacts, in particular from air freight shipments, through improved order and production planning tools.

02.8

110 2011

adidas GROUP

Case study on the London 2012 Olympic Games

Global sports events, such as the FIFA World Cup or the Olympic Games, place considerable attention on the host countries, the event organisers and their major partners. This increased attention also raises questions about how events are organised and how the involved parties manage their wider social and environmental responsibilities.

The London Organising Committee of the Olympic and Paralympic Games (LOCOG) issued a Sustainable Sourcing Code to its partners. The code clearly outlines four key principles for commercial partners to follow:
- Responsible sourcing – ensuring that products and services are sourced and produced under a set of internationally acceptable environmental, social and ethical guidelines and standards
- Sustainable product creation – maximising the use of materials with reused and recycled content, minimising packaging and designing products that can either be reused or recycled
- Minimising embodied impacts – maximising resource and energy efficiency in the manufacturing and supply process in order to minimise environmental impacts
- Usage of healthy materials – ensuring that appropriate substances and materials are used in order to protect human health and the environment

Commercial partners are contractually bound to abide by LOCOG's policies and requirements. This includes the disclosure of all factories manufacturing London 2012 products and registering those factory premises on the Supplier Ethical Data Exchange (SEDEX).

How adidas is prepared to meet the code:

Responsible sourcing practices

All direct suppliers and sewing subcontractors selected to manufacture LOCOG licensed products
- are required to meet the adidas Group's Workplace Standards
- are fully disclosed in SEDEX
- are subject to regular labour, health and safety compliance inspections by adidas Group SEA compliance staff
- meet a defined Key Performance Indicator (KPI) rating for factories' compliance performance
- have a management plan in place that details the factory's compliance programme and future targets
- are publicly disclosed on the adidas Group website

Sustainable product creation

90% of the adidas products for the London 2012 Olympic Games contain sustainable content, with 100% of athlete Village wear, 100% of Volunteer wear and 73% of on-field performance products designed and developed as "Better Place". The London Volunteers' uniform is a prime example. All items in the Volunteer package contain, at a minimum, 35% sustainable content, with three quarters of the Volunteer clothing and accessories at sustainability levels beyond 50%. Additionally, all Volunteers will be wearing the London version of the popular Fluid Trainer shoe. The Fluid Trainer is technically advanced in the area of sustainability, with pattern innovations and sustainable content that impact the whole shoe. This shoe contains recycled polyester mesh, recycled EVA, as well as recycled rubber, and has achieved a 70% or greater pattern efficiency for every piece of the upper.

Minimising embodied impact

All direct suppliers selected to manufacture adidas branded LOCOG licensed products and their major materials suppliers undergo in-depth environmental assessments. These are used for the development of individual factory improvement programmes. The factories' progress is going to be tracked regularly.

Usage of healthy materials

LOCOG licensed products comply with the adidas Group's restricted substances list and are in compliance with standards listed in the LOCOG Sourcing Code.

Control and monitoring of restricted substances

We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety. This policy is mandatory for all business partners and is updated regularly based on findings in our ongoing dialogue with scientific organisations. Our standards cover the general requirements for eco-labels and green seals (e.g. ÖKO-Tex Standard 100, Toxproof TÜV Rheinland, etc.) for footwear, apparel and hardware products. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected.

Reducing VOC emissions

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can, in a high concentration, cause breathing difficulties and other health problems for production workers. Therefore, for more than a decade, we have been requesting our footwear suppliers to reduce the use of VOCs in their manufacturing.

By applying innovative and environmentally sound bonding and priming technologies and following the adidas Group guidelines on the use of chemicals, it has been possible for our athletic footwear suppliers in Asia and Europe to reduce the use of VOCs from well above 100 grams per pair down to below 30 grams, for a short period even to 20 grams. However, in the last two to three years, we have seen a slight increase. The reason is that some new footwear constructions, such as outdoor models need organic solvents in order to maintain high performance standards under outdoor conditions. The technical reason is the stronger bonding needed between different footwear parts, which can only be obtained with solvent-based primers and adhesives.

Strong sustainability track record reflected in index memberships

Interest from the financial community in sustainability management is steadily increasing. We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment (SRI) analysts. Each year, we respond to numerous enquiries from socially responsible investors, fund managers and financial analysts. They evaluate our efforts through in-depth analysis of our sustainability programme, including document review as well as interviews with employees and management. As a result, adidas AG has been included in a variety of high-profile sustainability indices ⁄ ADIDAS AG IN SUSTAINABILITY INDICES.

adidas AG in sustainability indices

- DJSI World (DJSI = Dow Jones Sustainability Index)
- DJSI STOXX
- DJSI EURO STOXX
- FTSE4Good Europe Index
- ASPI Eurozone Index
- Ethibel Sustainability Index Excellence Europe
- ECPI Ethical Index EMU
- STOXX Global ESG Leaders

For more information ⁄ SEE OUR SHARE, P. 54.

TOGETHER WE WIN

03 FINANCIAL REVIEW

GROUP MANAGEMENT REPORT

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

Walkability

The culmination of years of development, Rockport will introduce truWalk Zero in spring 2012. A market-leading innovation to claim ownership of lightness in the brown shoe industry. Featuring advanced lightweight materials and cutting-edge shoe architecture, the truWalk Zero is one of the lightest and most comfortable shoes in the industry.

Together we win.

03.1

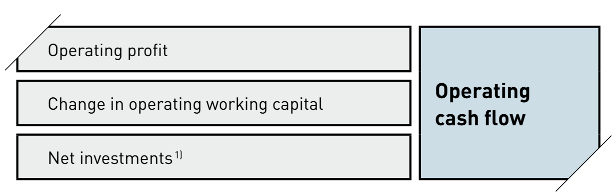
Internal Group Management System

The principal financial goal for increasing shareholder value at the adidas Group is maximising operating cash flow. We strive to achieve this goal by continually improving our top- and bottom-line performance while at the same time optimising the use of invested capital. Our Group's planning and controlling system is therefore designed to provide a variety of tools to assess our current performance and to align future strategic and investment decisions to best utilise commercial and organisational opportunities.

Operating cash flow as Internal Group Management focus

We believe operating cash flow is the most important driver to increase shareholder value. Operating cash flow is comprised of operating profit, change in operating working capital and net investments (capital expenditure less depreciation and amortisation) DIAGRAM 01. To maximise operating cash flow generation across our organisation, management of our operating segments together with management at market level have responsibility for improving operating profit as well as optimising operating working capital and capital expenditure. To keep senior management focused on long-term performance improvements we have adopted a modified economic value added (EVA) model. The asset base of a market or operating unit within the Group is subject to a percentage capital charge to the operating profit of the respective business unit. The asset base includes operating working capital as well as other assets needed by a market or operating unit in its day-to-day operations. The resulting internal KPI is called Contribution After Capital Charge (CACC) and is used as one of the primary targets for the variable component of managers' compensation. This concept has been in place Group-wide since 2010.

01 Operating cash flow components



1) Capital expenditure less depreciation and amortisation.

Operating margin as important KPI of operational progress

Operating margin (defined as operating profit as a percentage of net sales) is our Group's most important measure of operational success. It highlights the quality of our top line and operational efficiency. The primary drivers central to enhancing operating margin are:

- **Sales and gross margin development:** Management focuses on identifying and exploiting opportunities that not only provide for future growth, but also have potential to increase gross margin (defined as gross profit as a percentage of net sales). Major levers for enhancing our Group's sales and gross margin include:
  - optimising our product mix
  - increasing the quality of distribution, with a particular focus on controlled space
  - minimising clearance activities
  - realising supply chain efficiency initiatives

- **Operating expense control:** We put high emphasis on tightly controlling operating expenses to leverage the Group's sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the Group's cost base. Marketing working budget is our largest operating expense. It is one of the most important mechanisms for driving top-line growth sustainably. Therefore, we are committed to improving the utilisation of our marketing expenditure. This includes concentrating our communication efforts (including advertising, retail presentation and public relations) on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs and athletes.

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

Furthermore, we carefully analyse the different mix effects which impact the Group's profit ratios, as our business performance differs significantly across geographical markets, business models and channels. The strategic implications and decisions taken in this respect are a key element of our strategic planning efforts, ensuring clarity and focus of the organisation to maximise the Group's operating margin.

Optimisation of non-operating components

Our Group also puts a high priority on the optimisation of non-operating components such as financial result and taxes, as these items strongly impact the Group's cash outflows and therefore the Group's free cash flow. Financial expenses are managed centrally by our Group Treasury department SEE TREASURY, P. 129. The Group's current and future tax expenditure is optimised globally by our Group Taxes department.

Tight operating working capital management

Due to a comparatively low level of fixed assets required in our business, the efficiency of the Group's balance sheet depends to a large degree on our operating working capital management. Our key metric is operating working capital as a percentage of net sales. Monitoring the development of this key metric facilitates the measurement of our progress in improving the efficiency of our business cycle. We have significantly enhanced operating working capital management over recent years through improvement of our Group's inventories, accounts receivable and accounts payable.

We strive to manage our inventory levels to meet market demand and ensure fast replenishment. Inventory ageing is controlled to reduce inventory obsolescence and to optimise clearance activities. As a result, stock turn development is the key performance indicator as it measures the number of times average inventory is sold during a year, highlighting the efficiency of capital locked up in products. To minimise capital tied up in accounts receivable, we strive to improve collection efforts in order to reduce the Days of Sales Outstanding (DSO) and improve the ageing of accounts receivable. Likewise, we strive to optimise payment terms with our suppliers to best manage our accounts payable.

Capital expenditure targeted to maximise future returns

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

The final step of optimising return on investments is our post-mortem analysis process, where in particular larger projects are evaluated and learnings are documented to be available for future strategic or operational capital expenditure decisions.

M&A activities focus on long-term value creation potential

We see the majority of the Group's future growth opportunities coming from our existing portfolio of brands. However, as part of our commitment to ensuring sustainable profitable development, we regularly review merger and acquisition (M&A) options that may provide additional commercial and operational opportunities. Acquisitive growth focus is primarily related to improving the Group's positioning within a sports category, strengthening our technology portfolio or addressing new consumer segments.

The strategies of any potential acquisition candidate must correspond with the Group's strategic direction. Maximising return on invested capital above the cost of capital in the long term is a core consideration in our decision-making process. Of particular importance is evaluating the potential impact on our Group's free cash flow. We assess current and future projected key financial metrics to evaluate a target's operating profit potential. In addition, careful consideration is given to potential financing needs and their impact on the Group's financial leverage.

Cost of capital metric used to measure investment potential

Creating value for our shareholders by earning a return on invested capital above the cost of that capital is a guiding principle of our Group strategy. We source capital from equity and debt markets. Therefore, we have a responsibility that our return on capital meets the expectations of both equity shareholders and creditors. We calculate the cost of capital utilising the weighted average cost of capital (WACC) formula. This metric allows us to calculate the minimum required financial returns of planned capital investments. The cost of equity is computed utilising the risk-free rate, market risk premium and beta factor. Cost of debt is calculated using the risk-free rate, credit spread and average tax rate.

Structured performance measurement system

We have developed an extensive performance measurement system, which utilises a variety of tools to measure the performance of the adidas Group. The Group's key financial metrics are monitored and compared against budget as well as a rolling forecast on a monthly basis. The focus is on operating cash flow, CACC, sales, operating margin, operating working capital and net debt development ⁄ DIAGRAM 02. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimise the development of the Group's operating performance. We also benchmark the Group's financial results with those of our major competitors on a quarterly basis. To assess current sales and profitability development, Management analyses sell-through information from our own-retail activities as well as short-term replenishment orders from retailers.

Taking into account year-to-date performance as well as opportunities and risks, the Group's full year financial performance is forecasted on a monthly basis. In this respect, backlogs comprising orders received up to nine months in advance of the actual sale are also used as an indicator. However, due to the growing share of own retail in our business mix as well as fluctuating order patterns among our wholesale partners, our order books are less indicative of anticipated revenues compared to the past. Therefore, qualitative feedback from our retail partners on the success of our collections at the point of sale as well as data received from our own retail are becoming even more important. Finally, as a further early indicator for future performance, we also conduct market research to better measure brand appeal, brand awareness and resulting purchase intent.

02 ⁄ Key financial metrics

$$\text{Gross margin} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$\text{Operating margin} = \frac{\text{Operating profit}}{\text{Net sales}} \times 100$$

$$\text{Average operating working capital} = \frac{\text{Sum of operating working capital at quarter-end}}{4}$$

$$\text{Operating working capital in \% of net sales} = \frac{\text{Average operating working capital}}{\text{Net sales}} \times 100$$

Capital expenditure[1] = Additions of property, plant and equipment plus intangible assets

1) Excluding acquisitions and finance leases.

Enhanced integrated planning and management approach

In order to further improve profitability and working capital efficiency as well as operating cash flow development, in 2011 we started to introduce an enhanced forecasting approach around full integration of the major business functions such as marketing, sales and operations at a market and global level. The centre-point of this approach is improving the accuracy of future business planning, leading to a new efficiency level of order book building and conversion. We connect all relevant financial KPIs with the corresponding operational KPIs, resulting in a comprehensive understanding of all interdependencies.

The whole process is set up in a rhythm and timeframe to facilitate full management alignment and forecasting clarity in advance of important business decision processes – in particular those related to product pricing, range building, material purchasing or production capacities. To create a seamless flow between achieving our strategic objectives and implementing operational plans, we follow a rolling two-year time horizon. All target-setting is fully embedded into the integrated planning process and communicated in advance of all relevant business decision processes.

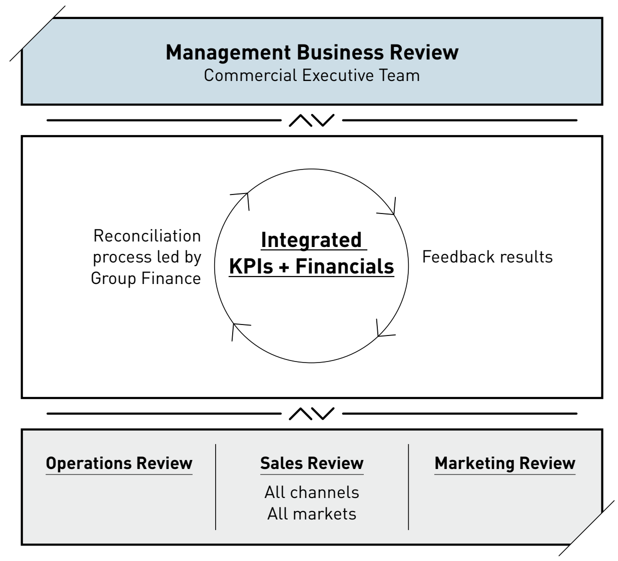
Management appraisal of performance and targets

We communicate our Group's financial targets on an annual basis. We also provide updates throughout the year as appropriate TABLE 03. In 2011, Group sales and net income increased significantly. Group sales development outperformed macroeconomic and global industry growth SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 118, due to sales increases in all geographical areas. Stronger performances in North America and the emerging markets as well as within our Retail segment resulted in Group revenues exceeding our initial guidance of a mid- to high-single-digit increase.

Profitability increased in line with our initial expectations, due to lower other operating expenses as a percentage of sales SEE INCOME STATEMENT, P. 121. As a result of our continued focus on operating working capital and cash management, we exceeded our goals related to balance sheet improvements in 2011 and ended the year with a net cash position SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 126.

Our expectations for the Group's business performance in 2012 are based on continued global economic growth, albeit at a slightly lower rate than in 2011, as well as a further strengthening of our business in the emerging markets. Through our industry-leading innovation strength, the extensive pipeline of new and fresh products, which have received favourable reviews from retailers, as well as positive effects from major sporting events, we project top- and bottom-line improvements in our Group's financial results in 2012. Profitability improvements, however, will be dampened by continuing pressure on raw material and labour costs which our industry is facing. In 2013 and beyond, assuming no deterioration in the global economy, we are confident to further increase sales and earnings per share as outlined under our Route 2015 strategic business plan. We believe that our outlook is realistic within the scope of the current trading environment. No material event between the end of 2011 and the publication of this report has altered our view SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163.

04 New industry best practice planning process



03 adidas Group targets versus actual key metrics

	2010 Actual	2011 Initial outlook[1]	2011 Actual	2012 Targets
Sales (year-over-year change, currency-neutral)	9%	mid- to high-single-digit increase	13%	mid- to high-single-digit increase
Gross margin	47.8%	47.5% to 48.0%	47.5%	around 47.5%
Other operating expenses (in % of sales)	42.1%	moderate decline	41.4%	moderate decline
Operating margin	7.5%	7.5% to 8.0%	7.6%	approaching 8.0%
(Diluted) earnings per share (in €)	2.71	2.98 to 3.12	3.20	3.52 to 3.68
Average operating working capital (in % of net sales)	20.8%	increase	20.8%	moderate increase
Capital expenditure (€ in millions)[2]	269	350 to 400	376	400 to 450
Net cash/(net borrowings) (€ in millions)	(221)	further reduction	90	further reduction of gross borrowings

1) As published on March 2, 2011. The outlook was updated over the course of the year.
2) Excluding acquisitions and finance leases.

03.2 /

Group Business Performance

In 2011, the adidas Group delivered a strong financial performance. Currency-neutral Group sales increased 13% as a result of double-digit growth in the Wholesale and Retail segments as well as in Other Businesses. In euro terms, adidas Group revenues grew 11% to € 13.344 billion from € 11.990 billion in 2010. The Group's gross margin decreased 0.3 percentage points to 47.5% (2010: 47.8%), as the increase in input costs more than offset the positive impact from a more favourable product and regional sales mix as well as a larger share of higher-margin Retail sales. The Group's gross profit rose 11% to € 6.344 billion in 2011 versus € 5.730 billion in 2010. The Group's operating margin was up 0.1 percentage points to 7.6% from 7.5% in 2010. This was primarily due to the positive effects from lower other operating expenses as a percentage of sales, which more than offset a decrease in gross margin and in other operating income. The Group's operating profit grew 13% to € 1.011 billion in 2011 versus € 894 million in 2010. The Group's net income attributable to shareholders increased 18% to € 671 million from € 567 million in 2010. Basic and diluted earnings per share grew 18% to € 3.20 in 2011 versus € 2.71 in 2010.

Economic and Sector Development

Global economy expands 2.7% in 2011

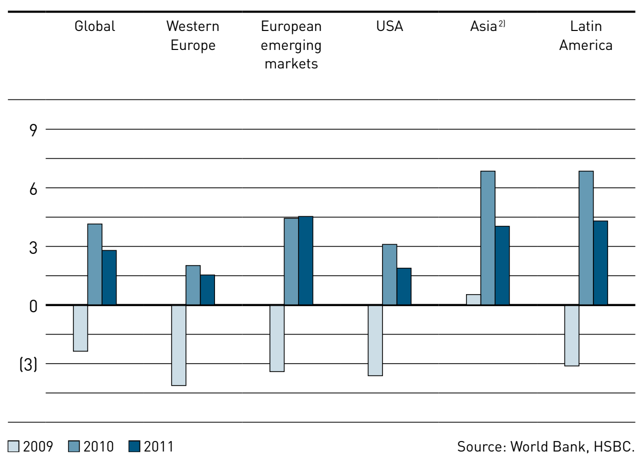
In 2011, global GDP growth moderated to 2.7%, compared to 4.1% in the prior year. The emerging markets grew significantly faster than the developed economies, expanding 6.0% and 1.6% respectively. Economic expansion was mainly driven by industrial activity and domestic consumption in the emerging markets, particularly in China and India. However, the European debt crisis, the downgrade of the sovereign ratings of many major economies, the effect of the earthquake and tsunami in Japan, as well as political revolutions in many Arab countries were all major challenges for and disruptions to global economic activity during the year.

In Western Europe, GDP increased 1.5% (2010: 1.9%), driven in particular by Germany's domestic consumption and exports. The euro debt crisis remained a key challenge for the region, as political uncertainty on finding a resolution, acute austerity measures and fiscal tightening inhibited confidence and economic activity.

European emerging markets' GDP growth kept pace with the prior year at around 4.5% (2010: 4.4%). Despite the negative effects from the euro debt crisis and high unemployment levels in many markets, strong domestic demand and exports positively impacted economic growth. Russia in particular benefited from high oil prices and increased output.

In the USA, GDP increased 1.8% compared to 3.0% in the prior year. High fuel prices and the uncertainties created by the deficit reduction debate were both negatives on consumer confidence and business sentiment in the first half of the year. However, consumer spending and business hiring revived, albeit somewhat modestly, in the second half of the year, driven by a decline in energy prices, pent-up demand and further monetary easing. Despite evidence that the residential real estate market had begun to stabilise, imbalances in the mortgage market and relatively high unemployment levels continued to limit spending in many households.

01 / **Regional GDP development[1]** (in %)



Source: World Bank, HSBC.

1) Real, percentage change versus prior year; 2009 and 2010 figures restated compared to prior year.
2) Asia also includes Japan and Area Pacific.

In 2011, Asian economies, excluding Japan, continued to post the highest global GDP growth rates, increasing 7.2% (2010: 9.0%). Including Japan, Asian GDP growth was approximately 3.9% (2010: 6.7%). In China, GDP grew 8.9%, supported by rising incomes and strong domestic demand. India's GDP grew 7.5%, with the falling value of the rupee supporting healthy export activity. Japan's economy rebounded in the second half of 2011, as industrial output swiftly recouped lost ground and the government introduced generous public reconstruction programmes. However, a strengthened yen weakened exports, which constrained private investment and weighed negatively on domestic demand, resulting in an overall GDP contraction of 0.7%.

In Latin America, full year GDP increased 4.2% (2010: 6.7%). Relatively low unemployment levels and wage growth helped support consumption and domestic demand in the region. However, falling demand from the USA and Europe began to impact growth in exports and production as the year progressed.

Positive growth in the global sporting goods industry

In 2011, the global sporting goods industry outperformed overall economic development. Growth was driven in particular by robust consumer spending in the emerging markets, which offset subdued consumer confidence and private spending in some Western European markets and in Japan. A number of regional sporting events also contributed to the industry's development in certain markets, including the Rugby World Cup in New Zealand, the Copa América in Argentina, the IAAF World Championships in South Korea and the Cricket World Cup in India, Sri Lanka and Bangladesh. While high commodity prices negatively impacted the industry, many suppliers and retailers focused on premium and innovative products to protect profitability and support margins.

From a category perspective, running was the biggest growth driver, supported by the popularity of lightweight running footwear and high-performance apparel products. The minimalist and barefoot footwear categories also recorded strong growth. Additionally, the outdoor category (especially performance fleece and base layer products) and training posted robust sales increases.

Another major highlight for the industry in 2011 was the rapid rise in sales via e-commerce platforms and the expansion of activities in digital, mobile and social media. In addition, the pace of consolidation in the industry increased in 2011, with several acquisitions, both on a manufacturer and a retailer level, during the year.

02 / Quarterly unemployment rate by region

(in % of total active population)

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
USA [1]	9.6	9.0	9.1	9.1	8.7
Euro area [2]	10.0	10.0	10.0	10.3	10.4
Japan [3]	4.9	4.6	4.6	4.1	4.6
China [4]	4.1	4.1	4.1	4.1	4.1
Russia [5]	7.2	7.1	6.1	6.0	6.1

1) Source: US Bureau of Labor Statistics.
2) Source: Eurostat.
3) Source: Japan Ministry of Internal Affairs and Communications.
4) Source: China National Bureau of Statistics.
5) Source: Russia Federal Service of State Statistics.

03 / Quarterly development of Consumer Price Index [1]

(by region)

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
USA [2]	1.5	2.7	3.6	3.9	3.0
Euro area [3]	2.2	2.7	2.7	3.0	2.7
Japan [4]	0.0	(0.5)	(0.4)	0.0	(0.2)
China [5]	4.6	5.4	6.4	6.1	4.1
Russia [6]	8.8	9.5	9.4	7.2	6.1

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

04 / Quarterly consumer confidence development [1]

(by region)

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
USA [2]	63.4	63.8	57.6	46.4	64.8
Euro area [3]	(11.0)	(11.0)	(10.0)	(19.3)	(21.3)
Japan [4]	40.2	38.3	36.3	38.5	38.1
China [5]	100.4	107.6	108.1	103.4	97.0
Russia [6]	(10.0)	(13.0)	(9.0)	(7.0)	(7.0)

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

03.2

Modest growth of Europe's sporting goods industry

In Europe, despite austerity measures and high unemployment in many markets, the sporting goods industry grew modestly in 2011. In Western Europe, strong consumer spending and retail activity in Germany as well as the positive effects of the year's sporting events on sales in France and the UK drove industry growth. In European emerging markets, low unemployment rates and rising wages supported consumer spending and confidence, which also positively impacted retail sales and expansion of the sporting goods sector, particularly in Russia.

Strong retail activity drives growth of North American sporting goods industry

In the USA, the sporting goods industry outperformed most other sectors of the economy, driven by strong underlying growth in consumer spending, as total consumer purchases rose 7.7%. We estimate that sporting goods sales increased at a high-single-digit rate in 2011, driven by improvements in average selling prices, with many sporting goods retailers focusing on premium and innovative products. Footwear sales are estimated to have increased at a high-single-digit rate in 2011, driven in particular by growth in the running and training categories. However, the US toning market saw a significant decline in 2011, with the effect of inventory overhang and extensive discounting negatively impacting this category. The NBA lockout and the delayed start of the season had little impact on sales in the basketball category.

International brands drive Asian sporting goods industry expansion

Strong wage growth and consumer spending supported increases in Asia's sporting goods industry, which grew at a high-single-digit rate in 2011. Growth in China's sportswear industry was mainly driven by international brands, as over-expansion, declining brand image and over-inventory issues negatively impacted many domestic players. In India, the 2011 Cricket World Cup, jointly hosted by India (eventual winners), Sri Lanka and Bangladesh, contributed positively to growth. Similarly, the 2011 IAAF World Championships in Athletics, held in Daegu, South Korea, were a successful driver of industry growth in that market. However, in Japan, the effects of the earthquake, low economic activity and consumer spending levels led to sales declines in the sporting goods market.

Latin America's sporting goods industry records strong momentum

In Latin America, solid consumer spending and retail activity supported growth in the industry, which increased at a high-single-digit rate in 2011. This was despite the tough comparisons from lapping the positive effect of the 2010 FIFA World Cup. The 2011 Copa América, held in Argentina, supported spending on sporting goods, helping to offset this effect.

adidas Group and competitors outperform economic environment

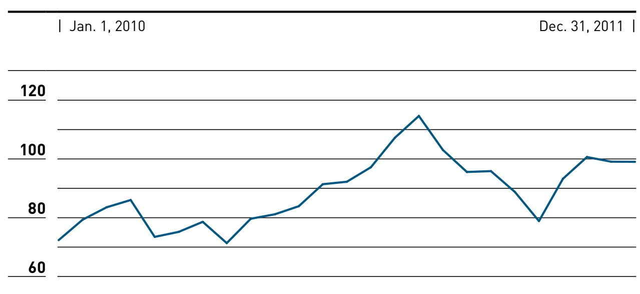
adidas Group revenues and profitability as well as those of many competitors and retailers increased in 2011. In most regions, sales of our Group and other major sporting goods companies grew at a higher rate than GDP and overall consumer spending.

05 **Exchange rate development** [1] (€ 1 equals)

	Average rate 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Average rate 2011
USD	1.3279	1.4207	1.4453	1.3503	1.2939	1.3922
GBP	0.8584	0.8837	0.9026	0.8667	0.8353	0.8678
JPY	116.56	117.61	116.25	103.79	100.20	111.04
RUB	40.303	40.285	40.400	43.041	41.659	40.871
CNY	8.9885	9.3147	9.3534	8.5810	8.1527	9.0000

1) Spot rates at quarter-end.

06 **Oil price development** [1] (in US $ per barrel)



1) West Texas Intermediate Cushing crude oil.

Source: Bloomberg.

Income Statement

adidas Group currency-neutral sales grow 13%

In 2011, Group revenues grew 13% on a currency-neutral basis, as a result of double-digit sales increases in Wholesale, Retail and Other Businesses. This development exceeded initial Management expectations of a mid- to high-single-digit Group sales increase. Currency translation effects had a negative impact on sales in euro terms. Group revenues grew 11% to € 13.344 billion in 2011 from € 11.990 billion in 2010 ⁄ **DIAGRAM 07**.

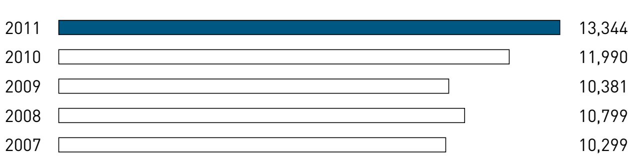
Group sales increase driven by double-digit growth in all segments

In 2011, currency-neutral Wholesale revenues increased 11%, mainly due to double-digit sales growth at adidas. Currency-neutral Retail sales increased 20% versus the prior year, as a result of double-digit comparable store sales growth. Revenues in Other Businesses were up 13% on a currency-neutral basis, mainly driven by double-digit sales increases at TaylorMade-adidas Golf. Currency translation effects had a negative impact on segmental sales in euro terms. Wholesale revenues increased 10% to € 8.971 billion from € 8.181 billion in 2010. Retail sales rose 17% to € 2.793 billion versus € 2.389 billion in the prior year. Sales in Other Businesses grew 11% to € 1.580 billion (2010: € 1.420 billion).

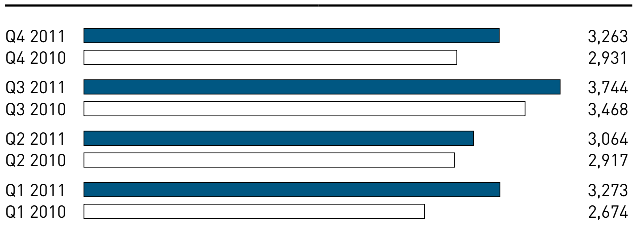
Currency-neutral sales increase in all regions

In 2011, revenues in Western Europe increased 10% on a currency-neutral basis, primarily as a result of strong sales growth in Germany, France, Spain and Italy. In European Emerging Markets, Group sales increased 22% on a currency-neutral basis due to growth in most of the region's markets, in particular Russia. Sales for the adidas Group in North America grew 15% on a currency-neutral basis due to double-digit sales increases in both the USA and Canada. Sales in Greater China increased 23% on a currency-neutral basis. Currency-neutral revenues in Other Asian Markets grew 5% due to increases in most markets, in particular South Korea. In Latin America, sales grew 10% on a currency-neutral basis, with strong double-digit increases in most of the region's major markets. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 09**.

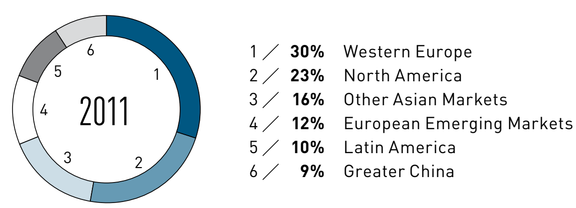
07 ⁄ Net sales (€ in millions)



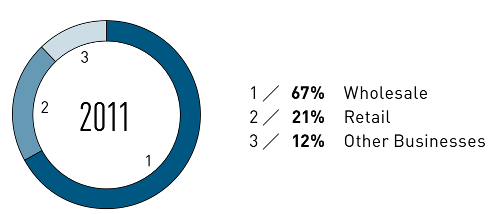
08 ⁄ Net sales by quarter (€ in millions)



10 ⁄ Net sales by region



11 ⁄ Net sales by segment



09 ⁄ Net sales by region (€ in millions)

	2011	2010	Change	Change (currency-neutral)
Western Europe	3,922	3,543	11%	10%
European Emerging Markets	1,597	1,385	15%	22%
North America	3,102	2,805	11%	15%
Greater China	1,229	1,000	23%	23%
Other Asian Markets	2,125	1,972	8%	5%
Latin America	1,369	1,285	7%	10%
Total [1]	**13,344**	**11,990**	**11%**	**13%**

1) Rounding differences may arise in totals.

03.2

Group sales up in all product categories

In 2011, Group sales grew in all product categories on a currency-neutral basis. Currency-neutral footwear sales increased 18% in 2011. This development was due to growth in the running, football, outdoor and training categories. Apparel revenues increased 8% on a currency-neutral basis, driven by growth in training, outdoor, running and basketball. Currency-neutral hardware sales increased 10% compared to the prior year, primarily due to strong growth at TaylorMade-adidas Golf. Currency translation effects had a negative impact on sales in euro terms / TABLE 13.

Cost of sales increases

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. Own-production expenses are also included in the Group's cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2011, cost of sales was € 7.000 billion, representing an increase of 12% compared to € 6.260 billion in 2010. This development was mainly due to increasing sourcing volumes in footwear, apparel and hardware. In addition, the increase of input costs as a result of higher raw material prices at the time of sourcing negatively impacted the cost of sales development.

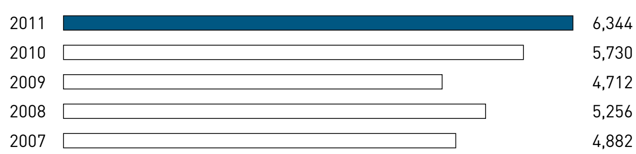
Group gross margin decreases 0.3 percentage points

The gross margin of the adidas Group decreased 0.3 percentage points to 47.5% in 2011 (2010: 47.8%) / DIAGRAM 15. The increase in input costs more than offset the positive impact from a more favourable product and regional sales mix as well as a larger share of higher-margin Retail sales. Gross profit for the adidas Group grew 11% in 2011 to € 6.344 billion versus € 5.730 billion in the prior year / DIAGRAM 14.

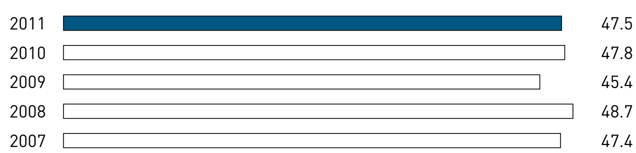
Royalty and commission income declines

Royalty and commission income for the adidas Group decreased 6% to € 93 million in 2011 from € 100 million in the prior year. On a currency-neutral basis, royalty and commission income was down 4%, mainly as a result of lower licensee sales at Reebok.

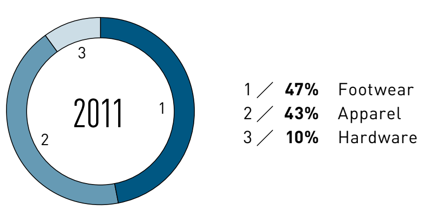
14 / **Gross profit** (€ in millions)



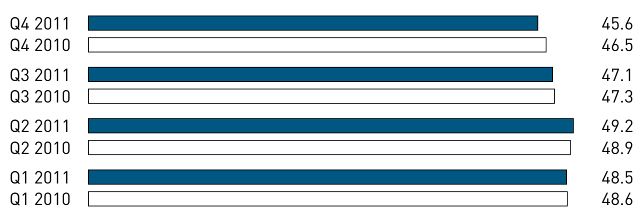
15 / **Gross margin** (in %)



12 / **Net sales by product category**



16 / **Gross margin by quarter** (in %)



13 / **Net sales by product category** (€ in millions)

	2011	2010	Change	Change (currency-neutral)
Footwear	6,275	5,389	16%	18%
Apparel	5,734	5,380	7%	8%
Hardware	1,335	1,221	9%	10%
Total [1)]	**13,344**	**11,990**	**11%**	**13%**

1) Rounding differences may arise in totals.

Other operating income decreases

Other operating income includes items such as gains from the disposal of fixed assets and releases of accruals and provisions as well as insurance compensation. In 2011, other operating income decreased 10% to € 98 million (2010: € 110 million). This was mainly due to the non-recurrence of positive one-off effects in conjunction with the settlement of a lawsuit and the divestiture of a trademark in the prior year, each of which had a positive low-double-digit million euro impact on the Group's financial results in 2010 ⁄ SEE NOTE 29, P. 208.

Other operating expenses as a percentage of sales down 0.7 percentage points

Other operating expenses, including depreciation and amortisation, consist of items such as sales working budget, marketing working budget and operating overhead costs. Other operating expenses as a percentage of sales decreased 0.7 percentage points to 41.4% in 2011 from 42.1% in 2010 ⁄ DIAGRAM 18. In euro terms, other operating expenses increased 9% to € 5.524 billion (2010: € 5.046 billion) ⁄ DIAGRAM 17, mainly as a result of higher marketing expenditure as well as the expansion of the Group's own-retail activities ⁄ SEE NOTE 30, P. 208.

Sales working budget decreases as a percentage of sales

Sales working budget consists of expenses to support the Group's sell-through development. Expenditures relate to advertising and promotion initiatives at the point of sale as well as store furniture and fixtures. As sales working budget expenses are channel-specific, they are allocated to the Group's operating segments. In absolute terms, sales working budget expenditure increased 9% to € 338 million in 2011 from € 308 million in the prior year, primarily as a result of new store openings to support the Group's retail expansion. In addition, higher expenditure at the point of sale as well as new product launches at Reebok contributed to this development. By brand, adidas sales working budget decreased 1% to € 243 million compared to € 245 million in the prior year. Sales working budget for Reebok more than doubled, amounting to € 51 million at year-end (2010: € 25 million). The Group's sales working budget as a percentage of sales decreased 0.1 percentage points to 2.5% (2010: 2.6%) ⁄ DIAGRAM 20.

17 ⁄ Other operating expenses (€ in millions)

2011	5,524
2010	5,046
2009	4,390
2008	4,378
2007	4,115

18 ⁄ Other operating expenses (in % of net sales)

2011	41.4
2010	42.1
2009	42.3
2008	40.5
2007	40.0

19 ⁄ Other operating expenses by area (€ in millions)

	2011	2010
Sales working budget	**338**	308
Marketing working budget	**1,361**	1,288
Marketing overhead	**402**	380
Sales force	**1,653**	1,496
Logistics	**678**	617
Research & development	**115**	102
Central administration	**977**	855
Total	**5,524**	5,046

■ 2011 □ 2010

20 ⁄ Sales working budget (in % of net sales)

2011	2.5
2010	2.6
2009	2.3

21 ⁄ Marketing working budget (in % of net sales)

2011	10.2
2010	10.7
2009	9.9

03.2

Marketing working budget down as a percentage of sales

Marketing working budget consists of items such as expenses for promotion partnerships, advertising and public relations to support brand strength. As marketing working budget expenses are not distribution channel specific, they are not allocated to the segments. In absolute terms, marketing working budget increased 6% to € 1.361 billion in 2011 from € 1.288 billion in the prior year. This was mainly due to higher expenditures at the adidas brand related to the launch of the "all adidas" campaign. In addition, increased marketing and promotion initiatives for new product concepts impacted this development. By brand, the adidas marketing working budget increased 9% to € 1.007 billion from € 927 million in 2010. Marketing working budget of the Reebok brand was down 5% to € 235 million (2010: € 247 million). The Group's marketing working budget as a percentage of sales decreased 0.5 percentage points to 10.2% (2010: 10.7%) DIAGRAM 21.

Operating overhead expenses decrease as a percentage of sales

Group operating overheads include overhead costs related to marketing, logistics, sales and R&D as well as central administration. Almost half of the operating overhead expenses are related to personnel costs. In absolute terms, operating overhead expenses were up 11% to € 3.825 billion in 2011 versus € 3.450 billion in 2010. This was primarily a result of the expansion of the Group's own-retail activities, as well as an increase in logistic and warehouse costs. However, due to increasing retail sophistication as well as operational leverage, operating overhead expenses as a percentage of sales decreased 0.1 percentage points to 28.7% from 28.8% in the prior year.

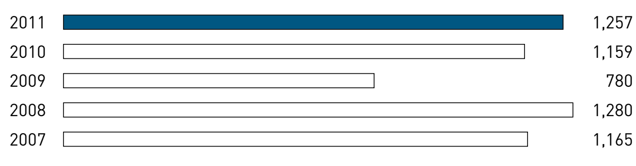
Number of Group employees up 10%

At the end of December 2011, the Group employed 46,824 people. This represents an increase of 10% versus the prior year level of 42,541. New hirings related to the expansion of the Group's own-retail store base were the main driver of this development. On a full-time equivalent basis, the number of employees increased 12% to 40,637 at the end of 2011 (2010: 36,444) SEE EMPLOYEES, P. 101.

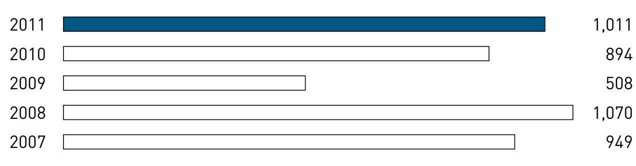
EBITDA grows 8%

The Group's earnings before interest, taxes, depreciation and amortisation as well as impairment/reversal of impairment losses on property, plant and equipment and intangible assets (EBITDA) increased 8% to € 1.257 billion in 2011 (2010: € 1.159 billion) DIAGRAM 22. Depreciation and amortisation expense for tangible and intangible assets with limited useful lives declined 4% to € 252 million in 2011 (2010: € 263 million). This development was mainly a result of lower impairment charges in 2011 compared to the prior year. In accordance with IFRS, intangible assets with indefinite useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. In this connection, no impairment of intangible assets with unlimited useful lives was incurred in 2011 and 2010.

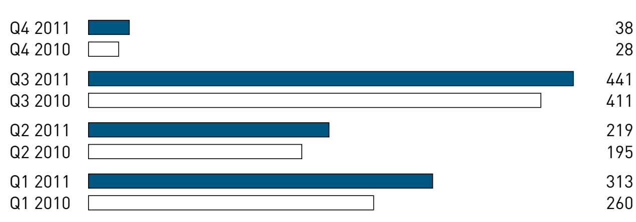
22 **EBITDA** (€ in millions)



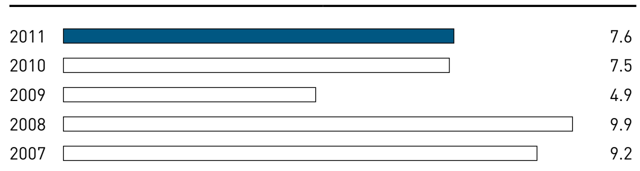
23 **Operating profit** (€ in millions)



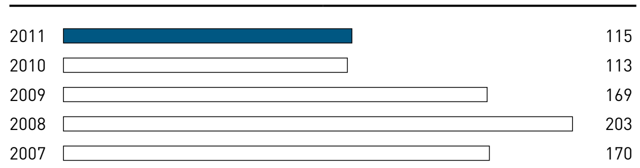
24 **Operating profit by quarter** (€ in millions)



25 **Operating margin** (in %)



26 **Financial expenses** (€ in millions)



Operating margin improves 0.1 percentage points

Group operating profit increased 13% to € 1.011 billion in 2011 versus € 894 million in 2010 ⁄ **DIAGRAM 23**. As a result, the operating margin of the adidas Group improved 0.1 percentage points to 7.6% (2010: 7.5%) ⁄ **DIAGRAM 25**. This development was primarily due to the positive effects from lower other operating expenses as a percentage of sales, which more than offset the decrease in gross margin and in other operating income.

Financial income up 25%

Financial income increased 25% to € 31 million in 2011 from € 25 million in the prior year, due to an increase in interest income ⁄ **SEE NOTE 32, P. 209**.

Financial expenses increase 2%

Financial expenses increased 2% to € 115 million in 2011 (2010: € 113 million) ⁄ **DIAGRAM 26**, mainly as a result of negative exchange rate effects, which more than offset the positive effect of lower interest expenses. Excluding the negative exchange rate effects, financial expenses decreased 4% ⁄ **SEE NOTE 32, P. 209**.

Income before taxes as a percentage of sales increases 0.2 percentage points

Income before taxes (IBT) for the adidas Group increased 15% to € 927 million from € 806 million in 2010 ⁄ **DIAGRAM 27**. IBT as a percentage of sales improved 0.2 percentage points to 6.9% in 2011 from 6.7% in 2010, primarily as a result of the Group's operating margin increase.

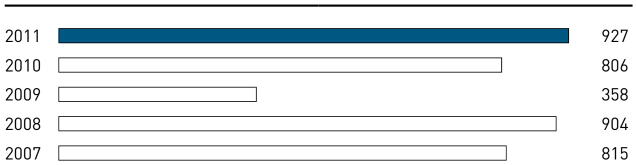
Net income attributable to shareholders up 18%

The Group's net income attributable to shareholders increased to € 671 million in 2011 from € 567 million in 2010 ⁄ **DIAGRAM 29**. This represents an increase of 18% versus the prior year level. The Group's tax rate decreased 1.8 percentage points to 27.7% in 2011 (2010: 29.5%), mainly due to one-time tax benefits related to the favourable resolution of tax disputes for prior years.

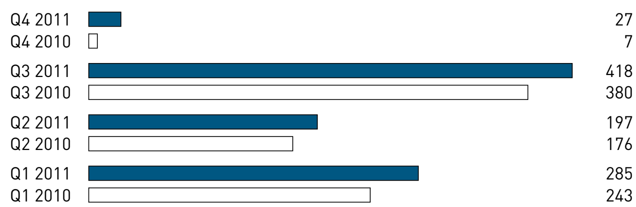
Earnings per share reach € 3.20

In 2011, basic and diluted earnings per share amounted to € 3.20 (2010: € 2.71) ⁄ **DIAGRAM 31**, representing an increase of 18%. The weighted average number of shares used in the calculation was 209,216,186.

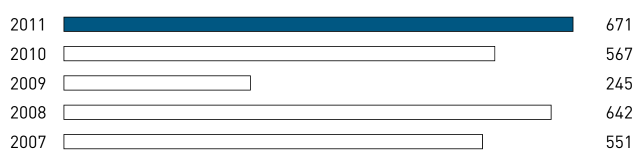
27 ⁄ **Income before taxes** (€ in millions)



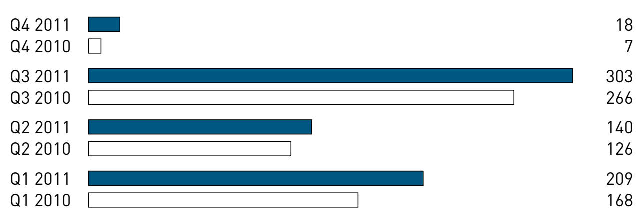
28 ⁄ **Income before taxes by quarter** (€ in millions)



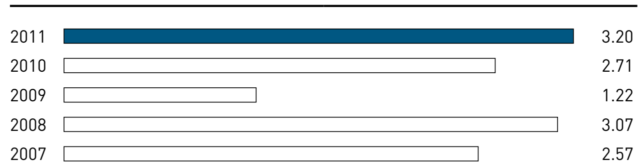
29 ⁄ **Net income attributable to shareholders** (€ in millions)



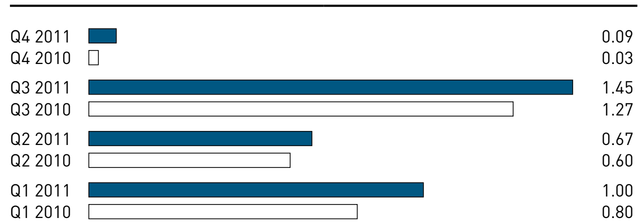
30 ⁄ **Net income attributable to shareholders by quarter** (€ in millions)



31 ⁄ **Diluted earnings per share** (in €)



32 ⁄ **Diluted earnings per share by quarter** (in €)



03.2

Statement of Financial Position and Statement of Cash Flows

Accounting policy unchanged

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. In 2011, there were no new or amended IFRS with a material impact on the Group's consolidation and accounting principles SEE NOTE 01, P. 181.

Total assets increase 7%

At the end of December 2011, total assets grew 7% to € 11.380 billion versus € 10.618 billion in the prior year DIAGRAM 35. This was primarily the result of an increase in current assets. An increase in non-current assets also impacted this development.

Group inventories up 17%

Group inventories increased 17% to € 2.482 billion at the end of December 2011 versus € 2.119 billion in 2010 SEE NOTE 08, P. 190. On a currency-neutral basis, inventories grew 16%, reflecting input cost increases as well as our expectations for continued growth in the coming quarters DIAGRAM 36.

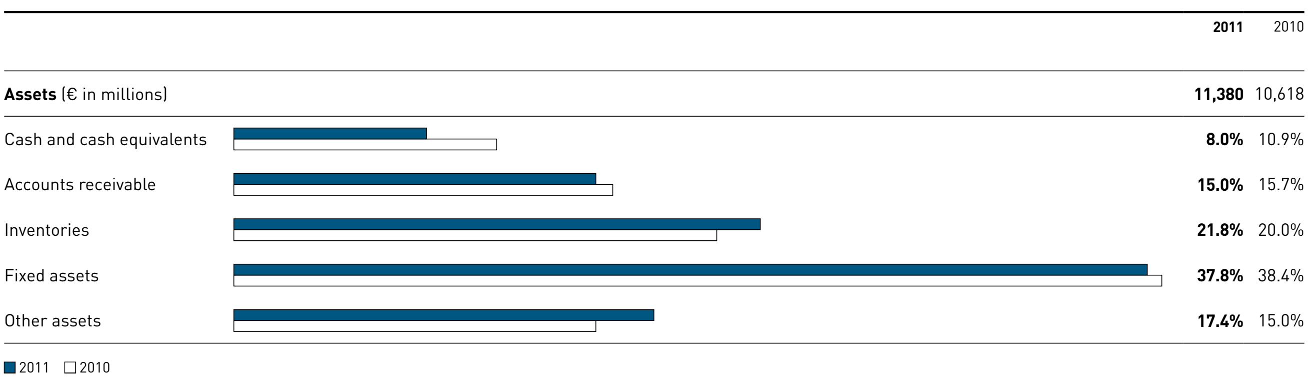
Short-term financial assets almost double

Short-term financial assets almost doubled to € 465 million at the end of December 2011 from € 233 million in 2010 SEE NOTE 05, P. 189. This development was driven by the increase in short-term cash investments.

Accounts receivable increase 2%

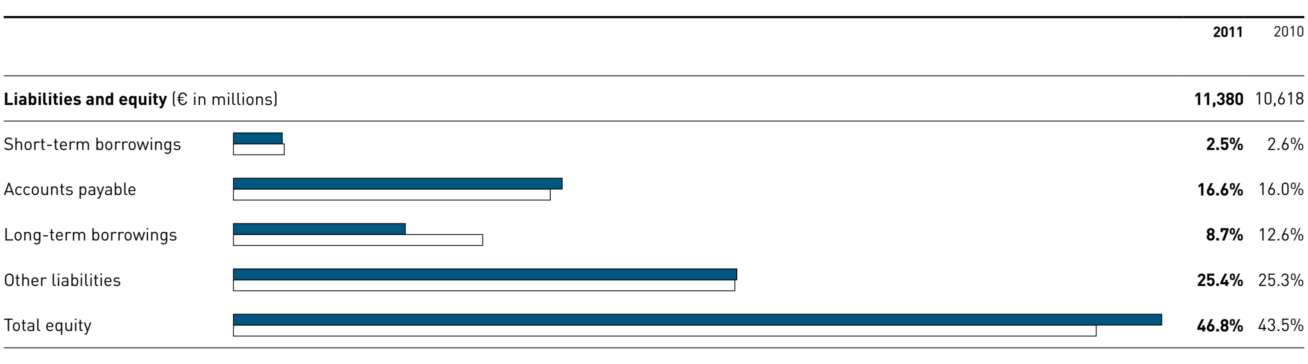
At the end of December 2011, Group receivables increased 2% to € 1.707 billion (2010: € 1.667 billion) SEE NOTE 06, P. 189. On a currency-neutral basis, receivables were up 3%. This growth is lower than the 9% currency-neutral wholesale-related sales increase in the fourth quarter of 2011 and mirrors strict discipline in the Group's trade terms management and concerted collection efforts in all segments DIAGRAM 37.

33 **Structure of statement of financial position** [1] (in % of total assets)



1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 174.

34 **Structure of statement of financial position** [1] (in % of total liabilities and equity)



1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 174.

Other current financial assets up 55%

Other current financial assets grew 55% to € 304 million at the end of December 2011 from € 197 million in 2010 / SEE NOTE 07, P. 189. This development was mainly due to the increase in the fair value of financial instruments.

Other current assets up 21%

Other current assets increased 21% to € 469 million at the end of December 2011 from € 390 million in 2010, mainly as a result of an increase in tax receivables other than income taxes as well as prepaid expenses / SEE NOTE 09, P. 190.

Fixed assets increase 6%

Fixed assets increased 6% to € 4.303 billion at the end of December 2011 versus € 4.076 billion in 2010. Fixed assets include property, plant and equipment, goodwill, trademarks and other intangible assets as well as long-term financial assets. Additions in an amount of € 415 million were primarily related to the continued expansion of our own-retail activities, investments into the Group's IT infrastructure, the acquisition of Five Ten as well as the further development of the Group's headquarters in Herzogenaurach. Moreover, currency translation effects in an amount of € 81 million on fixed assets denominated in currencies other than the euro positively impacted this development. Additions were partly offset by depreciation and amortisation amounting to € 252 million, as well as disposals of € 17 million.

Assets held for sale decrease 47%

At the end of December 2011, assets held for sale declined 47% to € 25 million compared to € 47 million in 2010. This decrease was mainly due to the sale of a warehouse in the Netherlands. Assets held for sale primarily relate to the planned sale of land and buildings in Herzogenaurach, Germany / SEE NOTE 10, P. 190.

Other non-current financial assets down 22%

Other non-current financial assets decreased 22% to € 42 million at the end of December 2011 from € 54 million in 2010, mainly driven by a decline in the fair value of financial instruments / SEE NOTE 15, P. 192.

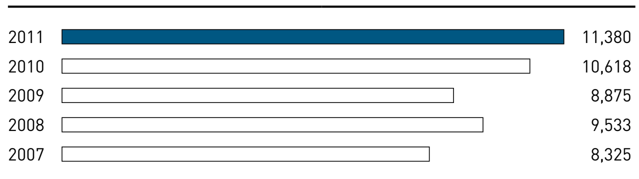
Accounts payable increase 11%

Accounts payable were up 11% to € 1.886 billion at the end of December 2011 versus € 1.694 billion at the end of 2010 / DIAGRAM 38. On a currency-neutral basis, accounts payable increased 12%, reflecting the growth in inventories compared to the prior year.

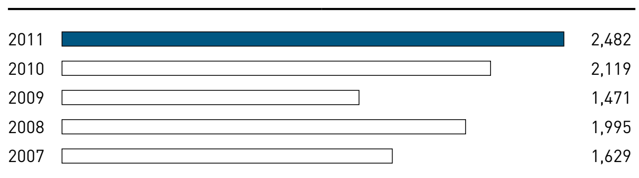
Other current financial liabilities decrease 54%

At the end of December 2011, other current financial liabilities decreased 54% to € 56 million from € 123 million in 2010, primarily as a result of the decrease in the negative fair value of financial instruments / SEE NOTE 18, P. 193.

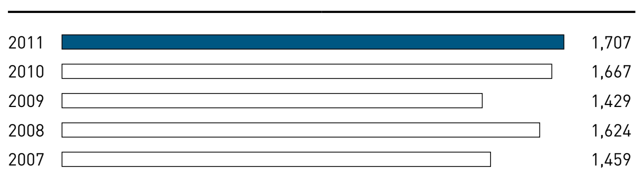
35 / **Total assets** (€ in millions)



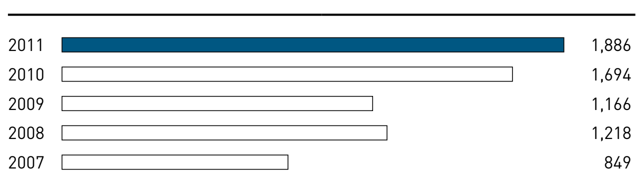
36 / **Inventories** (€ in millions)



37 / **Accounts receivable** (€ in millions)



38 / **Accounts payable** (€ in millions)



Other current provisions up 8%

Other current provisions were up 8% to € 507 million at the end of 2011 versus € 470 million at the end of 2010. This primarily relates to increases in provisions for returns, allowances and warranties ⁄ SEE NOTE 19, P. 194.

Current accrued liabilities grow 18%

Current accrued liabilities increased 18% to € 990 million at the end of 2011 from € 842 million in 2010, mainly due to an increase in accruals for invoices not yet received ⁄ SEE NOTE 20, P. 195.

Other current liabilities up 24%

Other current liabilities were up 24% to € 301 million at the end of 2011 from € 241 million in 2010, mainly due to increases in customer prepayments ⁄ SEE NOTE 21, P. 196.

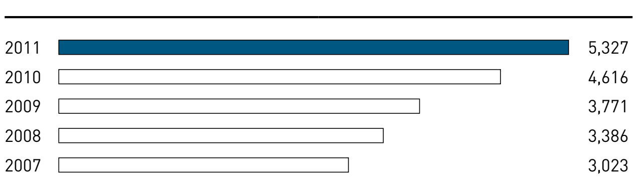
Shareholders' equity grows 15%

Shareholders' equity increased 15% to € 5.327 billion at the end of December 2011 versus € 4.616 billion in 2010 ⁄ DIAGRAM 39. The net income generated during the last twelve months and the increase in the fair value of financial instruments were the main contributors to this development, partially offset by the dividend in an amount of € 167 million paid in 2011 ⁄ SEE NOTE 25, P. 198. The Group's equity ratio at the end of December 2011 was 46.8% compared to 43.5% in the prior year.

Expenses related to off-balance sheet items

Our most significant off-balance sheet commitments are operating leases, which are related to own-retail stores, offices, warehouses and equipment. The Group has entered into various operating leases as opposed to property acquisitions in order to reduce exposure to property value fluctuations. Rent expenses increased 12% to € 608 million in 2011 from € 544 million in the prior year, mainly due to the continued expansion of the adidas Group's own-retail activities ⁄ SEE NOTE 27, P. 201.

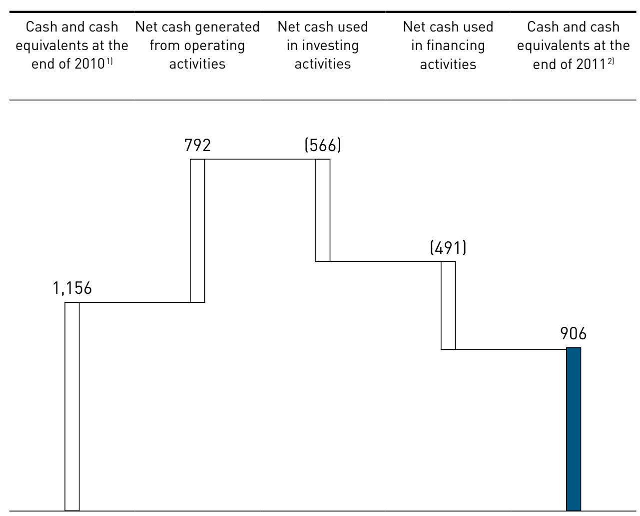
39 ⁄ Shareholders' equity (€ in millions)



Cash flow remains strong

In 2011, net cash inflow from operating activities was € 792 million (2010: € 894 million). The decrease in cash generated from operating activities compared to the prior year was primarily due to higher income taxes paid, as well as higher operating working capital requirements, partly offset by the improved Group profitability. Net cash outflow from investing activities was € 566 million (2010: € 330 million). This was mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of stores in our Retail segment, in new office buildings and in IT systems, as well as to the purchase of short-term financial assets and the acquisition of Five Ten ⁄ SEE NOTE 03, P. 188. Net cash outflow from financing activities totalled € 491 million (2010: € 238 million). Cash outflows from financing activities were mainly related to the repayment of short-term borrowings totalling € 273 million, dividends paid in an amount of € 167 million as well as the repayment of long-term borrowings in an amount of € 48 million. Exchange rate effects in an amount of € 15 million positively impacted the Group's cash position in 2011 (2010: € 55 million). As a result of all these developments, cash and cash equivalents decreased € 250 million to € 906 million at the end of December 2011 compared to € 1.156 billion at the end of December 2010 ⁄ DIAGRAM 40.

40 ⁄ Change in cash and cash equivalents (€ in millions)



1) Includes a positive exchange rate effect of € 55 million.
2) Includes a positive exchange rate effect of € 15 million.

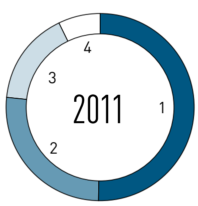
Net cash position of € 90 million

Net cash at December 31, 2011 amounted to € 90 million, compared to net borrowings of € 221 million at the end of December 2010, reflecting an improvement of € 311 million. This development was mainly driven by the cash flow generated from operating activities over the past twelve months. Currency translation had a positive effect in an amount of € 59 million. The Group's ratio of net borrowings over EBITDA amounted to –0.1 at the end of December 2011 (2010: 0.2).

Capital expenditure grows 39%

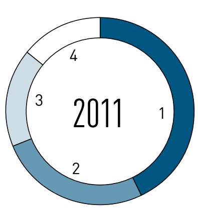
Capital expenditure is the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions). Group capital expenditure increased 39% to € 376 million in 2011 (2010: € 269 million). The Retail segment accounted for 26% of Group capital expenditure (2010: 23%). Investments primarily related to the expansion of our store base for the adidas and Reebok brands. Expenditure in the Wholesale segment accounted for 17% of total capital expenditure (2010: 12%). Capital expenditure in Other Businesses accounted for 7% of total expenditure (2010: 10%). The remaining 50% of Group capital expenditure was recorded in HQ/Consolidation (2010: 55%) and was mainly related to investments into new office buildings and IT infrastructure ⁄ DIAGRAM 41.

41 ⁄ **Capital expenditure by segment**



1 ⁄ **50%** HQ/Consolidation
2 ⁄ **26%** Retail
3 ⁄ **17%** Wholesale
4 ⁄ **7%** Other Businesses

42 ⁄ **Capital expenditure by type**



1 ⁄ **43%** Other
2 ⁄ **26%** Own retail
3 ⁄ **17%** IT
4 ⁄ **14%** Retailer support

Treasury

Group financing policy

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

Treasury system and responsibilities

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

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

03.2 ⁄

Centralised treasury function

In accordance with our Group's Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Group Treasury department. Portions of those lines are allocated to the Group's subsidiaries and backed by adidas AG guarantees. As a result of this centralised liquidity management, the Group is well positioned to allocate resources efficiently throughout the organisation. The Group's debt is generally unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the Group and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. Only in exceptional cases are Group companies authorised to work with banks with a lower rating ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145. To ensure optimal allocation of the Group's liquid financial resources, subsidiaries transfer excess cash to the Group's headquarters in all instances where it is legally and economically feasible.

Group financial flexibility

The adidas Group's financial flexibility is ensured by the availability of unutilised credit facilities in an amount of € 3.898 billion at the end of 2011 (2010: € 3.934 billion). These include a € 1.860 billion committed syndicated loan facility which was, as in the prior year, not utilised at year-end (2010: € 1.860 billion unutilised) as well as bilateral credit lines at different banks in an amount of € 2.038 billion (2010: € 2.074 billion). The syndicated loan facility has a remaining time to maturity of less than one year. The replacement of this facility is planned during the course of 2012. We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

Short-term bilateral credit lines virtually unchanged

At the end of 2011, short-term bilateral credit lines were virtually unchanged at € 2.164 billion compared to € 2.169 billion in the prior year. Committed and uncommitted credit lines represent approximately 27% and 73% of total short-term bilateral credit lines, respectively (2010: 30% and 70%) ⁄ DIAGRAM 45.

43 ⁄ Total credit facilities (€ in millions)

	2011	2010
Short-term lines	**2,164**	2,169
Medium-term committed lines	**1,860**	1,860
Private placements	**655**	1,017
Eurobond	**499**	498
Total	**5,178**	5,544

■ 2011 □ 2010

44 ⁄ Remaining time to maturity of available facilities (€ in millions)

	2011	2010
< 1 year	**4,187**	2,442
1 to 3 years	**780**	2,279
3 to 5 years	**211**	711
> 5 years	**0**	112
Total	**5,178**	5,544

■ 2011 □ 2010

45 ⁄ Short-term bilateral credit lines (€ in millions)

	2011	2010
Committed	**586**	660
Uncommitted	**1,578**	1,509
Total	**2,164**	2,169

■ 2011 □ 2010

46 ⁄ Currency split of gross borrowings (€ in millions)

	2011	2010
EUR	**721**	879
USD	**444**	642
All others	**115**	89
Total	**1,280**	1,610

■ 2011 □ 2010

Standard financial covenants

In the case of our committed credit facilities, we have entered into various covenants. These covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants. If we failed to meet any covenant and were unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2011, we were in full compliance with all of our covenants, with ample coverage above all stipulated minimum requirements. As a result of our cash flow expectations, we are confident we will continue to be compliant with these covenants going forward / SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163. We believe that cash generated from operating activities, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs.

Gross borrowings decrease

Gross borrowings decreased 21% to € 1.280 billion at the end of 2011 from € 1.610 billion in the prior year / DIAGRAM 46. Bank borrowings increased 33% to € 126 million from € 95 million in the prior year. Our private placements in the USA and Europe decreased 36% to € 655 million in 2011 (2010: € 1.017 billion). Bonds outstanding remained virtually unchanged and amounted to € 499 million (2010: € 498 million) / DIAGRAM 51. As in the prior year, no commercial paper was outstanding at the end of 2011.

Euro dominates currency mix

The majority of our Group's gross borrowings are denominated in euros and US dollars. At the end of 2011, gross borrowings denominated in euros accounted for 56% of total gross borrowings (2010: 55%). The share of gross borrowings held in US dollars decreased to 35% (2010: 40%) / DIAGRAM 46.

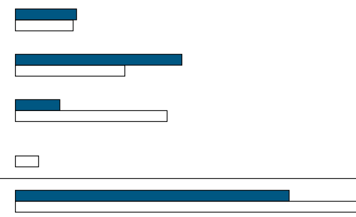
Stable debt maturity profile

Over the course of 2011, the Group's financing maturity profile remained stable with the term structure of debt evenly spread / DIAGRAM 47. At the end of 2011, total refinancing needs for the next twelve months amounted to € 289 million (2010: € 273 million).

Interest rate slightly improved

The weighted average interest rate on the Group's gross borrowings decreased slightly to 4.9% in 2011 (2010: 5.1%) / DIAGRAM 50. The positive effect from lower interest rates on short-term borrowings was partly offset by the negative effect from local borrowings in currencies which carry a higher average interest rate. Fixed-rate financing amounted to 77% of the Group's total gross borrowings at the end of 2011 (2010: 76%). Variable-rate financing amounted to 23% of total gross borrowings at the end of the year (2010: 24%).

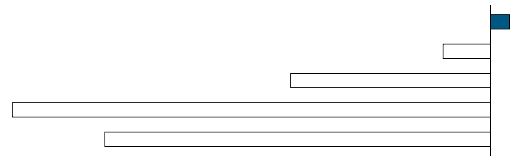
47 / Remaining time to maturity of gross borrowings
(€ in millions)



	2011	2010
< 1 year	**289**	273
1 to 3 years	**780**	514
3 to 5 years	**211**	711
> 5 years	**0**	112
Total	**1,280**	1,610

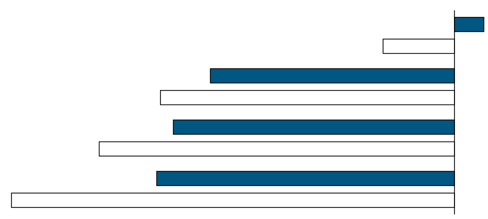
■ 2011 □ 2010

48 / Net cash/(net borrowings) (€ in millions)



2011	90
2010	(221)
2009	(917)
2008	(2,189)
2007	(1,766)

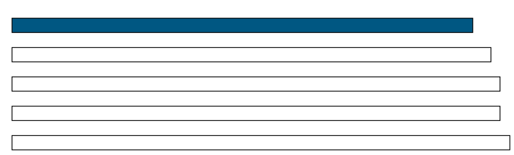
49 / Net cash/(net borrowings) by quarter[1] (€ in millions)



Q4 2011	90
Q4 2010	(221)
Q3 2011	(750)
Q3 2010	(903)
Q2 2011	(863)
Q2 2010	(1,090)
Q1 2011	(914)
Q1 2010	(1,359)

1) At end of period.

50 / Interest rate development[1] (in %)



2011	4.9
2010	5.1
2009	5.2
2008	5.2
2007	5.3

1) Weighted average interest rate of gross borrowings.

Net cash position achieved at year-end

The Group ended the year with a net cash position of € 90 million, compared to net borrowings of € 221 million at the end of the prior year, reflecting an improvement of € 311 million DIAGRAM 48. This development exceeded our original target of further reducing net borrowings, as communicated at the beginning of 2011. Strong cash flow from operating activities positively influenced this development. Currency effects had a positive impact of € 59 million on net cash development. The Group's financial leverage declined to –1.7% at the end of 2011 versus 4.8% in the prior year DIAGRAM 52. At the end of 2011, the ratio of net borrowings over EBITDA was –0.1 (2010: 0.2) and was thus well within the Group's medium-term guideline of less than two times. Efficient management of our capital structure continues to be a top management priority SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163.

Effective currency management a key priority

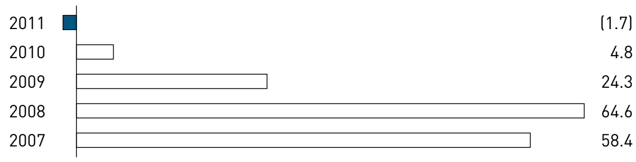
As a globally operating company, the Group is exposed to currency risks. Therefore, effective currency management is a key focus of Group Treasury, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cashflows. In this regard, hedging US dollars is a central part of our programme. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars SEE GLOBAL OPERATIONS, P. 90. In 2011, Group Treasury managed a net deficit of around US $ 3.0 billion against the euro, related to operational activities (2010: US $ 2.1 billion). As governed by our Group's Treasury Policy, we have established a rolling 12- to 24-month hedging system, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. As a result, we have almost completed our anticipated hedging needs for 2012 as of year-end 2011, and we have already started hedging our exposure for 2013. The rates for 2012 are slightly less favourable compared to those of 2011. The use or combination of different hedging instruments, such as forward contracts, currency options and swaps, protects us against unfavourable currency movements. The use of currency options allows us to benefit from future favourable exchange rate developments SEE RISK AND OPPORTUNITY REPORT, P. 145.

51 Financing structure [1] (€ in millions)

	2011	2010
Cash and short-term financial assets	**1,370**	**1,389**
Bank borrowings	126	95
Commercial paper	0	0
Private placements	655	1,017
Eurobond	499	498
Gross total borrowings	**1,280**	**1,610**
Net cash/(net borrowings)	**90**	**(221)**

1) Rounding differences may arise in totals.

52 Financial leverage (in %)



53 Issued bonds at a glance (in millions)

Issued bonds	Volume	Coupon	Maturity
French private placement	EUR 105	variable	2012
German private placement	EUR 41	fixed	2012
US private placement	USD 292	fixed	2013
Eurobond	EUR 500	fixed	2014
German private placement	EUR 56	fixed	2014
US private placement	USD 115	fixed	2015
US private placement	USD 150	fixed	2016
Other private placements	EUR 18	variable	2012

Financial Statements and Management Report of adidas AG

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

Operating activities and capital structure of adidas AG

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

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

The opportunities and risks as well as the future development of adidas AG largely reflect those of the adidas Group / SEE RISK AND OPPORTUNITY REPORT, P. 145 / SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163.

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the Group. For example, 57% of total assets in 2011 relates to financial assets, which primarily consist of shares in affiliated companies. Intercompany financial accounts, through which transactions between affiliated companies are settled, represent another 28% of total assets and 49% of total liabilities and equity as at December 31, 2011.

Preparation of accounts

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2011, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

Income Statement

54 / **Statement of income in accordance with HGB (condensed)**
(€ in millions)

	2011	2010
Net sales	1,766	1,540
Total output	**1,766**	**1,540**
Other operating income	1,254	1,280
Cost of materials	(531)	(480)
Personnel expenses	(304)	(275)
Depreciation and amortisation	(69)	(57)
Other operating expenses	(2,125)	(1,931)
Operating profit/(loss)	**(9)**	**77**
Financial result	178	142
Extraordinary expenses	0	(19)
Taxes	(58)	(43)
Net income	**111**	**157**
Profit brought forward	201	211
Retained earnings	**312**	**368**

Net sales increase 15%

Sales of adidas AG comprise external revenues from adidas and Reebok product sales generated by adidas Germany, external revenues from Y-3 products as well as group-internal revenues from foreign subsidiaries. Reported revenues also include royalty and commission income and other revenues. In 2011, adidas AG net sales grew 15% to € 1.766 billion (2010: € 1.540 billion). More than half of this increase is attributable to an increase in royalty and commission income / TABLE 55.

55 / **adidas AG net sales** (€ in millions)

	2011	2010
Royalty and commission income	922	806
adidas Germany	672	599
Foreign subsidiaries	113	77
Y-3	39	39
Other revenues	20	19
Total	**1,766**	**1,540**

Other operating income declines 2%

In 2011, other operating income of adidas AG declined 2% to € 1.254 billion. This was primarily due to a decrease in income from currency conversion and lower income derived from services provided to other Group companies. The result also reflects the conversion of the Reebok Germany business from commission agent to principal. In the prior year, this business was still being conducted by adidas AG as commission agent; as such, the company generated income by passing the operational costs on to the principal. The conversion to principal meant that the income derived from passing on costs were no longer achieved in 2011.

Other operating expenses increase 10%

In 2011, other operating expenses for adidas AG rose 10% to € 2.125 billion (2010: € 1.931 billion). The increase is largely attributable to higher marketing expenditure. This includes an increase in promotional and advertising expenditure to support sales growth in Germany, and higher expenditure for global marketing to strengthen the adidas brand at an international level. Losses from currency conversion were also up, as was expenditure for legal and other consultancy services.

Depreciation and amortisation increases due to completion of Laces

Depreciation and amortisation for adidas AG rose € 12 million in 2011 to € 69 million, mainly as a result of the opening of the new "Laces" office building in Herzogenaurach, Germany.

Loss from operations

In 2011, adidas AG recorded a loss from operations in the amount of € 9 million compared to a profit of € 77 million in the prior year. This was mainly due to the increase in other operating expenses.

Financial result increases 25%

Net interest expense of adidas AG declined 9% to € 63 million in 2011 (2010: € 69 million). This positive development derives from interest received from affiliated companies. At € 40 million, interest paid to third parties increased € 1 million compared to the prior year.

Income from investments in affiliated companies increased € 58 million to € 147 million in 2011 from € 89 million in the prior year. Profit and loss transfer agreements generated income of € 94 million for adidas AG in 2011. As a result, the financial result of adidas AG increased 25% to € 178 million from € 142 million in 2010.

Net income decreases 29%

Income from ordinary activities decreased 23% to € 169 million in 2011 from € 219 million in 2010, as increases in the financial result were more than offset by the loss from operations. Net income for the year after taxes of € 58 million was € 111 million (2010: € 157 million).

Balance Sheet

56 ⁄ **Balance sheet in accordance with HGB (condensed)**
(€ in millions)

	2011	2010
Assets		
Intangible assets	154	161
Property, plant and equipment	255	229
Financial assets	3,429	3,395
Fixed assets	**3,838**	**3,785**
Inventories	30	21
Receivables and other assets	1,767	1,740
Cash and cash equivalents, securities	383	682
Current assets	2,180	2,443
Prepaid expenses	28	37
Total assets	**6,046**	**6,265**
Equity and liabilities		
Shareholders' equity	2,322	2,378
Provisions	339	315
Liabilities and other items	3,385	3,572
Total equity and liabilities	**6,046**	**6,265**

Total assets decline 4%

At the end of December 2011, total assets declined 4% to € 6.046 billion versus € 6.265 billion in the prior year. The most significant changes were in cash and cash equivalents, which decreased € 299 million. This was partly offset by additions to fixed assets in an amount of € 54 million, mainly due to the new "Laces" office building, as well as an increase of € 27 million in receivables and other current assets.

Shareholders' equity declines 2%

Shareholders' equity declined 2% to € 2.322 billion at the end of December 2011 versus € 2.378 billion in the prior year. The decrease was mainly due to the decline in net income and the distribution of dividends for the financial year 2010. Taking into account the dividend distribution from the prior year retained earnings and the net income generated for the year, the equity ratio remained stable at 38%.

Provisions increase 8%

Provisions were up € 24 million to € 339 million at the end of 2011 (2010: € 315 million). This increase is primarily attributable to provisions for pensions and similar commitments, which were up € 11 million, and an increase of € 13 million in other provisions, which were mainly personnel-related.

Liabilities decline 10%
Liabilities decreased € 187 million to € 3.385 billion (2010: € 3.572 billion). This includes a reduction of € 156 million in bank borrowings.

Cash outflow reflects dividend distribution and reduction in bank borrowings
adidas AG generated a positive cash flow from operating activities in the amount of € 157 million compared to € 790 million in the prior year. The positive cash flow was primarily a result of the net income of € 111 million generated during the period. Net cash outflow from investment activities was € 132 million (2010: € 108 million). This is largely attributable to capital expenditure for tangible and intangible fixed assets of € 98 million. Financing activities resulted in a negative cash flow of € 323 million (2010: cash outflow of € 232 million). The cash outflow from financing activities relates to cash outflows for the dividend payment of € 167 million and the reduction in bank borrowings totalling € 156 million. As a result of all these developments, cash and cash equivalents of adidas AG decreased € 299 million to € 383 million at the end of December 2011 compared to € 682 million at the end of December 2010.

adidas AG has a revolving credit line of € 1.860 billion, which was unutilised as at the balance sheet date ⁄ SEE TREASURY, P. 129.

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

Disclosures pursuant to § 315 Section 4 and § 289 Section 4 of the German Commercial Code

Composition of subscribed capital
The nominal capital of adidas AG amounts to € 209,216,186 (as at December 31, 2011) and is divided into the same number of registered no-par-value shares with a pro-rata amount in the nominal capital of € 1 each ("shares"). As at December 31, 2011, adidas AG does not hold any treasury shares ⁄ SEE NOTE 25, P. 198. Pursuant to § 4 section 8 of the Articles of Association, shareholders' claims to the issuance of individual share certificates are in principle excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations.

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

Restrictions on voting rights or transfer of shares
We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct of adidas AG, however, particular lock-up periods do exist for members of the Executive Board with regard to the purchase and sale of adidas AG shares. These lock-up periods are connected with the publication of quarterly and full year results. Such lock-up periods also exist for employees who have access to yet unpublished financial results. In addition, restrictions of voting rights pursuant, inter alia, to § 136 German Stock Corporation Act (Aktiengesetz – AktG) or for treasury shares pursuant to § 71b AktG may exist.

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

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

Voting right control if employees have a share in the capital
Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association.

03.2 ⁄

Executive Board appointment and dismissal

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). Currently, the adidas AG Executive Board comprises the CEO as well as three further members ⁄ SEE EXECUTIVE BOARD, P. 34. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years.

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or CEO for good cause, such as gross negligence of duties or a vote of no confidence by the Annual General Meeting. As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal requires a majority of at least two thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, upon proposal of the Mediation Committee, the appointment or dismissal may be made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which, however, the Chairman of the Supervisory Board has two votes.

Furthermore, the Fuerth local court shall, pursuant to § 85 section 1 AktG, in urgent cases, make the necessary appointment upon application by any party involved, if the Executive Board does not have the required number of members.

Amendments to the Articles of Association

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

Authorisation of the Executive Board to issue shares

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

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

Authorised Capital

- Until June 21, 2014, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorised Capital 2009/I).

- Until July 4, 2014, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 25,000,000 altogether (Authorised Capital 2011).

- Until July 12, 2015, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorised Capital 2010).

Subject to Supervisory Board approval, shareholders' subscription rights may be excluded in certain cases for each of the abovementioned authorisations ⁄ SEE NOTE 25, P. 198.

Contingent Capital

- Until May 5, 2015, the Executive Board is authorised, subject to Supervisory Board approval, to issue bonds with warrants and/or convertible bonds by the company or affiliated companies once or several times in the total amount of up to € 1.5 billion, with or without a limited term, against contributions in cash and to accept guarantee of such bonds issued by affiliated companies. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to grant to bondholders or bond creditors 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. For this purpose, the nominal capital was conditionally increased by up to € 36,000,000 (Contingent Capital 2010). The Executive Board is authorised, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts. The authorisation also provides for excluding shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of bonds already issued before are entitled. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. The issuance of new shares or the use of treasury shares must be taken into account when calculating the limit of 10% in certain specific cases.

Authorisation of the Executive Board to repurchase shares

The authorisations to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorisation granted by the Annual General Meeting on May 6, 2010.

– Until May 5, 2015, the Executive Board is authorised to repurchase adidas AG shares of up to an amount totalling 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilisation of the authorisation) for any lawful purpose and within the legal frame. The authorisation may be used by the company but also by its subsidiaries or by third parties on account of the company or its subsidiaries or third parties assigned by the company or one of its subsidiaries.

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

The purposes for which adidas AG shares repurchased based on this authorisation may be used are set out in Item 11 of the Agenda for the Annual General Meeting held on May 6, 2010. The shares may in particular be used as follows:

- They may be sold via the stock exchange, through a public share purchase offer made to all shareholders or sold otherwise against cash (limited to 10% of the nominal capital taking into account certain offsets) at a price not significantly below the stock market price of shares with the same features.
- They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies or participations in companies or within the scope of company mergers.
- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licences relating to such rights, also through subsidiaries.
- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds.
- They may be cancelled without the cancellation or the execution thereof requiring an additional resolution of the Annual General Meeting.

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

In case of utilisation of shares for the above-mentioned purposes, except for the cancellation of shares, shareholders' subscription rights are excluded.

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

– In the scope of the authorisation resolved by the Annual General Meeting on May 6, 2010, the Executive Board is furthermore authorised to conduct the share buyback also by using equity derivatives which are arranged with a financial institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of call and put options or other equity derivatives if the option conditions ensure that these shares are only delivered if they were purchased in compliance with the equality principle. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilisation of the authorisation). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 5, 2015. The authorisation furthermore sets out the lowest and highest nominal value that may be granted in each case.

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

Change of control/compensation agreements

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

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

03.3 ⁄

Business Performance by Segment

The adidas Group has divided its operating activities into Wholesale, Retail and Other Businesses. The Wholesale segment comprises the adidas and Reebok business activities with retailers. The Retail segment comprises the own-retail and eCommerce activities of the adidas and Reebok brands. The financial results of TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands, which comprise brands such as Y-3, are aggregated under Other Businesses.

Wholesale Business Performance

Wholesale full year results

In 2011, sales in the Wholesale segment grew 11% on a currency-neutral basis, driven by double-digit growth at adidas Sport Performance and adidas Sport Style. Currency-neutral Reebok revenues increased at a low-single-digit rate. Currency translation effects negatively impacted segmental revenues in euro terms. Sales in the Wholesale segment grew 10% to € 8.971 billion from € 8.181 billion in 2010 ⁄ TABLE 01.

Wholesale gross margin decreased 1.3 percentage points to 40.0% from 41.3% in 2010. The positive impact from a more favourable product and regional sales mix as well as less clearance sales was more than offset by higher input costs. By brand, the adidas wholesale gross margin declined 1.6 percentage points to 42.0% (2010: 43.7%). Wholesale gross margin of the Reebok brand decreased 1.1 percentage points to 29.6% versus 30.7% in the prior year. Wholesale gross profit grew 6% to € 3.585 billion from € 3.379 billion in 2010 ⁄ TABLE 01.

Segmental operating expenses as a percentage of sales decreased 0.3 percentage points to 9.6% (2010: 9.9%). In euro terms, segmental operating expenses increased 7% to € 861 million from € 807 million in 2010. This was primarily due to higher warehousing and distribution costs as a result of the Wholesale segment's expansion. Segmental operating expenses in Wholesale primarily relate to sales working budget expenses as well as expenditure for sales force, administration and logistics.

01 ⁄ **Wholesale at a glance** (€ in millions)

	2011	2010	Change
Net sales	8,971	8,181	10%
Gross profit	3,585	3,379	6%
Gross margin	40.0%	41.3%	(1.3pp)
Segmental operating profit	2,725	2,572	6%
Segmental operating margin	30.4%	31.4%	(1.1pp)

Segmental operating profit improved 6% to € 2.725 billion versus € 2.572 billion in the prior year. Segmental operating margin decreased 1.1 percentage points to 30.4% (2010: 31.4%) ⁄ TABLE 01, as a result of the gross margin decrease which more than offset the positive effect of lower segmental operating expenses as a percentage of sales.

Wholesale development by region

Currency-neutral sales for the Wholesale segment increased in all regions in 2011. Currency-neutral revenues in Western Europe rose 10%, mainly driven by strong sales growth in all key markets with the exception of the UK. Currency-neutral sales in European Emerging Markets were up 5%, driven by sales increases in Turkey. Currency-neutral Wholesale sales in North America grew 15% due to double-digit growth in both the USA and Canada. Revenues in Greater China increased 24% on a currency-neutral basis. Sales in Other Asian Markets grew 5% on a currency-neutral basis due to increases in

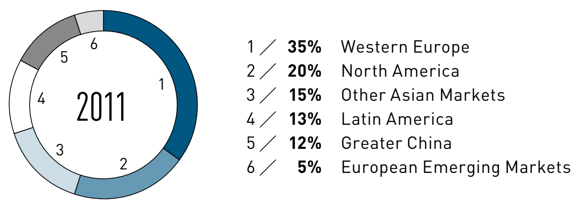
02 ⁄ **Wholesale net sales by region** (€ in millions)

	2011	2010	Change	Change (currency-neutral)
Western Europe	3,187	2,882	11%	10%
European Emerging Markets	496	503	(1%)	5%
North America	1,771	1,609	10%	15%
Greater China	1,038	840	23%	24%
Other Asian Markets	1,354	1,270	7%	5%
Latin America	1,125	1,077	5%	8%
Total [1]	**8,971**	**8,181**	**10%**	**11%**

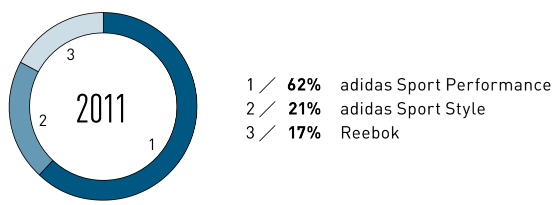
1) Rounding differences may arise in totals.

most markets, in particular South Korea. In Latin America, currency-neutral sales were up 8%, supported by double-digit sales growth in Argentina and Chile. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 02**.

03 ⁄ Wholesale net sales by region



04 ⁄ Wholesale net sales by brand



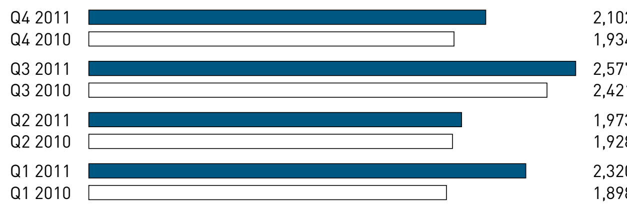
Wholesale development by brand

In 2011, adidas Sport Performance wholesale revenues grew 10% on a currency-neutral basis. Growth was mainly a result of double-digit sales increases in the training, running, outdoor and basketball categories. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance sales grew 9% to € 5.578 billion from € 5.101 billion in the prior year.

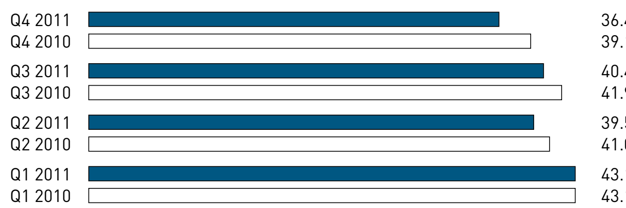
Currency-neutral adidas Sport Style wholesale revenues grew 20% in 2011. This increase was driven by strong momentum in most categories, particularly adidas Originals and the adidas NEO label. Currency translation effects negatively impacted revenues in euro terms. adidas Sport Style sales grew 19% to € 1.861 billion (2010: € 1.559 billion).

In 2011, Reebok wholesale revenues increased 3% on a currency-neutral basis. This was mainly the result of sales growth in the training category due to the ZigTech and RealFlex platforms. Currency translation effects negatively impacted revenues in euro terms. Reebok sales remained virtually unchanged at € 1.499 billion (2010: € 1.505 billion).

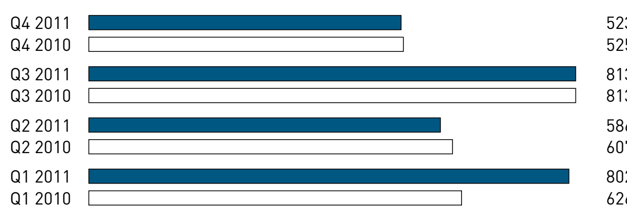
05 ⁄ Wholesale net sales by quarter (€ in millions)



06 ⁄ Wholesale gross margin by quarter (in %)



07 ⁄ Wholesale segmental operating profit by quarter
(€ in millions)



03.3 ⁄

Retail Business Performance

Retail full year results

In 2011, currency-neutral Retail sales increased 20%. Concept store, factory outlet and other retail format currency-neutral sales were all up at double-digit rates versus the prior year. Currency translation effects negatively impacted segmental revenues in euro terms. Sales grew 17% to € 2.793 billion from € 2.389 billion in the prior year ⁄ **TABLE 08**. Currency-neutral comparable store sales rose 14% versus the prior year, with increases in all store formats.

Gross margin in the Retail segment increased 0.8 percentage points to 62.6% from 61.8% in 2010. This was mainly a result of a higher proportion of concept store sales which achieve higher margins in comparison to factory outlets and other retail formats. Factory outlet sales margins also grew year-over-year. By brand, the adidas gross margin grew 0.3 percentage points to 63.6% (2010: 63.2%) and Reebok's gross margin improved 3.0 percentage points to 57.8% (2010: 54.8%). Retail gross profit increased 18% to € 1.749 billion from € 1.476 billion in 2010 ⁄ **TABLE 08**.

Segmental operating expenses increased 13% to € 1.156 billion from € 1.024 billion in 2010. This was a result of higher sales working budget expenses and higher expenses related to the expansion of the Group's store base, particularly in emerging markets. Segmental operating expenses as a percentage of sales declined 1.5 percentage points to 41.4% (2010: 42.9%), as a result of operating leverage in the segment. Segmental operating expenses in Retail primarily relate to personnel and rent expenses as well as the sales working budget.

08 ⁄ **Retail at a glance** (€ in millions)

	2011	2010	Change
Net sales	2,793	2,389	17%
Gross profit	1,749	1,476	18%
Gross margin	62.6%	61.8%	0.8pp
Segmental operating profit	593	452	31%
Segmental operating margin	21.2%	18.9%	2.3pp

Segmental operating profit increased 31% to € 593 million versus € 452 million in the prior year. Segmental operating margin improved 2.3 percentage points to 21.2% (2010: 18.9%) ⁄ **TABLE 08**. This was a result of the gross margin increase and lower segmental operating expenses as a percentage of sales.

Retail development by region

Currency-neutral Retail sales increased in all regions. Retail revenues in Western Europe grew 11% on a currency-neutral basis, mainly due to increases in Germany, the UK, France, Italy and Spain. Sales in European Emerging Markets rose 32% on a currency-neutral basis, driven by growth in Russia where both the adidas and Reebok brands had strong double-digit sales growth. Currency-neutral Retail sales in North America grew 14% due to double-digit growth in the USA. Retail revenues in Greater China increased 20% on a currency-neutral basis. Sales in Other Asian Markets grew 9% on a currency-neutral basis, mainly driven by double-digit increases in South Korea. In Latin America, currency-neutral Retail sales grew 20%, with double-digit sales increases in all markets except Mexico, where sales were up at a high-single-digit rate. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 09**.

09 ⁄ **Retail net sales by region** (€ in millions)

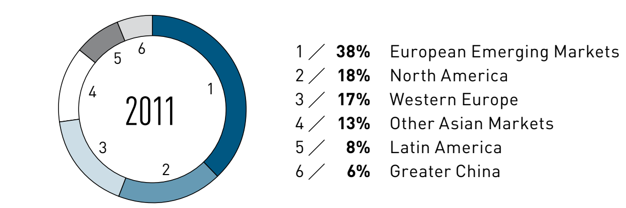
	2011	2010	Change	Change (currency-neutral)
Western Europe	476	426	12%	11%
European Emerging Markets	1,055	846	25%	32%
North America	504	461	10%	14%
Greater China	157	131	19%	20%
Other Asian Markets	373	330	13%	9%
Latin America	228	195	17%	20%
Total [1]	**2,793**	**2,389**	**17%**	**20%**

1) Rounding differences may arise in totals.

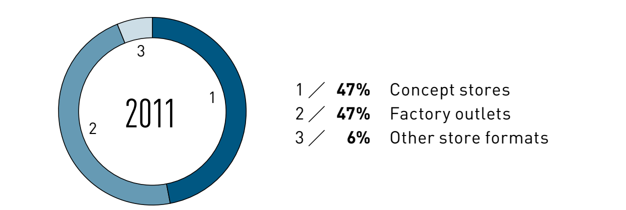
Retail development by brand

In 2011, adidas Group Retail sales increased at a double-digit rate at both adidas and Reebok. Currency-neutral adidas Sport Performance revenues grew 15% in the period. adidas Sport Style sales rose 33% versus the prior year on a currency-neutral basis. Currency-neutral Reebok sales were 18% higher compared to the prior year. Comparable store sales for the adidas brand increased 14% on a currency-neutral basis, driven by double-digit growth in the training, running, football and outdoor categories. adidas Originals sales also grew at a double-digit rate. Comparable store sales for Reebok were up 11% on a currency-neutral basis, mainly due to strong double-digit growth in running and training. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance own-retail sales increased 12% to € 1.576 billion from € 1.404 billion in 2010. adidas Sport Style own-retail sales were up 31% to € 752 million from € 575 million in 2010. Own-retail sales of Reebok branded products grew 14% to € 463 million (2010: € 408 million).

10 ⁄ **Retail net sales by region**



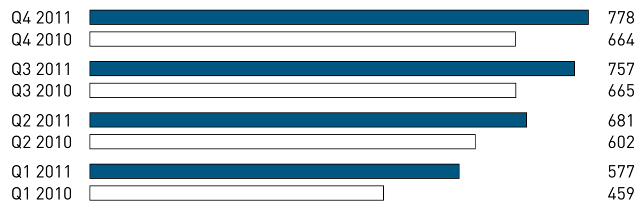
11 ⁄ **Retail net sales by store format**



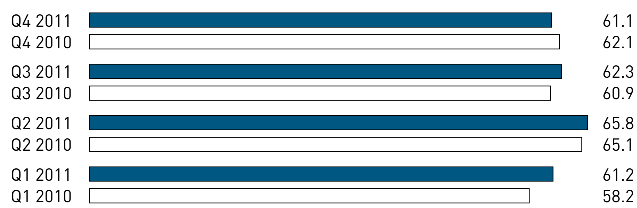
Retail store development

At December 31, 2011, the adidas Group Retail segment operated 2,401 stores. This represents a net increase of 131 or 6% versus the prior year-end level of 2,270. Of the total number of stores, 1,804 were adidas and 597 Reebok branded (December 31, 2010: 1,712 adidas stores, 558 Reebok stores). During 2011, the Group opened 323 new stores, 192 stores were closed and 151 stores were remodelled.

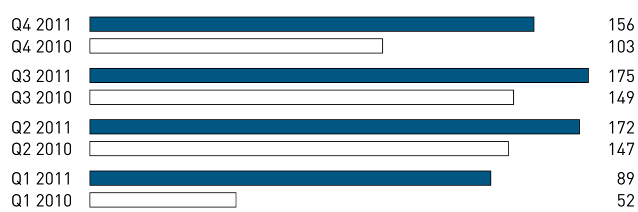
12 ⁄ **Retail net sales by quarter** (€ in millions)



13 ⁄ **Retail gross margin by quarter** (in %)



14 ⁄ **Retail segmental operating profit by quarter** (€ in millions)



Retail development by store type

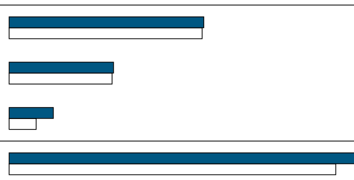
Concept store revenues include sales from adidas Sport Performance, adidas Sport Style and Reebok concept stores. In 2011, concept store revenues grew 28% on a currency-neutral basis. Sales increased at strong double-digit rates at both adidas and Reebok. Currency-neutral comparable concept store sales were up 18%. In 2011, the Group opened 220 new concept stores, 107 concept stores were closed and 110 concept stores were reclassified as stores in other retail formats. As a result, the number of concept stores increased by 3 to 1,355 at the end of 2011 (2010: 1,352) ⁄ DIAGRAM 15. Currency translation effects had a negative impact on sales in euro terms. Concept store sales increased 24% to € 1.311 billion from € 1.059 billion in 2010.

03.3 ⁄

Factory outlet revenues include sales from adidas and Reebok factory outlets. In 2011, factory outlet revenues grew 12% on a currency-neutral basis. Sales increased at a double-digit rate at adidas. Reebok sales grew at a high-single-digit rate. Comparable factory outlet sales increased 9% on a currency-neutral basis. In 2011, the Group opened 53 and closed 44 factory outlets. As a result, the number of factory outlets increased by 9 to 734 at the end of 2011 (December 31, 2010: 725) ⁄ **DIAGRAM 15**. Currency translation effects had a negative impact on sales in euro terms. Factory outlet sales increased 9% to € 1.317 billion from € 1.203 billion in 2010.

Revenues from other retail formats include adidas and Reebok concession corners and e-commerce operations. In 2011, sales from other retail formats increased 35% on a currency-neutral basis. Sales from adidas and Reebok e-commerce platforms were up 64% on a currency-neutral basis compared to 2010. Currency-neutral comparable sales from other retail formats grew 25%. In 2011, the Group opened 50 new stores in other retail formats and closed 41. In addition, 110 concept stores were reclassified as stores in other retail formats. As a result, the number of stores in other retail formats increased by 119 to 312 at the end of 2011 (December 31, 2010: 193) ⁄ **DIAGRAM 15**. Currency translation effects had a negative impact on sales from other formats in euro terms. Other retail format sales increased 30% to € 165 million (2010: € 127 million).

15 ⁄ **Retail number of stores**



	2011	2010
Concept stores	**1,355**	1,352
Factory outlets	**734**	725
Other formats	**312**	193
Total	**2,401**	2,270

■ 2011 □ 2010

Other Businesses Performance

Other Businesses full year results

In 2011, revenues of Other Businesses grew 13% on a currency-neutral basis, mainly driven by double-digit sales growth at TaylorMade-adidas Golf. Sales at Rockport and Reebok-CCM Hockey also increased. Currency translation effects negatively impacted revenues in euro terms. Sales of Other Businesses grew 11% to € 1.580 billion (2010: € 1.420 billion) ⁄ **TABLE 16**.

Gross margin remained stable at 43.5% (2010: 43.5%). Improving product margins at Rockport and Reebok-CCM Hockey were offset by lower product margins at TaylorMade-adidas Golf. Other Businesses gross profit was up 11% to € 688 million versus € 618 million in 2010 ⁄ **TABLE 16**.

Segmental operating expenses rose 5% to € 261 million from € 249 million in 2010. This was driven in particular by higher sales working budget as well as marketing working budget expenditure at TaylorMade-adidas Golf. Segmental operating expenses as a percentage of sales decreased 1.1 percentage points to 16.5% (2010: 17.6%).

Other Businesses segmental operating profit increased 16% to € 427 million in 2011 versus € 369 million in the prior year. Segmental operating margin was up 1.0 percentage points to 27.0% from 26.0% in 2010 ⁄ **TABLE 16**. This was the result of the stable gross margin as well as the positive effect resulting from lower segmental operating expenses as a percentage of sales.

16 ⁄ **Other Businesses at a glance** (€ in millions)

	2011	2010	Change
Net sales	1,580	1,420	11%
Gross profit	688	618	11%
Gross margin	43.5%	43.5%	(0.0pp)
Segmental operating profit	427	369	16%
Segmental operating margin	27.0%	26.0%	1.0pp

Other Businesses development by region

Currency-neutral sales of Other Businesses increased in all regions. Revenues in Western Europe were up 11% on a currency-neutral basis due to double-digit sales growth at TaylorMade-adidas Golf, partly offset by declines at Rockport and Reebok-CCM Hockey. Sales in European Emerging Markets increased 35% on a currency-neutral basis, driven by strong double-digit growth at TaylorMade-adidas Golf and Rockport. Reebok-CCM Hockey sales were also up at a double-digit rate. Currency-neutral sales in North America rose 17%, due to strong double-digit growth at TaylorMade-adidas Golf. Sales at Rockport and Reebok-CCM Hockey also increased on a currency-neutral basis. Revenues in Greater China were up 22% on a currency-neutral basis as a result of strong growth at TaylorMade-adidas Golf. Sales in Other Asian Markets grew 4% on a currency-neutral basis, due to increases at TaylorMade-adidas Golf as well as Rockport. In Latin America, currency-neutral sales grew 20%, as a result of double-digit growth at Rockport and TaylorMade-adidas Golf. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ TABLE 17.

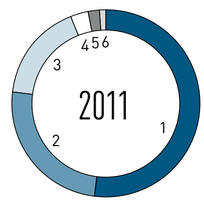
Other Businesses development by segment

In 2011, TaylorMade-adidas Golf revenues grew 16% on a currency-neutral basis. Growth at TaylorMade was primarily driven by strong double-digit revenue increases in both metalwoods and putters. Sales for adidas Golf also increased, mainly driven by double-digit growth in apparel. Currency translation effects negatively impacted TaylorMade-adidas Golf sales in euro terms. Revenues increased 15% to € 1.044 billion from € 909 million in the prior year.

Rockport revenues increased 6% on a currency-neutral basis, driven by high-single-digit sales growth in footwear which more than offset declines in the segment's smaller categories, apparel and hardware. Currency translation effects negatively impacted sales in euro terms. Revenues in the Rockport segment increased 3% to € 261 million (2010: € 252 million).

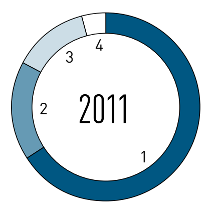
Currency-neutral Reebok-CCM Hockey sales were up 6%, mainly driven by strong double-digit sales increases in apparel. Revenues in hardware also grew. Currency translation effects negatively impacted sales in euro terms. Reebok-CCM Hockey revenues increased 5% to € 210 million from € 200 million in 2010.

18 ⁄ **Other Businesses net sales by region**



1 ⁄ **52%** North America
2 ⁄ **25%** Other Asian Markets
3 ⁄ **17%** Western Europe
4 ⁄ **3%** European Emerging Markets
5 ⁄ **2%** Greater China
6 ⁄ **1%** Latin America

19 ⁄ **Other Businesses net sales by segment**



1 ⁄ **66%** TaylorMade-adidas Golf
2 ⁄ **17%** Rockport
3 ⁄ **13%** Reebok-CCM Hockey
4 ⁄ **4%** Other Centrally Managed Brands

17 ⁄ **Other Businesses net sales by region** (€ in millions)

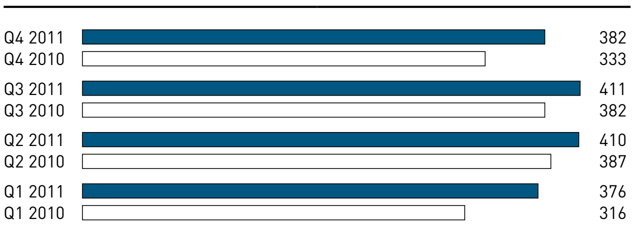
	2011	2010	Change	Change (currency-neutral)
Western Europe	259	235	11%	11%
European Emerging Markets	45	35	29%	35%
North America	827	735	12%	17%
Greater China	34	29	21%	22%
Other Asian Markets	398	372	7%	4%
Latin America	15	14	14%	20%
Total[1]	**1,580**	**1,420**	**11%**	**13%**

1) Rounding differences may arise in totals.

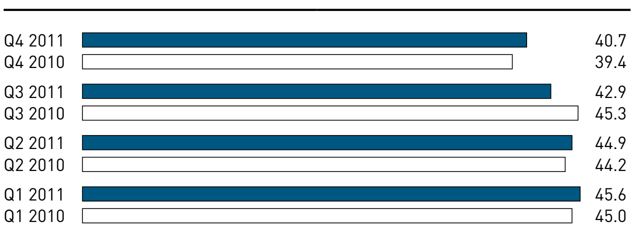
03.3

Other Centrally Managed Brands revenues grew 13% on a currency-neutral basis, primarily driven by growth at Y-3 and adidas SLVR as well as the first-time consolidation of Five Ten in the fourth quarter. Currency translation effects had no impact on sales in euro terms. Revenues in Other Centrally Managed Brands increased 13% to € 64 million (2010: € 57 million).

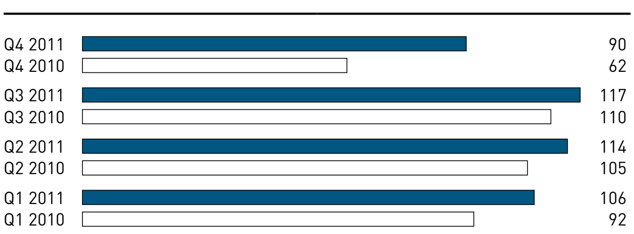
20 **Other Businesses net sales by quarter** (€ in millions)



21 **Other Businesses gross margin by quarter** (in %)



22 **Other Businesses segmental operating profit by quarter** (€ in millions)



03.4

Risk and Opportunity Report

The adidas Group continuously explores and develops opportunities to sustain earnings and drive long-term increases in shareholder value. We acknowledge that in our daily business we are exposed to various risks and that it is necessary to take certain risks to maximise business opportunities. Our risk and opportunity management principles and system provide the framework for our Group to conduct business in a well-controlled environment.

Risk and opportunity management system upgraded in 2011

In order to further increase efficiency and effectiveness of the Group's risk management process, we implemented a Group-wide IT solution in 2011 which allows for systematic analysis and monitoring of risks and opportunities. This IT solution supports all Risk Owners (i.e. all direct reports to the adidas AG Executive Board and the managing directors of all our markets) in managing risks and opportunities and facilitates continuous documentation, monitoring and evaluation of risks and opportunities. In addition, we further refined the Group Risk Management Policy which is available to all Group employees on our intranet. The policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our Group. In particular, we decided to place extra emphasis on more detailed assessment of risks and opportunities in the upcoming twelve-month period while at the same time maintaining transparency and awareness of risks and opportunities that may affect the Group in the medium to long term.

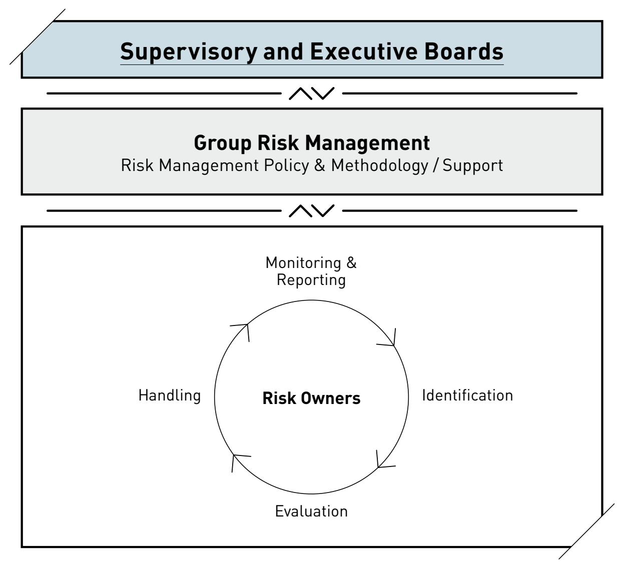
Risk and opportunity management principles

The adidas Group is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the assets, liabilities, financial position and profit and loss of the Group, or intangible assets such as brand image.

We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the Group's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the Group's business objectives or financial goals.

We have summarised the most important of these risks and opportunities in this Risk and Opportunity Report in three main categories: Strategic and Operational, Compliance-related and Financial.

01 **adidas Group risk and opportunity management system**



Risk and opportunity management system

The adidas AG Executive Board has the overall responsibility to operate an effective risk and opportunity management system that ensures comprehensive and consistent management of all significant risks and opportunities. The Group Risk Management department coordinates the execution and further development of the adidas Group's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the adidas AG Executive Board. The adidas AG Supervisory Board has the responsibility to monitor the effectiveness of the Group's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. In addition, wherever relevant, our Global Internal Audit department also includes an assessment of Risk Owners' compliance with the Group Risk Management Policy within the scope of their audit, as part of their regular auditing activities.

03.4 ⁄

To facilitate effective risk and opportunity management, we have an integrated risk and opportunity management system in place, which focuses on the identification, evaluation, handling, monitoring and reporting of risks and opportunities. The key objective of this system is to protect and further grow shareholder value through an opportunity-focused, but risk-aware decision-making framework.

We believe that a key component of optimal risk and opportunity management is the identification and evaluation of risks, risk-mitigating actions and opportunities where they arise. In addition, a concerted approach to handling, monitoring and reporting is of key importance. Therefore, risk and opportunity management is a Group-wide activity, which utilises critical day-to-day management insight from both global and local business units and functions.

Our risk and opportunity management process contains the following components:

– Risk and opportunity identification: The adidas Group continuously monitors the macroeconomic environment, developments in the sporting goods industry, as well as internal processes to identify risks and opportunities as early as possible. The Risk Owners have primary responsibility for the identification of risks and opportunities. The Group Risk Management department has defined a catalogue of potential risks (Risk Universe) to assist Risk Owners in identifying and categorising risks and opportunities. Our broad network of Risk Owners, which includes senior managers across all functions and markets, ensures an effective identification of risks and opportunities. While various Risk Owners – according to their area of responsibility - actively monitor changes in the overall macroeconomic, political and social landscape, others closely observe brand, distribution channel and price point developments as well as changes in other areas such as input prices, financial market conditions or technological developments.

The Risk Owners use various instruments in the risk and opportunity identification process such as primary qualitative and quantitative research including trend scouting, consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation, or exposed to increased competition or changing consumer tastes.

– Risk and opportunity evaluation: In order to manage risks and opportunities in an effective way, we evaluate identified risks and opportunities individually according to a systematic evaluation methodology, which is applied consistently and allows adequate prioritisation as well as allocation of resources. According to our risk and opportunity management methodology, a risk and opportunity score is calculated by multiplying the potential financial impact in the upcoming twelve-month period with the likelihood of occurrence. The financial impact represents the biggest possible potential effect on the relevant income statement metrics (operating profit, financial result or tax expenses). The financial impact is evaluated by utilising five categories: Marginal, Minor, Moderate, Significant and Major. Likelihood represents the possibility that a given risk or opportunity may occur. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: Unlikely, Possible, Likely, Probable and Highly Probable.

In order to assess the potential financial impact for each individual risk, the gross risk score and the net risk score have to be evaluated. While the gross risk score reflects the worst-case negative financial impact before any mitigating actions, the net risk score reflects the expected financial impact after all mitigating actions. This approach on the one hand allows for a good understanding of the impact of an individual mitigating action taken, and on the other hand provides the basis for scenario analysis and simulations. In addition, the respective Risk Owners are also required to assess each risk from a timing perspective in order to determine when the risk could materialise. Whenever a risk materialises, we measure the actual financial impact against the original assessment. In that way, we ensure continuous monitoring of the accuracy of risk evaluations across the Group.

In assessing the potential effect on the relevant income statement metric from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at both the Group and, more extensively, the market and brand level.

– Risk and opportunity handling: Risks and opportunities are treated in accordance with the Group's risk and opportunity management principles as described in the Group Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating actions and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimise financial impact and/or likelihood of occurrence, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating actions if applicable. Group Risk Management works closely with the Risk Owners to monitor the continuous progress of planned mitigating actions and assess the viability of already implemented mitigating actions.

– Risk and opportunity monitoring and reporting: Our integrated risk and opportunity management system aims to increase the transparency of Group risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments, but also the adequacy and effectiveness of the current risk handling strategy on an ongoing basis.

Regular risk reporting consists of a two-step reporting stream. Firstly, on a quarterly basis, Risk Owners are required to report to Group Risk Management gross risks with a possible impact on the relevant income statement metric above the threshold of € 50 million regardless of their likelihood of materialising and net risks with an expected value (i.e. potential impact on the relevant metric in euros multiplied with likelihood of materialising) of over € 1 million. Opportunities are aggregated separately with Risk Owners reporting all opportunities with an opportunity value of above € 1 million on the relevant metric. Secondly, Group Risk Management aggregates the reported risks and, also on a quarterly basis, provides the adidas AG Executive Board with a consolidated Group-wide report based on the Risk Owners' input.

Material changes in previously reported risks and/or newly identified risks with a potential net impact on the relevant income statement metric of more than € 5 million, and any issues identified which due to their material nature require immediate reporting to the Executive Board, are also reported outside the regular quarterly reporting stream on an ad-hoc basis.

Description of the main features of the internal control and risk management system relating to the financial reporting process pursuant to § 315 section 2 no. 5 German Commercial Code (Handelsgesetzbuch – HGB)

We regard the internal control and risk management system relating to the consolidated financial reporting process of the adidas Group as a system which is embedded within the Group-wide risk management system. The internal control and risk management system with respect to the financial reporting process aims at avoiding false representation in our Group accounting and in external financial reporting. To this end, Group-wide compliance with statutory provisions and internal Group regulations must be ensured. We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, treatment, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process in the various areas. In a first step, the internal control and risk management system serves to identify and assess as well as to limit and control risks identified in the consolidated accounting process which might result in our consolidated financial statements not being in conformity with regulations.

The internal control system relating to the financial accounting process serves to provide reasonable assurance that the financial statements are prepared in compliance with regulations despite identified financial reporting risks. To ensure the effectiveness of the internal control and risk management system, the Internal Audit department regularly reviews accounting-relevant processes. Additionally, as part of the year-end audit, the external auditor examines selected internal controls of the system, including the IT systems, to assess their effectiveness. Even with appropriate and functional systems, however, absolute certainty cannot be guaranteed.

adidas AG defines uniform consolidated accounting policies and updates these on a regular basis, dependent on regulatory changes and internal developments. Clear regulations serve to limit employees' scope of discretion with regard to inclusion and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the Group. These policies are available to all employees involved in the financial accounting process through the Group-wide intranet. Material changes are communicated to the subsidiaries Group-wide on a quarterly basis. We aim to ensure compliance with the financial accounting rules through continuous adherence to the four-eyes principle in accounting-related processes. Certain reporting obligations and the extent thereof are mandatory for the Group's subsidiaries. Adherence to reporting obligations and timelines is monitored centrally by Group Accounting.

Financial accounting at subsidiaries is conducted either locally by the respective company or by a Shared Service Centre that provides this service for several subsidiaries. Most of the IT systems used are based on SAP AFS. Some Group companies use Navision-based ERP software that was developed in-house. The individual financial statements are subsequently transferred into a central consolidation system based on SAP SEM-BCS. The regularity and reliability of the financial statements prepared by subsidiaries is reviewed at Group level by Group Accounting and Controlling. If necessary, the Group seeks the opinion of independent experts to review business transactions that occur infrequently and cannot be processed as a matter of routine. Controls within the consolidation process such as those relating to the consolidation of liabilities or of revenues and expenses are conducted both automatically (system-based) and manually. Any inadequacies are remedied and reported back to the subsidiaries.

All financial systems used are protected against malpractice by means of appropriate authorisation concepts and access restrictions. Access authorisations are reviewed on a regular basis and updated if required. The risk of data loss or outage of financial-accounting-related IT systems is minimised by Group IT through central control and monitoring of virtually all IT systems, centralised management of change processes and with support through regular data backups.

03.4

02 **Corporate risk overview**

	Likelihood of occurrence	Potential financial impact
Strategic and operational risks		
Macroeconomic risks	Likely	Major
Consumer demand risks	Likely	Moderate
Industry consolidation and competition risks	Likely	Major
Hazard risks	Possible	Major
Reputation/brand image risks	Probable	Significant
Own-retail risks	Likely	Moderate
Risks related to rising input costs	Highly probable	Major
Supplier risks	Possible	Major
Inventory risks	Probable	Moderate
Customer risks	Likely	Major
Regulatory risks	Likely	Significant
Risks related to key event or promotion partnerships	Possible	Significant
Product innovation and development risks	Possible	Minor
Personnel risks	Likely	Moderate
IT risks	Possible	Significant
Compliance-related risks		
Legal risks	Likely	Significant
Social and environmental risks	Likely	Moderate
Risks related to product counterfeiting and imitation	Probable	Moderate
Product quality risks	Likely	Moderate
Risks related to non-compliance	Possible	Moderate
Financial risks		
Credit risks	Possible	Moderate
Financing and liquidity risks	Unlikely	Minor
Currency risks	Highly probable	Major
Interest rate risks	Highly probable	Minor

Strategic and operational risks

Macroeconomic risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, socio-political factors such as civil unrest, nationalisation or expropriation, in particular in regions where the Group is highly represented, therefore pose a significant risk to sales development. To mitigate this risk, the Group strives to balance sales across key global regions and also between developed and emerging markets. In addition, we continuously monitor the macroeconomic and political landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions.

03 **Corporate risk evaluation categories listed in ascending order**

Likelihood of occurrence	Potential financial impact
Unlikely	Marginal
Possible	Minor
Likely	Moderate
Probable	Significant
Highly probable	Major

Furthermore, a core element of our positioning in performance sports is the utilisation of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influences. In 2012, we expect the global economy to grow, albeit with varying degrees of performance geographically ⁄ SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163. As a result, we continue to assess the likelihood that adverse macroeconomic events could impact our business as likely. However, as a result of the highly challenging macroeconomic environment in many European countries, Japan and the USA, we regard the potential financial impact of macroeconomic and socio-political factors as major, which represents an increase compared to the prior year evaluation.

Consumer demand risks

Failure to anticipate and respond to changes in consumer demand for sporting goods products is one of the most serious threats to our industry. Consumer demand changes can be sudden and unexpected, particularly in our fashion-related businesses. Because industry product procurement cycles average 12 to 18 months, the Group faces a risk of short-term revenue loss in cases where it is unable to respond quickly to such changes. Even more critical, however, is the risk of continuously overlooking a new consumer trend or failing to acknowledge its potential magnitude over a sustained period of time.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brands and, in particular, of the respective Risk Owners. Therefore, we utilise extensive primary and secondary research tools as outlined in our risk and opportunity identification process.

As a leader in our industry, our brand strategies are focused on influencing rather than reacting to the changing consumer environment. We invest significant resources in research and development to innovate and bring fresh new technologies and designs to market ⁄ SEE RESEARCH AND DEVELOPMENT, P. 95.

We also seek to enhance consumer demand for our brands through extensive marketing, product and brand communication programmes ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68. And we focus on supply chain improvements to shorten production lead times ⁄ SEE GLOBAL OPERATIONS, P. 90.

Given the broad spectrum of our Group's product offering, feedback from retailers, consumers and athletes as well as evidence from our own-retail stores and other early indicators ⁄ SEE INTERNAL GROUP MANAGEMENT SYSTEM, P. 114, we view the risk from consumer demand shifts as unchanged versus the prior year. We therefore rate the likelihood of changes in consumer demand as likely, and the potential financial impact as moderate.

Industry consolidation and competition risks

The adidas Group is exposed to risks from market consolidation and strategic alliances amongst competitors and/or retailers, intense competition for consumers from both well-established industry peers and new market entrants (e.g. new brands, vertical retailers) as well as the expansion of retailers' own private label businesses. This can result in a reduction of our bargaining power, or harmful competitive behaviour such as price wars. Abnormal product discounting and reduced shelf space allocation from retailers are the most common potential outcomes of these risks. Sustained promotional pressure in one of the Group's key markets could threaten the Group's sales and profitability development.

To moderate this risk, we are also committed to maintaining a regionally balanced sales mix and adapting the Group's distribution strategy with a particular focus on controlled space initiatives ⁄ SEE GLOBAL SALES STRATEGY, P. 62. In addition, we are constantly investing in strengthening brand equity to increase the attractiveness and consumer appeal of our products ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68. Furthermore, we expect merger and acquisition activity within the sporting goods industry to remain buoyant given robust corporate balance sheets and business projections. Although we expect competition in our industry to remain intense, we now regard risks from industry consolidation and competition as likely. The potential financial impact is assessed as major.

Hazard risks

The adidas Group is exposed to external risks such as natural disasters, epidemics, fire, accidents and malicious acts. Physical damage to our own or our suppliers' premises, production units, warehouses and stock in transit can lead to property damage and business interruption.

These risks are mitigated by loss prevention measures such as working with reliable suppliers and logistics providers who guarantee high safety standards. In addition to the insurance coverage we have secured, the Group has also implemented contingency plans and preventative measures (e.g. sprinklers in facilities) to minimise potential negative effects.

As a result of the increasing frequency of natural disasters (e.g. earthquakes, floods, etc.) around the world, we now assess the potential occurrence of hazard risks as possible. Should those risks materialise, the potential financial impact could be major, reflecting the fundamental and devastating consequences natural disasters or terrorist acts might have on our business.

03.4 ⁄

Reputation/brand image risks

The adidas Group faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. Negative media coverage on our products or business practices, unfavourable stakeholder activism and speed and influence of social media discussion may significantly hurt the Group's reputation and brand image and eventually lead to a sales slowdown. In addition, if the Group's brands are not allocating sufficient marketing resources to activate our sports assets and brand campaigns in a sustainable manner, we face the risk of fading consumer awareness and brand attractiveness. To mitigate these risks, we pursue pro-active, open communication with key stakeholders (e.g. consumers, media, non-governmental organisations, financial community, etc.) on a continuous basis. We have also defined clear mission statements, values and goals for all our brands ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68 ⁄ SEE OTHER BUSINESSES STRATEGY, P. 82. These form the foundation of our product and brand communication strategies. Furthermore, we continue to invest significant marketing resources to build brand momentum and foster consumer awareness.

We continue to believe that a considerable deterioration in the Group's reputation and the image of our brands could have a significant financial impact on our Group. As a result of ever-increasing media and other stakeholder activities worldwide, coupled with the fast-moving and hardly controllable nature of social media, we consider reputation and brand image risks more likely to materialise and have therefore increased the likelihood of occurrence to probable.

Own-retail risks

New adidas, Reebok and Rockport own-retail stores require considerable up-front investment in furniture and fixtures as well as ongoing maintenance. In addition, own-retail activities often require longer-term lease or rent commitments. Retail also employs significantly more personnel in relation to sales than our wholesale business. The higher portion of fixed costs compared to our wholesale business implies a larger profitability impact in cases of significant sales declines. Delayed openings or poorly executed store operations could lead to sales shortfalls and also negatively affect brand image. Further, inability to secure appropriate store locations may result in worse than expected sales development.

The Group reduces this risk by only entering into lease contracts with durations of less than ten years. Store openings are managed according to a standardised Group-wide business plan model. Store performance is measured by a retail scorecard consisting of nine quantitative key performance indicators. Underperforming stores are reorganised, remodelled or closed as appropriate.

Our increased focus on improving our sophistication as a retailer by investing in management expertise as well as in IT systems remains a key priority for 2012 ⁄ SEE GLOBAL SALES STRATEGY, P. 62. Nevertheless, we continue to view the risk of underperformance of some of our own-retail stores as likely. The potential financial impact from own-retail underperformance, which may also involve impairment charges and store closures, is moderate.

Risks related to rising input costs

Raw material and labour costs account for approximately 70% of the Group's cost of sales. Prices of materials such as rubber, cotton, polyester and those which closely correlate with the oil price are especially subject to the risk of price changes. As our ordering process and price negotiations usually take place around six months in advance of production, our sourcing function has visibility and reaction time to reflect sharp increases in input costs in its planning.

To reduce the financial impact on our product margins from higher sourcing costs, we are implementing further lean manufacturing techniques at our partner factories, reducing time and cost in the procurement process, re-engineering our products and selectively increasing prices where possible. In addition, the Profitability Management department within the Global Operations function is mandated with driving strategic initiatives to ensure competitiveness of our supply chain in light of increasing input costs ⁄ SEE GLOBAL OPERATIONS, P. 90. In the medium term, we also have the ability to adapt our sourcing structure to take advantage of more competitive pricing in other locations.

As a result of the high degree of volatility on global commodity markets in 2011 as well as currently increasing labour costs, we do not forecast any positive impact on our sourcing costs in 2012. As we begin planning for 2013, increases in sourcing costs cannot be ruled out. Therefore, we continue to assess the risks related to rising input costs as having a highly probable likelihood of occurrence and a major potential financial impact.

Supplier risks

Almost the entire adidas Group product offering is sourced through independent suppliers, mainly located in Asia ⁄ SEE GLOBAL OPERATIONS, P. 90. To reduce the risk of business interruptions following the potential underperformance of a supplier, the relocation of a supplier's production sites or a potential supplier default, we work with vendors who demonstrate reliability, quality, innovation and continuous improvement.

Furthermore, in order to minimise any potential negative consequences such as product quality shortfalls, increased product lead times or violation of our Workplace Standards, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain ⁄ SEE SUSTAINABILITY, P. 107.

In addition, we have bought insurance coverage for the risk of business interruptions caused by physical damage to supplier premises.

As a result, we assess supplier risks as having a possible likelihood of occurrence and a major potential financial impact.

Inventory risks

As we place initial production orders around six months in advance of delivery, the adidas Group is exposed to inventory risks relating to misjudging consumer demand at the time of production planning. A sudden decline in demand has the potential to cause excess inventories. This can have negative implications for our financial performance, including higher levels of clearance activity and inventory obsolescence as well as reduced liquidity due to higher operating working capital requirements.

Similarly, a sudden increase in demand can lead to product shortfalls at the point of sale. In this situation, our Group faces the risk of missed sales opportunities and/or customer and consumer disappointment, which could lead to a reduction in brand loyalty and our reputation as an on-time, in-full supplier. In addition, the Group faces potential profitability impacts from costs such as air freight in efforts to speed up replenishment.

In order to mitigate these risks, we continuously strive to improve our forecasting and material planning processes. To that end, in 2011, we began to introduce an enhanced forecasting approach around full integration of key business functions globally ⁄ SEE INTERNAL GROUP MANAGEMENT SYSTEM, P. 114. In addition, our Global Operations function offers sophisticated and tailored replenishment models in order to shorten order-to-delivery times, ensuring availability of products while avoiding excess inventories ⁄ SEE GLOBAL OPERATIONS, P. 90.

Nevertheless, the expected over-proportionate growth of the Retail segment will increase the exposure towards swings in consumer demand, and also makes the Group more susceptible to the risk of inventory shrinkage or excess inventory. As a result, we now assess inventory risks to have a probable likelihood and a moderate potential financial impact on our Group.

Customer risks

Customer risks arise from our dependence on key customers who have the ability to exert bargaining power and can therefore cause considerable margin pressure or cancel orders. These risks exist not only due to the relative size of some of our major customers, but also as a result of our limited ability to influence how they conduct business.

To limit these risks, we utilise a broad distribution strategy which includes further expanding our controlled space activities. This enables us to reduce negative consequences resulting from sales shortfalls that can occur with key customers. Specifically, no single customer of our Group accounted for more than 10% of Group sales in 2011.

In addition, building strong relationships with retailers to become a valuable and reliable business partner for them is one of the guiding principles of our Wholesale segment ⁄ SEE WHOLESALE STRATEGY, P. 63. By differentiating our product offering to customers, we limit the risk of increased price competition on specific products.

Furthermore, with our substantial marketing efforts we are aiming at building desirable brands which resonate with the tastes of our consumers and ultimately drive high sell-through rates for our customers.

Given our strong partnerships with key retailers, we now view the likelihood of occurrence for customer risks as likely. The potential financial impact on the Group is regarded as major.

Regulatory risks

Regulatory risks predominantly include potential losses from significant changes to trade policies. In particular, the adidas Group faces risks arising from sudden increases of import restrictions, as well as import tariffs and duties that could compromise the free flow of goods within the Group and from suppliers. For example, several Latin American countries have significant import duties in place on footwear imports from China, which negatively impacts our profitability in these markets.

To limit these risks, we proactively utilise a regionally diversified supplier base, which provides some protection against unforeseen changes in regulations and also allows us to shift production to other countries at an early stage if necessary ⁄ SEE GLOBAL OPERATIONS, P. 90. Furthermore, building on our leading position within the sporting goods industry, we actively engage in supporting policymakers to liberalise global trade and curtail trade barriers.

As a result of the likelihood of rising protectionist activity by governments, we continue to regard further political and regulatory actions as having a likely potential of occurrence. An unexpected material change in the political and regulatory environment could have a significant financial impact on the Group.

Risks related to key event or promotion partnerships

Event and promotion partnerships play an important role in building brand image and product authenticity with our consumers, and this ultimately supports the generation of sales ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68 ⁄ SEE OTHER BUSINESSES STRATEGY, P. 82. The adidas Group faces the risk of either losing key partnerships or having to accept unfavourable terms due to intensified competition for attractive contracts. To mitigate these inherent risks, we not only seek to extend our most important partnership agreements before contract expiry, but also to broaden the Group's portfolio of premium partnerships to help our brands expand their consumer reach and reduce our reliance on single affiliations. Two examples in 2011 were the extension of the partnership between adidas and the Spanish Football Federation and Reebok's alliance with Swizz Beatz to lead the creative direction of the relaunch of Reebok's Classics business.

We also regularly include change-of-control clauses as well as non-cash compensation components in contracts to avoid the risk that negotiations are reduced solely to price. We expect a high level of competition for top promotion partnerships to continue in the near to medium term as smaller competitors are expected to intensify their spending in this area.

We also face the risk of misconduct or misbehaviour by our assets on the one hand and unsatisfying on-field performance of athletes on the other hand. Therefore, our sports marketing contracts include clauses which protect us in case of fraudulent, criminal or immoral behaviour by athletes. We have also secured insurance coverage in case of athletes' injuries. In addition, a sophisticated scouting system enables us to identify the most attractive and relevant sponsorship assets.

Given the maturity profile of our most important promotion contracts and the vast portfolio of partnerships, we believe the overall risk related to key event or promotion partnerships is possible. We assess the potential financial impact of this risk to be significant in the medium term.

Product innovation and development risks

Innovative and attractive products generate strong sales and, more importantly, create a halo effect for other products. Furthermore, fulfilling highest standards in terms of product quality and safety is critical to sustainable commercial success and forms an integral part of the product design and development phase. The speed with which new product technologies and fresh designs are brought to market is decisive for maintaining competitive advantage. In 2011, all brands generated the majority of their sales with products which had been brought to market over the previous 12 to 18 months ⁄ SEE RESEARCH AND DEVELOPMENT, P. 95. If the adidas Group failed to maintain a pipeline of new innovative products over a sustained period of time, we would risk a significant sales decline. We are committed to pursuing our innovation and design strength. To ensure we can quickly adapt to changing consumer preferences, we focus on streamlining research and development processes to speed up the time to market.

We continue to assess the likelihood of occurrence of risks from product innovation and development as possible. Given the broad spectrum of the adidas Group's product offering, on an aggregate level, we continue to rate the potential financial impact as minor.

Personnel risks

Achieving the adidas Group's goal of becoming the global leader in the sporting goods industry is highly dependent on our employees and their talents. The loss of key personnel in strategic positions is therefore an obvious risk we face. We also face the risk of being unable to identify, recruit and retain the most talented people who best meet the specific needs of our Group. In addition, a lack of sufficient training measures might cause the dilution of critical knowledge, in particular within the product design and development area.

To reduce this risk, we strongly engage in developing a motivating working environment. Our goal is to make the adidas Group the "employer of choice" within our industry. Attractive reward and incentive schemes are designed to further support long-term career opportunities and planning ⁄ SEE EMPLOYEES, P. 101.

With the expansion of our own-retail activities and the increase of our employee base in emerging markets, we believe that employee turnover will slightly increase in the future. Moreover, labour markets are becoming increasingly more competitive, with the battle for the most talented employees constantly intensifying.

Therefore, we continue to assess the likelihood of occurrence of personnel risks as likely. If they materialise, these risks could have a moderate financial impact on our Group.

IT risks

Key business processes including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting are all dependent on IT systems. A significant systems outage or loss of data could result in considerable disruptions to our business. Insufficient project management could delay the execution of projects critical to the Group or make them more expensive than planned. Virus or malware attacks could also lead to systems disruption and may result in the loss of business-critical and/or confidential information.

To mitigate these risks, our IT organisation proactively engages in system preventive maintenance, service continuity planning and adherence to applicable IT policies. Data security is managed by restricting user access based on job description and adhering to data protection regulations. Additional security measures such as anti-virus software and firewalls are designed to further protect our systems and critical information. We perform multiple backups at alternating data centre locations for the Group's core enterprise resource planning system (ERP) on a daily basis. In addition, for the ERP system, our contingency solution allows us to quickly switch to a remote site if necessary – without any loss of data. System security, controls and reliability are reviewed and tested by the Internal Audit department.

IT project risks are further mitigated by utilising a proven project methodology for all IT projects that includes tight cost control and regular risk reviews for all major projects. The IT organisation's strategic direction and five-year plan is aligned with the adidas Group's overall Route 2015 strategic business plan. New quality reviews for major projects have been implemented to ensure that the progress, quality and costs of those projects are regularly evaluated by members of senior management.

As a result of an increased frequency of IT-related criminal activities worldwide, we now believe the risk of a major IT default is possible. Such a default could result in a significant potential financial impact.

Compliance-related risks

Legal risks

As a global player, the adidas Group is exposed to various legal risks including contractual risks, liability risks related to non-contractual subject matters (e.g. advertising claims) or the risk of claims and litigation for infringement of third-party trademarks, patents and other rights. To avoid contract breaches and prevent the Group from entering into unfavourable contractual agreements, we continually monitor the fulfilment of our contractual obligations and constantly involve internal and external legal experts in all contractual matters. In addition, to reduce the risk of infringing third-party intellectual property rights, we carefully research new product technologies, designs and names to identify and avoid potential conflicts with the rights of third parties. We have further strengthened our Intellectual Property department resources to drive enhancements in our patent portfolio, and in the reviewing and analysis of third-party patents.

Despite the safeguarding measures in place, we now assess the likelihood of legal risks as likely. If legal risks materialise, the financial impact for our Group could be significant.

Social and environmental risks

We have a continuing responsibility to our employees, suppliers and the environment. Malpractice in these areas, in particular human rights violations, dubious employment practices as well as environmentally harmful production processes can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. To limit this risk, we have established Workplace Standards to which suppliers must conform before and during business relationships with the Group ⁄ SEE SUSTAINABILITY, P. 107. Internal inspections of supplier factories verified by extensive independent audits are conducted regularly.

In the event of non-compliance with these standards, we develop joint action plans and set deadlines for compliance and further improvement. If these deadlines are not met, business relations are terminated ⁄ SEE SUSTAINABILITY, P. 107.

In order to minimise the environmental impact of producing and distributing our products, the adidas Group developed a fully comprehensive environmental strategy (Environmental Strategy 2015). This strategy takes a holistic approach towards environmental issues such as sustainable resource use, climate change mitigation, emissions to water and air, waste treatment as well as hazardous substances. Part of this strategy is also to extend our "Better Place" initiative to more adidas athletic footwear and apparel products ⁄ SEE SUSTAINABILITY, P. 107.

Although we believe that social and environmental malpractice may occur only in isolated cases, we see increasing corporate social responsibility obligations for the Group as legislative measures and consumer expectations with regard to socially and environmentally sound business practices and behaviour are becoming more demanding. Due to this development we will, for example, have to cope with rising costs in order to fulfil more challenging environmental requirements. However, as a consequence of the strategic initiatives we are putting in place, the likelihood of occurrence and the potential financial impact from social and environmental risks are now assessed as likely and moderate, respectively.

Risks related to product counterfeiting and imitation
As popular consumer brands which rely on technological and design innovation as defining characteristics, the Group's brands are frequent targets for counterfeiting and imitation. To reduce the loss of sales and the potential damage to brand reputation resulting from counterfeit products, the adidas Group makes use of extensive legal protection (generally through registration) and works closely with law enforcement authorities, investigators and external legal counsel. Although we have stepped up measures such as product security labelling with our authorised suppliers, the development of these measures remains a key priority on an ongoing basis. In 2011, around 12 million counterfeit adidas Group products were seized worldwide.

As a result of our relentless and intensive efforts against counterfeiting, we believe the risks related to counterfeiting and imitation have decreased, and we now regard the likelihood of occurrence as probable. However, we continue to assess the potential financial impact related to counterfeiting and imitation as moderate.

Product quality risks
The adidas Group faces a risk of selling defective products, which may result in injury to consumers and/or image impairment. We mitigate this risk by employing dedicated teams that monitor the quality of our products on all levels of the supply chain through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary. In 2011, we did not recall any products.

As product quality requirements are becoming increasingly stringent, we believe the likelihood of occurrence of significant product liability cases or having to conduct wide-scale product recalls has increased to likely. However, we continue to assess the potential financial impact as moderate.

Risks related to non-compliance
We face the risk that our employees breach rules and standards that guide appropriate and responsible business behaviour. This includes the risks of fraud and corruption. In order to successfully manage these risks, the Group Policy Manual was launched at the end of 2006 to provide a framework for basic work procedures and processes. It also includes a Code of Conduct which stipulates that every employee shall act ethically in compliance with the laws and regulations of the legal systems where they conduct Group business. All of our employees have to participate in a special Code of Conduct training as part of our Global Compliance Programme. Various mechanisms are in place to monitor compliance. Whenever reasonable, we actively investigate and, in case of unlawful conduct, we work with state authorities to ensure rigorous enforcement of criminal law.

As a result of the substantial growth of our global workforce in recent years, we believe that both the impact and likelihood of occurrence of risks related to non-compliance have increased. We now regard the likelihood of risks related to non-compliance as possible. In case they should materialise, risks from non-compliance could have a moderate financial impact.

Financial risks

Credit risks
A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. The adidas Group is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and, to a lesser extent, from other third-party contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments ⁄ SEE NOTE 28, P. 202. Without taking into account any collateral, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2011, there was no relevant concentration of credit risk by type of customer or geography. Our credit risk exposure is mainly influenced by individual customer characteristics. Under the Group's credit policy, new customers are analysed for creditworthiness before standard payment and delivery terms and conditions are offered. Tolerance limits for accounts receivable are also established for each customer. Both creditworthiness and accounts receivable limits are monitored on an ongoing basis. Customers that fail to meet the Group's minimum creditworthiness are in general allowed to purchase products only on a prepayment basis.

Other activities to mitigate credit risks include retention of title clauses as well as, on a selective basis, credit insurances, accounts receivable sales without recourse and bank guarantees.

Objective evidence that financial assets are impaired includes, for instance, significant financial difficulty of the issuer or debtor, indications of the potential bankruptcy of the borrower and the disappearance of an active market for a financial asset because of financial difficulties. The Group utilises allowance accounts for impairments that represent our estimate of incurred credit losses with respect to accounts receivable.

Allowance accounts are used as long as the Group is satisfied that recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are directly written off against the financial asset. The allowance consists of two components:
(1) an allowance established for all receivables dependent on the ageing structure of receivables past due date and
(2) a specific allowance that relates to individually assessed risk for each specific customer – irrespective of ageing.

At the end of 2011, no Group customer accounted for more than 10% of accounts receivable. We therefore believe that the potential financial impact of our credit risks from customers, particularly smaller retailers, is moderate and we rate the likelihood of occurrence as possible.

The adidas Group Treasury department arranges currency and interest rate hedges, and invests cash, with major banks of a high credit standing throughout the world. adidas Group companies are authorised to work with banks rated BBB+ or higher. Only in exceptional cases are subsidiaries authorised to work with banks rated lower than BBB+. To limit risk in these cases, restrictions are clearly stipulated, such as maximum cash deposit levels. In addition, the credit default swap premiums of our partner banks are monitored on a weekly basis. In the event that the defined threshold is exceeded, credit balances are shifted to banks compliant with the limit.

As financial market conditions remain challenging and highly volatile, our assessment of credit risks from these assets is unchanged. We continue to believe that the potential financial impact is moderate and the likelihood of occurrence is possible. Nevertheless, we believe our risk concentration is limited due to the broad distribution of our investment business with more than 20 banks. At December 31, 2011, no bank accounted for more than 9% of our investments and the average concentration, including subsidiaries' short-term deposits in local banks, was 1%. This leads to a maximum exposure of € 97 million in the event of default of any single bank. We have further diversified our investment exposure by investing into AAA-rated money market funds.

In addition, we held derivatives with a positive fair market value in the amount of € 181 million. The maximum exposure to any single bank resulting from these assets amounted to € 28 million and the average concentration was 4%.

Financing and liquidity risks

Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure. In addition, the adidas Group faces the risk of having to accept unfavourable financing terms due to liquidity restraints. Our Group Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2011, Group cash and cash equivalents amounted to € 906 million (2010: € 1.156 billion). Moreover, our Group maintains € 2.164 billion bilateral short-term credit lines and a € 1.860 billion committed short-term syndicated loan facility with international banks, which does not include a market disruption clause. The € 4.024 billion in credit lines are designed to ensure sufficient liquidity at all times ⁄ SEE TREASURY, P. 129.

Future cash outflows arising from financial liabilities that are recognised in the Consolidated Statement of Financial Position are presented in the following table ⁄ TABLE 04.

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

In 2011, we continued to improve our financial position substantially as we ended the year with net cash of € 90 million (2010: net borrowings of € 221 million). Thus the ratio of net borrowings over EBITDA improved to -0.1 times at year-end, which is well in line with the Group's medium-term guideline of less than two times. In the light of our available credit lines, financing structure and business model, we assess the likelihood of occurrence of financing and liquidity risks as unlikely, and therefore expect only a minor potential financial impact on the Group.

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04 Future cash outflows[1] (€ in millions)

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
As at December 31, 2011					
Bank borrowings[2]	126				126
Private placements[3]	193	418	119	–	730
Eurobond[3]	24	538	–	–	562
Accounts payable	1,886	–	–	–	1,886
Other financial liabilities	24	4	–	–	28
Derivative financial liabilities	32	2	–	–	34
Total	**2,285**	**962**	**119**	**–**	**3,366**
As at December 31, 2010					
Bank borrowings[2]	95	–	–	–	95
Private placements[3]	320	482	237	118	1,157
Eurobond[3]	24	48	514		586
Accounts payable	1,694	–	–	–	1,694
Other financial liabilities	27	2	1	–	30
Derivative financial liabilities	96	12		–	108
Total	**2,256**	**544**	**752**	**118**	**3,670**

1) Rounding difference may arise in totals.
2) Classified as long-term (between 1 and 3 years) in the consolidated financial statements, as they are covered by the committed mid-term syndicated loan.
3) Including interest payments.

Currency risks

Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. Furthermore, translation impacts from the conversion of non-euro-denominated results into our Group's functional currency, the euro, might lead to a material negative impact on our Group's financial performance. The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing our products versus the denominations of our sales. The vast majority of our sourcing expenses are in US dollars while sales are denominated in other currencies to a large extent – most notably the euro. Our main exposures are presented in the adjacent table / TABLE 05. The exposure from firm commitments and forecasted transactions was calculated on a one-year basis.

In line with IFRS 7 requirements, we have estimated the impact on net income and shareholders' equity based on changes in our most important currency exchange rates. The calculated impacts mainly result from fair value changes of our hedging instruments. The analysis does not include effects that arise from the translation of our foreign entities' financial statements into the Group's reporting currency, the euro. The sensitivity analysis is based on the net balance sheet exposure, including intercompany balances from monetary assets and liabilities denominated in foreign currencies. Moreover, all outstanding currency derivatives were re-evaluated using hypothetical foreign exchange rates to determine the effects on net income and equity. The analysis was performed on the same basis for both 2010 and 2011.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2011 would have led to a € 5 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 195 million. A 10% weaker euro at December 31, 2011 would have led to a € 6 million decrease in net income. Shareholders' equity would have increased by € 243 million / TABLE 06. The impacts of fluctuations of the US dollar against the Russian rouble and of the euro against the British pound and the Japanese yen on net income and shareholders' equity are also included in accordance with IFRS requirements.

However, many other financial and operational variables that could potentially reduce the effect of currency fluctuations are excluded from the analysis. For instance:

- Interest rates, commodity prices and all other exchange rates are assumed constant.
- Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which we utilise internally to better reflect both the seasonality of our business and intra-year currency fluctuations.
- The underlying forecasted cash flow exposure (which the hedge instrument mainly relates to) is not required to be revalued in this analysis.
- Operational issues, such as potential discounts to key accounts, which have high transparency regarding the impacts of currency on our sourcing activities (due to their own private label sourcing efforts), are also excluded from this presentation.

Utilising a centralised currency risk management system, our Group hedges currency needs for projected sourcing requirements on a rolling 12- to 24-month basis ⁄ SEE TREASURY, P. 129. Our goal is to have the vast majority of our hedging volume secured six months prior to the start of a given season. In rare instances, hedges are contracted beyond the 24-month horizon. The Group also largely hedges balance sheet risks. Due to our strong global position, we are able to minimise currency risk to a large extent by utilising natural hedges.

Nevertheless, our net US dollar cash flow exposure after natural hedges calculated for 2012 was roughly € 3.9 billion at year-end 2011, which we hedged using forward contracts, currency options and currency swaps ⁄ TABLE 05. Our Group's Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection from negative exchange rate fluctuations while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2012 hedging has almost been completed, it is clear that conversion rates on major currencies will be slightly less favourable compared to those of 2011. Volume forecast variances, greater currency volatility and an increasing portion of our business in emerging markets will expose the adidas Group to additional currency risks in 2012. As a consequence, our assessment of currency risks remains unchanged. We believe the likelihood of currency risks is highly probable and we regard the possible financial impact of currency risks as major.

Interest rate risks

Changes in global market interest rates affect future interest payments for variable-interest liabilities. As a result, significant interest rate increases can have an adverse effect on the Group's profitability, liquidity and financial position.

In line with IFRS 7 requirements, we have analysed the impact of changes in the Group's most important interest rates on net income and shareholders' equity. The effect of interest rate changes on future cash flows is excluded from this analysis. Nevertheless, accrued interest, which is recognised as a liability, has been re-calculated based on the hypothetical market interest rates as at December 31, 2011. Fair values for derivative interest rate instruments accounted for as cash flow hedges were then re-evaluated based on the hypothetical market interest rates with the resulting effects on net income and equity included in the sensitivity analysis.

05 ⁄ Exposure to foreign exchange risk [1]

(based on notional amounts, € in millions)

	USD	RUB	GBP	JPY
As at December 31, 2011				
Exposure from firm commitments and forecasted transactions	(3,859)	298	330	331
Balance sheet exposure including intercompany exposure	(140)	83	2	30
Total gross exposure	**(3,999)**	**381**	**332**	**361**
Hedged with other cash flows	93	–	–	–
Hedged with currency options	365	–	(11)	–
Hedged with forward contracts	2,298	(47)	(194)	(145)
Net exposure	**(1,243)**	**334**	**127**	**216**
As at December 31, 2010				
Exposure from firm commitments and forecasted transactions	(3,313)	380	332	325
Balance sheet exposure including intercompany exposure	(194)	13	(10)	25
Total gross exposure	**(3.507)**	**393**	**322**	**350**
Hedged with other cash flows	166	–	–	–
Hedged with currency options	576	–	(41)	–
Hedged with forward contracts	1,733	–	(222)	(266)
Net exposure	**(1,032)**	**393**	**59**	**84**

1) Rounding difference may arise in totals.

06 ⁄ Sensitivity analysis of foreign exchange rate changes

(€ in millions)

	USD	RUB	GBP	JPY
As at December 31, 2011				
	EUR +10%	**USD +10%**	**EUR +10%**	**EUR +10%**
Equity	(195)	–	15	11
Net income	5	(9)	0	(3)
	EUR –10%	**USD –10%**	**EUR –10%**	**EUR –10%**
Equity	243	–	(19)	(13)
Net income	(6)	7	0	4
As at December 31, 2010				
	EUR +10%	**USD +10%**	**EUR +10%**	**EUR +10%**
Equity	(157)	–	21	20
Net income	3	(1)	1	(3)
	EUR –10%	**USD –10%**	**EUR –10%**	**EUR –10%**
Equity	193	–	(25)	(24)
Net income	(4)	1	(1)	4

03.4 ⁄

However, the effect on the income statement from changes in the fair values of hedged items and hedging instruments attributable to interest rate changes was not material. Exclusions from this analysis are as follows:

- Some fixed-rate financial instruments, such as certificates of deposit, which our Group values at "fair value through profit or loss" due to the short-term maturity of these instruments. Potential effects due to changes in interest rates are considered immaterial and are not recognised in the sensitivity analysis.
- Other fixed-rate financial instruments are measured at amortised cost. Since a change in interest rates would not change the carrying amount of this category of instruments, there is no net income impact and they are excluded from this analysis.

The interest rate sensitivity analysis assumes a parallel shift of the interest yield curve for all currencies and was performed on the same basis for both 2010 and 2011. A 100 basis point increase in interest rates at December 31, 2011 would have increased shareholders' equity by € 0.00 million (2010: increase by € 0.04 million) and decreased net income by € 0.07 million (2010: decrease by € 0.22 million). A 100 basis point decrease of the interest rates at December 31, 2011 would have resulted in a € 0.00 million decrease in shareholders' equity (2010: decrease by € 0.04 million) and a € 0.07 million increase in net income (2010: increase by € 0.22 million).

We believe the IFRS 7 interest rate analysis represents a realistic if rough estimate of our current interest rate risk.

To moderate interest rate risks and maintain financial flexibility, a core tenet of our Group's financial strategy is to continue to use surplus cash flow from operations to reduce gross borrowings ⁄ SEE TREASURY, P. 129. Beyond that, the adidas Group is constantly looking for adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks.

In 2011, interest rates in Europe and North America remained at low levels. Given the central banks' interest rate policies and macroeconomic uncertainty, we do not foresee any major interest increases in these regions for the near-term future. In contrast, we have witnessed rising interest rates in emerging markets and expect this trend to continue going forward. However, since 90% of the Group's financing is in euros and US dollars, we now regard the potential impact of interest rate risks only as minor. Nevertheless, we continue to assess the likelihood that these risks will materialise as highly probable.

07 ⁄ Corporate opportunities overview

Strategic and operational opportunities
Favourable macroeconomic developments
Growing importance of sports to fight obesity
Creating new social experiences to drive sports participation
Ongoing fusion of sport and lifestyle
Emerging markets as long-term growth drivers
Women's segment offers long-term potential
Increasing consumer demand for functional apparel
Growing popularity of "green" products
Social media offering new ways to engage consumers
Leveraging strong market positions worldwide
Multi-brand approach
Personalised and customised products replacing mass wear
Exploiting potential of new and fast-growing sports categories
Expanding distribution scope
Cost optimisation drives profitability improvements
Financial opportunities
Favourable financial market changes

Strategic and operational opportunities

Favourable macroeconomic developments

Since we are a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments, which support increased discretionary private consumption, can have a positive impact on our sales and profitability. In addition, legislative changes, e.g. with regard to the elimination of trade barriers, can positively impact Group profitability.

Growing importance of sports to fight obesity

Governments are increasingly promoting living an active lifestyle to fight obesity and cardiovascular disease. According to the latest International Obesity Task Force (IOTF), more than 600 million adults are currently considered obese. An additional billion are estimated to be overweight. Furthermore, up to 200 million school-age children are either obese or overweight. Once considered a problem only in affluent nations, obesity is also becoming an issue in countries with low per capita income. This development has serious health consequences and a dramatic effect on health care expenditures. As a result, governments and non-governmental organisations are increasing their efforts to promote a healthy lifestyle and encourage sports participation. For example, in 2011, the US Department of Education awarded 76 grants with a total budget of more than US $ 35 million to Local Education Agencies (LEAs) and community-based organisations in order to implement comprehensive physical activity and nutrition programmes for their students through the Carol M. White Physical Education Program (PEP). Similar health-promoting programmes and initiatives are being launched or expanded around the world. Given the strong global market position the adidas brand enjoys, in particular in categories considered suitable for weight loss such as training and running, we expect to benefit from this trend. Furthermore, in association with the London 2012 Olympic Games, adidas is also launching multi-sport outdoor venues called 'adiZones' in the UK, that are designed to encourage people to participate in sport. The adiZones will be free for the community to use and will help to break down the barriers that prevent people from getting active, making sport participation accessible. In addition, Reebok is an official partner of 'Build Our Kids' Success' ('BOKS'). Partnering with schools across the USA, the collective mission of BOKS is to provide opportunities for children to be physically active and create healthier habits to achieve lifelong fitness.

Creating new social experiences to drive sports participation

People increasingly aim to connect fitness with social experience. Making fitness, that is seen by most to be a chore, into something fun and enjoyable can therefore contribute significantly to drive sports participation. Since Reebok entered the fitness world, it has always been about making fitness a community experience. In 2011, Reebok launched its partnership with CrossFit, a fitness and conditioning movement which involves a fun and motivating community experience, to help empower everyone to be fit for life. CrossFit is one of Reebok's key strategic programmes in establishing it as the fitness brand ⁄ SEE REEBOK STRATEGY, P. 78.

Ongoing fusion of sport and lifestyle

The border between pure athletics and lifestyle continues to blur as sport becomes a more integral part in the lives of more and more consumers. People want to be fashionable when engaging in sporting activities without compromising on quality or the latest technological advances. At the same time, performance features and styles are finding their way into products meant for more leisure-oriented use. We estimate the global sports lifestyle market to be at least three times larger than the performance market. This development opens up additional opportunities for our Group and our brands, which already enjoy strong positions in this market. One example of this is the further roll-out of the adidas NEO label as part of our Route 2015 strategic business plan. After the successful introduction in emerging markets, mainly Greater China and Russia, in 2012, we will open 10 adidas NEO label pilot stores in Germany in order to test this fast-fashion model in a mature market ⁄ SEE ADIDAS STRATEGY, P. 72.

Emerging markets as long-term growth drivers

The global population has grown rapidly over the last decades and, according to estimates by the United Nations, passed the 7 billion mark in 2011. This development is projected to continue, with the global population estimated to exceed 9 billion by 2050. A large portion of this growth will be in emerging economies. Low unemployment rates, rising real incomes as well as a growing middle class with increasing spending power are fuelling these economies – and subsequently our industry. Sports participation in countries such as China or India has historically been lower than in industrialised countries. We expect sports participation rates to increase over time with increasing leisure time, investment in infrastructure and the broadening of awareness of the benefits of physical activity. In addition, European and North American sporting goods brands are often seen as highly desirable, easily accessible, affordable luxury goods in emerging markets, which presents an additional growth opportunity.

Women's segment offers long-term potential

Our Group still generates the majority of its revenues in men's and unisex categories. However, with women accounting for more than a third of total spending on athletic footwear, we believe the women's sports market is one of the most attractive segments in the sporting goods industry. The adidas Group will therefore continue to invest in developing women-specific product offerings in both performance and lifestyle that emphasise female individuality, authenticity and style. Examples today include the adidas by Stella McCartney collection, toning footwear and apparel at Reebok, as well as a series of Burner drivers and irons at TaylorMade specifically designed for women. Furthermore, 2011 saw the opening of the first adidas Women's stores in Russia and South Korea. The stores are exclusive locations for stylish and high-end adidas Women's collections in two very attractive markets for the adidas Group.

Increasing consumer demand for functional apparel

Consumer demand for functional apparel has increased significantly in recent years as consumers realise the benefits of functional apparel over traditional cotton sportswear. Improved heat and moisture management, superior ease of motion and increased comfort are all factors encouraging consumers to switch to high-performance apparel. The design and development of functional apparel requires significantly more expertise, product and material research as well as production know-how compared to low-tech apparel. Therefore, very few companies are able to supply high-end functional apparel. Our resources and our positioning as a sports performance leader enable us to constantly develop innovative products and capitalise on them commercially ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68.

Growing popularity of "green" products

Today's consumers are increasingly aware of the impact their consumption has on the environment. Therefore, they demand more products that are environmentally benign and produced on a sustainable basis. The adidas Group continues its efforts to create meaningful product platforms that drive growth in this area. We remain focused on the extension of the adidas "Better Place" programme, for which the first products were introduced globally in 2009. Products and packaging in the programme are designed taking sustainability principles into account, such as broadening the use of recycled materials and monitoring energy use in material and product preparation. With all adidas Sport Performance categories participating in the programme, the adidas Group is moving forward with ambitious plans in the build-up to the London 2012 Olympic Games. For example, adidas is working closely with the London Olympic Games Organising Committee (LOCOG) in contributing to the sustainability goals of the Games ⁄ SEE SUSTAINABILITY, P. 107. Reebok has also been steadily introducing eco-friendly products. The Kids' Green Easy collection addresses environmental concerns by utilising recycled raw materials for toddler and infant footwear. Launched in 2010, the Kids' Green Easy collection was successfully continued throughout 2011. Our efforts to use environmentally friendly materials in our products are, of course, not exclusive to these specific programmes, they are also used in other categories, albeit to a lesser extent.

Social media offering new ways to engage consumers

Advances in digital communication offer significant opportunities for our brands to engage with consumers more frequently, and enhance our opportunity to build long-lasting relationships and brand loyalty. The adidas Group constantly monitors the latest developments and trends in communication technologies. The emergence of social media and social networks is one such example which is already helping our brands increase their consumer reach. In this regard, we are investing considerable resources to present the adidas Group's brands through a variety of social media platforms, such as Facebook, YouTube or Twitter. This is reflected in our far higher growth rate of fans and viewers on these different social media platforms compared to industry peers. For example, the adidas Originals Facebook page alone has attracted more than 12 million followers, adding more than 5 million fans over the 12-month period. A key advantage of these tools is that they allow our brands to engage in a direct dialogue with our consumers. For example, by offering consumers the opportunity to actively participate in brand campaigns or in the design and creation of new products, we can generate a far superior brand experience which resonates in particular with the young generation. In 2011, adidas also made substantial progress offering mobile applications to our consumers. Both the miCoach Football app as well as the miCoach Running app allow athletes to upload stats to the interactive adidas training system and to share stats via social media. Data can then be analysed and compared with friends, followers, and even some of the top athletes in the world.

Leveraging strong market positions worldwide

The adidas Group is the market leader in numerous countries around the world. This strong competitive position offers us many advantages in terms of global brand visibility, market power and the ability to effectively expand our position in emerging markets. As a result of our strong partnership portfolio and marketing efforts, consumers around the globe are highly aware of our brands and are receptive to our brand messaging. This makes demand for our products more stable compared to smaller competitors. Hence, many retailers consider our products as core to their offering. Furthermore, with our global retail coverage and distribution network, we are able to leverage our infrastructure to introduce and more rapidly expand our brands and product offerings to markets where they previously did not exist. The adidas Group can therefore compete more effectively for retail space.

Multi-brand approach

Given the diverse tastes and expectations of a highly fragmented consumer market, there is a natural limit to the audience size a single brand can appeal to. Our multi-brand approach provides us with the opportunity to leverage the power of our brands in a more precise and meaningful way ⁄ SEE GROUP STRATEGY, P. 60. We are able to utilise the combined strengths of each brand to compete for a higher percentage of the total market – covering a greater number of demographics, consumer needs and price points.

Personalised and customised products replacing mass wear

Today's consumers are looking for choice and variety that go beyond choosing from a wide selection of products. We engage in developing unique and relevant products that fit specific functional and aesthetic requirements ⁄ SEE GROUP STRATEGY, P. 60. For example, the adidas, Reebok and TaylorMade brands all offer different personalisation and customisation platforms reflecting each brand's strategy. Key concepts at adidas include mi adidas, miTeam and miCoach. For example, miCoach is a personalised training concept that combines product technologies with an intelligent web platform. It offers a personal and real-time audible coaching system, enabling the consumer to collect and visualise real-life performance data. In 2011, adidas launched both the miCoach Football app as well as the miCoach Running app and thus reached a new milestone in personalisation. With mi adidas and "Your Reebok", consumers can already design and order completely customised adidas and Reebok footwear online and therefore create their own unique style. At TaylorMade-adidas Golf, the myTPball online platform offers customers the opportunity to create and order their own golf balls. In addition, TaylorMade-adidas Golf's Centres of Excellence provide customised fitting sessions for golfers with expert fitters and technicians. We expect the market for personalised and customised footwear, apparel and hardware to grow strongly and evolve further in the coming years and we will therefore continue to invest in the space.

Exploiting potential of new and fast-growing sports categories

Exploiting the potential of emerging, fast-growing sports categories is another opportunity for our brands. Our brand teams conduct market research and engage in trend marketing to detect changes in lifestyle and consumer needs of our target audience as early as possible. Changes in lifestyle, habits and attitudes can potentially result in the emergence of new consumer needs that are not addressed by current market product offerings. For example, we see a growing trend in the move by athletes and sports enthusiasts towards more minimalistic products that promote natural body movement. In order to tap into this opportunity, we are expanding our efforts to bring to market more lightweight and flexible products that support the athlete's natural course of motion. In April 2011, Reebok launched RealFlex, a running and training shoe designed to promote natural movement. Also in 2011, adidas unveiled its first barefoot training shoe designed specifically for the gym, the adipure Trainer ⁄ SEE ADIDAS STRATEGY, P. 72. Promoting pure and natural movement by harnessing the body's natural mechanics, the adipure Trainer activates and strengthens muscles, builds balance and promotes dexterity. Similarly, we see tremendous growth potential in the outdoor and action sport categories and intend to become a leading player in those categories over the next years. Complementing this ambition, in November 2011, the adidas Group acquired Five Ten, a leading brand in the technical outdoor market, which enjoys high credibility within the outdoor action sport community.

Expanding distribution scope

The sporting goods retail environment is changing constantly. People increasingly want to get involved with our brands. We therefore continue to adapt our distribution strategy to cater for this change and have made controlled space initiatives a strategic priority. This includes retail space management with key retail partners as well as the introduction of new own-retail store formats. For example, in December 2011, adidas celebrated the opening of its first Style Centre in Beijing. The 400m² store is the first one globally to house the three sub-brands SLVR, Y-3 and Porsche Design Sport under one roof. The three labels have individual retail environments representing their unique identities. Throughout the year, we continued to roll out new shop-in-shop concepts globally and also further invested in unique point-of-sale activation. In February 2011, for example, all 680 Finish Line stores in the USA were outfitted with ZigTech imagery. Through initiatives like these, we believe we will be able to target our consumers more effectively, involve them emotionally with our products and, therefore, ultimately drive sell-through at our retail partners.

Cost optimisation drives profitability improvements

Continued optimisation of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still significant opportunity to further streamline cost structures throughout our Group. In order to achieve our Route 2015 targets, we are working on various efficiency projects to minimise costs and drive operational performance. For example, we continuously search for ways to increase efficiency in our supply chain and make it truly demand-driven. Furthermore, by implementing end-to-end planning processes and improving our replenishment capabilities, we see opportunities to not only better serve our customers but also to reduce our operating working capital needs ⁄ SEE GLOBAL OPERATIONS, P. 90. Another example in this respect is the reduction of the number of articles; this reduces workload in the creation area and warehouse costs, and allows us to offer more focused ranges to our retail partners.

Financial opportunities

Favourable financial market changes

Favourable exchange and interest rate developments can potentially have a positive impact on the Group's financial results. Our Group Treasury department closely monitors the financial markets to identify and exploit opportunities ⁄ SEE TREASURY, P. 129.

Management assessment of overall risks and opportunities

Overall risk profile unchanged versus prior year

Management aggregates all risks reported by different business units and functions. Taking into account the occurrence likelihood and the potential financial impact of the risks explained within this report as well as the current business outlook, adidas Group Management does not foresee any material jeopardy to the viability of the Group as a going concern. This assessment is also supported by the historical response to our financing demands ⁄ SEE TREASURY, P. 129. The adidas Group therefore has not sought an official rating by any of the leading rating agencies.

Management remains confident that the Group's earnings strength forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group.

Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. These changes are reflected in the following table ⁄ TABLE 08.

Nonetheless, the changes in individual risks have no substantial impact on the overall adidas Group risk profile, which we believe remains unchanged compared to the prior year.

08 ⁄ **Changes in corporate risk assessment versus prior year**

	2011		2010	
	Likelihood of occurrence	Potential financial impact	Likelihood of occurrence	Potential financial impact
Strategic and operational risks				
Macroeconomic risks		Major		Significant
Industry consolidation and competition risks	Likely	Major	Probable	Significant
Hazard risks	Possible		Unlikely	
Reputation/brand image risks	Probable		Possible	
Inventory risks	Probable		Possible	
Customer risks	Likely		Highly probable	
IT risks	Possible		Unlikely	
Compliance-related risks				
Legal risks	Likely	Significant	Possible	Moderate
Social and environmental risks	Likely		Probable	
Risks related to product counterfeiting and imitation	Probable		Highly probable	
Product quality risks	Likely		Possible	
Risks related to non-compliance	Possible	Moderate	Unlikely	Minor
Financial risks				
Interest rate risks		Minor		Moderate

03.5 ⁄

Subsequent Events and Outlook

In 2012, despite a high degree of economic uncertainty, we expect the global economy to grow, with the adidas Group to benefit from continued healthy demand for sporting goods. Through our industry-leading innovative strength, the extensive pipeline of new and fresh products as well as positive effects from major sporting events, we project top- and bottom-line improvements in our Group's financial results in 2012. We forecast adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis due to growth in the Wholesale and Retail segments as well as in Other Businesses. Group gross margin is expected to be around 47.5%. Pressures from higher input costs will weigh on otherwise positive effects anticipated from regional and product mix enhancements as well as product price increases. Group operating margin is forecasted to increase to a level approaching 8.0%, driven by lower other operating expenses as a percentage of sales. As a result, we project earnings per share to grow at a rate between 10% and 15% to a level between € 3.52 and € 3.68.

Subsequent Events

No subsequent events

Since the end of 2011, there have been no significant organisation, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

Outlook

Forward-looking statements

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of the adidas Group. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to risks and uncertainties as described in the Risk and Opportunity Report, which are beyond the control of the adidas Group ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145. In case the underlying assumptions turn out to be incorrect or described risks materialise, actual results and developments may materially deviate from those expressed by such statements. The adidas Group does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

Global economic growth to slow in 2012

Considering the current political, economic policy and debt-related risks, the development of the global economy is subject to a high degree of uncertainty. According to the World Bank, global GDP is projected to increase 2.5% in 2012 (2011: 2.7%). Expectations are that the euro area is likely to enter a recession, while Japan's economic growth is expected to be very modest. The consensus remains that the majority of the world's economic growth will continue to be derived from the emerging economies, particularly in Asia and Latin America. These positive economic growth expectations and the outlook for consumer spending, particularly in the emerging markets, are forecasted to be supportive to our growth aspirations in 2012.

In Western Europe, GDP is forecasted to decrease around 0.6% in 2012. The euro area debt crisis is expected to result in further fiscal belt tightening and austerity measures. A reduction in industrial activity and exports will also add to the challenges of debt, high unemployment levels and weak domestic demand in much of the region. Nevertheless, Germany, the region's largest economy, has historically low unemployment levels and firm wage growth, which is expected to sustain consumer demand. In the UK, GDP is expected to increase by 0.7%, with the economy benefiting from hosting the London 2012 Olympic Games. In European Emerging Markets, significant regional markets such as Russia and Poland are forecasted to grow 3.0% and 2.4%, respectively. Russia, in particular, is expected to continue benefiting from relatively high energy prices, as well as strong domestic consumption and investments.

In the USA, GDP is forecasted to grow 2.5% in 2012. Expansion of the US economy is expected to be supported by the extension of the 2 percentage point payroll tax cut, the Emergency Unemployment Compensation (EUC) programme and interest rates remaining at near-zero levels. Despite these stimuli, the US economy faces substantial headwinds in 2012. Financial market stress and uncertainties in Europe are likely to adversely affect business confidence and lead to cautious investment spending. Nonetheless, slight improvements in the labour and housing markets are forecasted to help maintain some momentum in consumer spending.

In Asia, GDP is expected to grow 4.5% in 2012. Leading economic indicators point to a slowdown in inflation and continued wage growth, which is expected to support consumer spending. In China, exports and the housing market are currently expected to contract. However, domestic demand and investments are forecasted to remain strong and drive GDP up 8.6%. In India, GDP is expected to be up 7.2% in 2012, with solid domestic demand and exports sustaining growth. In Japan, the effects of the government's significant stimulus programmes implemented in 2011 will begin to fade in the second half of the year. However, export-driven industrial production and slight increases in domestic demand are forecasted to yield a 1.0% increase in Japan's GDP in 2012.

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In Latin America, GDP growth rates are likely to moderate to a level of around 3.5% in 2012. A healthy labour market, strong domestic investment levels, robust private consumption rates and industrial production are all forecasted to support economic activity in the region. Relatively high commodity prices are also expected to continue to contribute to growth. However, inflation as well as an expected fall in exports to Europe are concerns for economic growth in the region.

Sporting goods industry growth to continue in 2012

In the absence of any major economic shocks, we expect the global sporting goods industry to expand in 2012, however with significant regional variation. Following macroeconomic trends, consumer spending on sporting goods in the emerging economies will outperform the more developed markets. Inflationary pressures, particularly in relation to commodity prices, are expected to moderate in the second half of the year. However, wage growth in the faster-growing economies will continue to add significant costs to the industry, especially where the industry sources and manufactures. A contraction in private consumption in mature markets such as the USA and Western Europe is forecasted for 2012 and will detract from expansion of the industry in those regions. While growth rates will moderate compared to 2011, the sporting goods sector is expected to continue to grow rapidly in the emerging economies, especially in China and India. Furthermore, the global sporting goods industry will be positively impacted by two of sport's largest events in 2012 – the London 2012 Olympic Games and the UEFA EURO 2012.

In Europe, the sporting goods industry is expected to grow modestly in 2012, with significant regional variation. In many markets, sporting goods retail activity is forecasted to be negatively affected by austerity measures, low wage growth and reduced consumer spending compared to 2011. However, the region hosts both the London 2012 Olympic Games (UK) and the UEFA EURO 2012 (Poland and Ukraine), which are expected to support the industry.

In North America, industry growth rates are expected to moderate compared to the prior year, in line with overall consumer spending expectations. From a category perspective, running (particularly light-weight running), training and high-performance basketball are seen as significant sporting goods drivers for the year. The US golf market is expected to see continued consolidation in 2012.

In Greater China, wage growth and domestic consumption are set to continue to propel sporting goods sales in 2012. The trend and market share shift towards international brands is also expected to continue, as local players struggle with declining brand image as well as inventory and product ageing issues.

In other Asian markets, the sporting goods industry is forecasted to grow in 2012, however with regional variances. Japan's sporting goods industry is expected to expand compared to 2011, albeit at a moderate rate given that overall consumer confidence and spending are expected to remain low. Most of the other major Asian emerging markets are expected to see rapid sporting goods sales growth in 2012, as domestic demand increases and rising wages drive purchases of discretionary items.

The sporting goods industry in Latin America is projected to grow in 2012, with a healthy labour market and wage growth expected to continue. These developments are forecasted to promote consumer spending and support discretionary purchases in the region, positively impacting the sporting goods sector.

adidas Group currency-neutral sales to increase at a mid- to high-single-digit rate in 2012

We expect adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis in 2012. Despite the high degree of uncertainty regarding the global economic outlook and consumer spending, Group sales development will be favourably impacted by our high exposure to fast-growing emerging markets as well as the further expansion of Retail. In addition, this year's major sporting events will provide positive stimulus to Group sales. As Official Sponsor of the UEFA EURO 2012 in Poland and Ukraine, the adidas brand will benefit from additional sales in the football category. And as the Official Sportswear Partner of the London 2012 Olympic Games and Team GB, the adidas brand will be the most visible brand during the event. This event not only provides an excellent platform to increase the brand's presence in the important UK market, but also to present its performance credentials globally.

01 adidas Group 2012 outlook

Currency-neutral sales development (in %):	
adidas Group	mid- to high-single-digit increase
Wholesale	mid-single-digit increase
Retail	low-teens increase
Comparable store sales	mid- to high-single-digit increase
Other Businesses	low- to mid-single-digit increase
TaylorMade-adidas Golf	low- to mid-single-digit increase
Rockport	high-single-digit increase
Reebok-CCM Hockey	strong double-digit increase
Gross margin	around 47.5%
Operating margin	approaching 8.0%
Earnings per share	€ 3.52 to € 3.68
Average operating working capital as a percentage of sales	moderate increase
Capital expenditure	€ 400 million to € 450 million
Store base	net increase by around 100 to 150 stores
Gross borrowings	decline

Currency-neutral Wholesale revenues expected to increase at a mid-single-digit rate

We project currency-neutral Wholesale segment revenues to increase at a mid-single-digit rate compared to the prior year. Our growth expectations are supported by order backlog development, positive retailer and trade show feedback as well as the positive impact from the major sporting events. Currency-neutral adidas Sport Performance sales are forecasted to increase at a low- to mid-single-digit rate due to growth in most categories, particularly football, running and training. adidas Sport Style revenues are projected to increase at a high-single- to low-double-digit rate on a currency-neutral basis as a result of the expanded distribution scope and continued momentum in our product lines, in particular adidas Originals. Currency-neutral Reebok sales are expected to decrease due to the negative impact from the discontinuation of the NFL licence agreement, and the shift of the US-related NHL licensed apparel business to the Reebok-CCM Hockey segment, beginning in 2012.

Retail sales to increase at a low-teens rate on a currency-neutral basis

adidas Group currency-neutral Retail segment sales are projected to grow at a low-teens rate in 2012. Expansion of the Group's own-retail store base and comparable store sales are expected to contribute at a similar rate to the revenue growth. The Group expects a net increase of its store base by around 100 to 150 adidas and Reebok stores in 2012. We plan to open around 250 new stores, depending on the availability of desired locations. New stores will primarily be located in emerging markets in Eastern Europe. Approximately 100 to 150 stores will be closed over the course of the year. Around 180 stores will be remodelled. Comparable store sales are expected to increase at a mid- to high-single-digit rate compared to the prior year. As a result of the improvements in concept store operations, we project concept store growth rates to be slightly better than those of factory outlets.

Currency-neutral sales of Other Businesses to grow at a low- to mid-single-digit rate

In 2012, revenues of Other Businesses are expected to increase at a low- to mid-single-digit rate on a currency-neutral basis. TaylorMade-adidas Golf currency-neutral sales are projected to grow at a low- to mid-single-digit rate compared to the prior year. Despite sluggish trends in the global golf market, the segment's sales development should be positively impacted by product innovation in core categories such as metalwoods, irons and wedges. Revenues at Rockport are forecasted to increase at a high-single-digit rate as a result of improvements in the brand's product portfolio and own-retail expansion. Sales at Reebok-CCM Hockey are expected to grow at a strong double-digit rate. This development mainly reflects the shift of the US-related NHL licensed apparel business from the Wholesale and Retail segments to the Reebok-CCM Hockey segment beginning on January 1, 2012.

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adidas Group sales expected to increase in all regions

We expect Group currency-neutral revenues to increase in all our regions in 2012, however at varying growth rates. In Western Europe, although the highly challenging macroeconomic environment is projected to negatively impact consumer spending, the UEFA EURO 2012 as well as the London 2012 Olympic Games will benefit the development of Group sales. In European Emerging Markets, the major sporting events will also provide positive stimulus. In addition, the expansion of, and increasing sophistication in, our own-retail activities, particularly in Russia/CIS, are forecasted to have a positive influence on Group sales. In North America, we expect solid growth despite the discontinuation of the NFL licence agreement. With the adidas brand, we will continue to build on the momentum we have created in this market over the past two years as we further strengthen our product offering, distribution scope as well as consumer engagement initiatives. In Greater China, following strong double-digit sales increases in 2011, we expect further growth in line with our Route 2015 aspirations. This development will be primarily driven by expanding and solidifying our distribution footprint, including the further roll-out of adidas Originals and the adidas NEO label. In Other Asian Markets, challenging conditions in Japan will be more than offset by a strong performance in the region's other markets such as South Korea and South East Asia. Lastly, in Latin America, Group sales development is projected to be positively impacted by the solid momentum of the region's sporting goods industry. However, trade barriers in certain markets continue to weigh on growth prospects.

2012 Group gross margin to be around 47.5%

In 2012, the adidas Group gross margin is forecasted to be around 47.5% (2011: 47.5%). While we expect gross margin in our Retail segment as well as Other Businesses to improve, gross margin in the Wholesale segment is forecasted to decline. As in the prior year, gross margin development will be negatively impacted by increasing input and labour costs year-over-year, particularly in the first half of 2012. In addition, hedging terms in 2012 will be slightly less favourable compared to the prior year. However, these negative influences will be largely offset by positive regional mix effects, as growth rates in high-margin emerging markets are projected to be above growth rates in more mature markets. In addition, improvements in the Retail segment as well as at the Reebok brand will positively influence Group gross margin development. Furthermore, product price increases are also forecasted to benefit the Group gross margin development.

Group other operating expenses to decrease as a percentage of sales

In 2012, the Group's other operating expenses as a percentage of sales are expected to decrease modestly (2011: 41.4%). Sales and marketing working budget expenses as a percentage of sales are projected to be at a similar level to the prior year. Marketing investments will be centred around key sporting events such as the UEFA EURO 2012 and the London 2012 Olympic Games to leverage the outstanding visibility of the adidas brand during these events. Further, we will continue to support Reebok's growth strategy in the men's and women's fitness category and will also invest in growing our key attack markets North America, Greater China and Russia/CIS. Operating overhead expenditure as a percentage of sales is forecasted to decline in 2012. Higher administrative and personnel expenses in the Retail segment due to the planned expansion of the Group's store base will be offset by leverage in the Group's non-allocated central costs.

We expect the number of employees within the adidas Group to increase versus the prior year level. Additional hires will be mainly related to own-retail expansion. The majority of new hires will be employed on a part-time basis and will be located in emerging markets. The adidas Group will continue to spend around 1% of Group sales on research and development in 2012. Areas of particular focus include customisation and digital sports products at adidas, as well as supporting the expansion of Reebok's fitness positioning SEE RESEARCH AND DEVELOPMENT, P. 95.

Operating margin to continue to expand

In 2012, we expect the operating margin for the adidas Group to increase to a level approaching 8.0% (2011: 7.6%). Lower other operating expenses as a percentage of sales are expected to be the primary driver of the improvement.

Earnings per share to increase to a level between € 3.52 and € 3.68

Basic and diluted earnings per share are expected to increase at a rate of 10% to 15% to a level between € 3.52 and € 3.68 (2011: € 3.20). Top-line improvement and an increased operating margin will be the primary drivers of this positive development. In addition, we expect lower interest rate expenses in 2012 as a result of a lower average level of gross borrowings. The Group tax rate is expected to be slightly less favourable compared to the prior year, at a level around 28.5% (2011: 27.7%).

Average operating working capital as a percentage of sales to increase

In 2012, average operating working capital as a percentage of sales is expected to increase slightly compared to the prior year level (2011: 20.8%). This is mainly due to working capital increases to support the growth of our business.

Investment level to be between € 400 million and € 450 million

In 2012, investments in tangible and intangible assets are expected to amount to € 400 million to € 450 million (2011: € 376 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in emerging markets. These investments will account for around 40% of total investments in 2012. Other areas of investment include the Group's logistics infrastructure such as the construction of our biggest distribution centre worldwide near Osnabrueck, Germany, and the increased deployment of SAP and other IT systems in major subsidiaries within the Group. All investments within the adidas Group in 2012 are expected to be fully financed through cash generated from operating activities.

Excess cash to be used to support growth initiatives

In 2012, we expect continued positive cash flow from operating activities. Cash will be used to finance working capital needs, investment activities, as well as dividend payments. We intend to largely use excess cash to invest in our Route 2015 growth initiatives and to further reduce gross borrowings. In order to ensure long-term flexibility, we aim to maintain a ratio of net borrowings over EBITDA of less than two times as measured at year-end (2011 ratio: –0.1).

Efficient liquidity management in place for 2012 and beyond

Efficient liquidity management continues to be a priority for the adidas Group in 2012. We focus on continuously anticipating the operating cash flows of our Group segments, as this represents the main source of liquidity within the Group. On a quarterly basis, liquidity is forecasted on a multi-year financial and liquidity plan. Long-term liquidity is ensured by continued positive operating cash flows and sufficient unused committed and uncommitted credit facilities. In 2012, we plan to replace our syndicated loan facility, which matures during the course of the year / SEE TREASURY, P. 129.

Management to propose dividend of € 1.00

In light of the strong cash flow generation in 2011 and resulting net cash position at year-end, Management will recommend paying a dividend of € 1.00 to shareholders at the Annual General Meeting (AGM) on May 10, 2012, representing an increase of 25% compared to the prior year (2010: € 0.80). Subject to shareholder approval, the dividend will be paid on May 11, 2012. The proposal represents a payout ratio of 31% of net income attributable to shareholders, compared to 30% in the prior year. This complies with our dividend policy, according to which we intend to pay out between 20% and 40% of net income attributable to shareholders annually. Based on the number of shares outstanding at the end of 2011, the dividend payout will thus increase to € 209 million compared to € 167 million in the prior year.

03.5 ⁄

adidas Group confident to deliver on long-term strategic goals from 2010 to 2015

Based on the adidas Group's strong brands, premium products, extensive global presence and its commitment to innovation and the consumer, the adidas Group aspires to grow its business significantly until 2015. According to our strategic business plan Route 2015, total Group sales are targeted to grow 45% to 50% on a currency-neutral basis over the five-year period, thereby outperforming total market growth (both GDP and sporting goods industry). In addition, we aim to grow our bottom line faster than the top line. It is targeted to grow annual earnings at a compound annual growth rate of 15% and to reach an operating margin of 11% sustainably by 2015 at the latest. For 2013, in line with our mid-term guidance, we project adidas Group sales and net income to increase compared to 2012.

In order to reach our strategic goals and create long-term sustainable shareholder value, we have defined clear strategic pillars. These include:

– Clear market positioning and brand prioritisation: We believe that we have significant growth potential to exploit from our portfolio of brands. The majority of our targeted growth will come from Global Brands, which we anticipate will contribute 90% of the Group's expected revenue increase over the period ⁄ SEE GLOBAL BRANDS STRATEGY, P. 68. Areas within the adidas and Reebok brands that have been identified as key contributors to sustainable growth for the adidas Group include:

- adidas Sport Performance: gaining sales and market share in the running and basketball categories
- adidas Sport Style: expanding in the fast-fashion business with the adidas NEO label
- Reebok: establishing Reebok as the leading fitness brand
- Leading the industry in the fields of customisation and interactivity

By brand, we expect adidas Sport Performance sales to grow at a mid- to high-single-digit compound annual growth rate. We plan to increase adidas Sport Style and Reebok sales at a double-digit compound annual growth rate until 2015.

– Expand presence in key growth markets: We have identified North America, Greater China, Russia/CIS, Latin America, Japan and the UK as key growth markets. Of those markets, the three "attack markets" North America, Greater China and Russia/CIS are expected to contribute around 50% of the total Group growth under the Route 2015 plan, with each market targeting a double-digit compound annual growth rate. In the USA, the Group's brands have enormous potential to gain market share by focusing on improved distribution and allowing a higher share of products to be specifically designed for that market. In emerging markets such as China and Russia, rising standards of living, increasing disposable income, positive demographic trends and growing sports participation should support demand for sporting goods.

– Intensify controlled space focus: We intend to increase the portion of sales that comes from controlled space initiatives to at least 45% of Group sales in the coming years (2011: 36%). This includes new openings of adidas and Reebok own-retail stores, the further extension of our mono-branded franchise store base in markets such as China, as well as new shop-in-shop initiatives with retail partners around the world. In terms of our own retail, we intend to open at least 550 adidas and Reebok stores over the five-year period, as well as grow significantly our eCommerce business, which we project to increase to € 500 million by 2015 ⁄ SEE GLOBAL SALES STRATEGY, P. 62.

– Leverage growth and operational scale through to bottom line: A higher exposure to emerging markets as well as expanding controlled space activities are important levers to improving brand presence, increasing sell-through and driving higher Group profitability. In addition, we continuously work on streamlining internal processes to accelerate decision-making, reduce complexity and make our organisation leaner and more efficient. Therefore, we believe there is significant potential to increase the Group's operating margin to 11% sustainably by 2015.

– Maintain financial flexibility: We strive over the long term to maintain a ratio of net borrowings over EBITDA of less than two times. A strong balance sheet increases our flexibility to realise value-generating medium- and long-term opportunities in the best interests of our shareholders as they arise.

02 Major 2012 product launches

Product	Brand
adizero Rose 2.5 basketball shoe	adidas
adizero adios 2 running shoe	adidas
adipure Trainer training shoe	adidas
adipure Adapt running shoe	adidas
Climacool Seduction running shoe	adidas
Climacool Freshride running shoe	adidas
Predator Leathal Zones football boot	adidas
adizero Crazy Light 2 basketball shoe	adidas
adizero Feather 2 running shoe	adidas
Terrex Fast R outdoor shoe	adidas
Originals London Olympics celebration collection	adidas
Originals limited edition shoe "München – Made in Germany"	adidas
Originals 40 Years Anniversary Trefoil T-shirt dress	adidas
adiStar Racer shoe	adidas
Torsion Attitude shoe	adidas
Zig Activate running shoe	Reebok
RealFlex CrossFit Nano training shoe	Reebok
RealFlex Transition 2 training shoe	Reebok
RealFlex apparel	Reebok
CrossFit apparel	Reebok
John Wall Season III basketball shoe	Reebok
ZigNano Ignite Trainer training shoe	Reebok
ZigLite Run running shoe	Reebok
R11S drivers and fairway woods	TaylorMade
RocketBallz Tour drivers, fairway woods, rescue hybrids and irons	TaylorMade
Ghost Manta putter	TaylorMade
Ghost Tour Series putters	TaylorMade
White Smoke Series putters	TaylorMade
Penta TP5 ball	TaylorMade
RocketBallz ball	TaylorMade
Samba golf shoe	adidas Golf
Powerband 4.0 golf shoe	adidas Golf
Puremotion golf shoe	adidas Golf
Golf polo shirt men's collection featuring EZ-Tech2 performance fabric	Ashworth
truWalk Zero shoe collection	Rockport
Presia women's shoe collection	Rockport
Fairwood 2 men's shoe collection	Rockport
20K Pump skate	Reebok Hockey
Premier 4 goalie equipment	Reebok Hockey
KFS Hybrid shoulder pads	Reebok Hockey
U+ Crazy Light protective equipment	CCM

TOGETHER WE WIN

04 CONSOLIDATED FINANCIAL STATEMENTS

/ adidas Golf /

Play Bold

adidas Golf, known for its technology-infused, game-enhancing apparel and footwear, launches an entirely new apparel line called Fashion Performance. The collection combines Tour-proven performance technology Clima with contemporary, fashion-forward styling. The vibrant colour combinations make for a dynamic, confident look, with each piece offering a tailored, comfortable fit without sacrificing performance.

Together we win.

04.1

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 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Herzogenaurach, February 15, 2012

HERBERT HAINER
CEO

GLENN BENNETT
Global Operations

ROBIN J. STALKER
Finance

ERICH STAMMINGER
Global Brands

04.2

Auditor's Report

We have audited the consolidated financial statements prepared by adidas AG, Herzogenaurach, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes, together with the management report of the Company and the Group for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch – "German Commercial Code") is the responsibility of the company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and profit or loss of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 15, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

(Original German version signed by:)

Kozikowski	Wolper
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

04.3

Consolidated Statement of Financial Position

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

	Note	Dec. 31, 2011	Dec. 31, 2010	Change in %
ASSETS				
Cash and cash equivalents	4	906	1,156	(21.6)
Short-term financial assets	5	465	233	99.1
Accounts receivable	6	1,707	1,667	2.4
Other current financial assets	7	304	197	54.6
Inventories	8	2,482	2,119	17.1
Income tax receivables	33	77	71	8.8
Other current assets	9	469	390	20.6
Assets classified as held for sale	10	25	47	(46.9)
Total current assets		**6,435**	**5,880**	**9.4**
Property, plant and equipment	11	963	855	12.7
Goodwill	12	1,580	1,539	2.7
Trademarks	13	1,503	1,447	3.8
Other intangible assets	13	160	142	12.1
Long-term financial assets	14	97	93	4.5
Other non-current financial assets	15	42	54	(22.3)
Deferred tax assets	33	493	508	(2.8)
Other non-current assets	16	107	100	6.1
Total non-current assets		**4,945**	**4,738**	**4.4**
Total assets		**11,380**	**10,618**	**7.2**

Rounding differences may arise in percentages and totals.
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, 2011	Dec. 31, 2010	Change in %
LIABILITIES AND EQUITY				
Short-term borrowings	17	289	273	5.9
Accounts payable		1,886	1,694	11.4
Other current financial liabilities	18	56	123	(54.1)
Income taxes	33	252	265	(4.9)
Other current provisions	19	507	470	7.9
Current accrued liabilities	20	990	842	17.6
Other current liabilities	21	301	241	24.4
Liabilities classified as held for sale	10	0	0	(27.7)
Total current liabilities		**4,281**	**3,908**	**9.5**
Long-term borrowings	17	991	1,337	(25.9)
Other non-current financial liabilities	22	6	15	(57.4)
Pensions and similar obligations	23	205	180	14.1
Deferred tax liabilities	33	430	451	(4.6)
Other non-current provisions	19	55	29	91.3
Non-current accrued liabilities	20	45	39	11.6
Other non-current liabilities	24	36	36	0.3
Total non-current liabilities		**1,768**	**2,087**	**(15.3)**
Share capital		209	209	–
Reserves		770	563	37.0
Retained earnings		4,348	3,844	13.1
Shareholders' equity	25	**5,327**	**4,616**	**15.4**
Non-controlling interests	26	4	7	(38.2)
Total equity		**5,331**	**4,623**	**15.3**
Total liabilities and equity		**11,380**	**10,618**	**7.2**

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

04.4 ⁄

Consolidated Income Statement

adidas AG Consolidated Income Statement (IFRS) (€ in millions)

	Note	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010	Change
Net sales	35	13,344	11,990	11.3%
Cost of sales		7,000	6,260	11.8%
Gross profit		**6,344**	**5,730**	**10.7%**
(% of net sales)		47.5%	47.8%	(0.3pp)
Royalty and commission income		93	100	(6.5%)
Other operating income	29	98	110	(10.2%)
Other operating expenses	11, 13, 30	5,524	5,046	9.5%
(% of net sales)		41.4%	42.1%	(0.7pp)
Operating profit		**1,011**	**894**	**13.1%**
(% of net sales)		7.6%	7.5%	0.1pp
Financial income	32	31	25	25.2%
Financial expenses	32	115	113	2.4%
Income before taxes		**927**	**806**	**15.0%**
(% of net sales)		6.9%	6.7%	0.2pp
Income taxes	33	257	238	7.9%
(% of income before taxes)		27.7%	29.5%	(1.8pp)
Net income		**670**	**568**	**18.0%**
(% of net sales)		5.0%	4.7%	0.3pp
Net income attributable to shareholders		**671**	**567**	**18.2%**
(% of net sales)		5.0%	4.7%	0.3pp
Net income attributable to non-controlling interests		**(1)**	**1**	**(110.0%)**
Basic earnings per share (in €)	34	3.20	2.71	18.2%
Diluted earnings per share (in €)	34	3.20	2.71	18.2%

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

04.5

Consolidated Statement of Comprehensive Income

adidas AG Consolidated Statement of Comprehensive Income (IFRS) (€ in millions)

	Note	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Net income after taxes		670	568
Net gain on cash flow hedges, net of tax	28	123	31
Actuarial loss of defined benefit plans (IAS 19), net of tax	23	(10)	(10)
Asset ceiling effect (IAS 19), net of tax	23	0	(0)
Currency translation		94	331
Other comprehensive income		**207**	**352**
Total comprehensive income		**877**	**920**
Attributable to shareholders of adidas AG		878	918
Attributable to non-controlling interests		(1)	2

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

04.6

Consolidated Statement of Changes in Equity

adidas AG Consolidated Statement of Changes in Equity (IFRS) (€ in millions)

	Note	Share capital	Capital reserve
Balance at December 31, 2009		**209**	**722**
Total comprehensive income			
Dividend payment	25		
Reclassifications of non-controlling interests in accordance with IAS 32	26		
Balance at December 31, 2010		**209**	**722**
Total comprehensive income			
Dividend payment	25		
Reclassifications of non-controlling interests in accordance with IAS 32	26		
Balance at December 31, 2011		**209**	**722**

1) Reserves for actuarial gains/losses and share option plans.
Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

Cumulative translation adjustments	Hedging reserves	Other reserves [1]	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
(451)	**(41)**	**(18)**	**3,350**	**3,771**	**5**	**3,776**
330	31	(10)	567	918	2	920
			(73)	(73)	(0)	(73)
			0	0		0
(121)	**(10)**	**(28)**	**3,844**	**4,616**	**7**	**4,623**
94	123	(10)	671	878	(1)	877
			(167)	(167)	(2)	(169)
			0	0		0
(27)	**113**	**(38)**	**4,348**	**5,327**	**4**	**5,331**

04.7 ⁄

Consolidated Statement of Cash Flows

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

	Note	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Operating activities:			
Income before taxes		927	806
Adjustments for:			
Depreciation, amortisation and impairment losses	11, 13, 14, 30	253	270
Reversals of impairment losses		(2)	(7)
Unrealised foreign exchange gains, net		(31)	(19)
Interest income	32	(30)	(23)
Interest expense	32	108	112
Losses on sale of property, plant and equipment, net		12	5
Other non-cash income	29, 30	(0)	(0)
Operating profit before working capital changes		**1,237**	**1,144**
Increase in receivables and other assets		(116)	(100)
Increase in inventories		(349)	(561)
Increase in accounts payable and other liabilities		447	757
Cash generated from operations before interest and taxes		**1,219**	**1,240**
Interest paid		(113)	(111)
Income taxes paid		(314)	(235)
Net cash generated from operating activities		**792**	**894**
Investing activities:			
Purchase of trademarks and other intangible assets		(58)	(42)
Proceeds from sale of trademarks and other intangible assets		0	17
Purchase of property, plant and equipment		(318)	(227)
Proceeds from sale of property, plant and equipment		2	1
Acquisition of subsidiaries and other business units net of cash acquired	3	(20)	–
Purchase of short-term financial assets		(192)	(146)
(Purchase of)/proceeds from investments and other long-term assets		(10)	44
Interest received		30	23
Net cash used in investing activities		**(566)**	**(330)**
Financing activities:			
(Repayments of)/proceeds from long-term borrowings		(48)	33
Proceeds from issue of a Eurobond		–	0
Dividend paid to shareholders of adidas AG	25	(167)	(73)
Dividend paid to non-controlling interest shareholders		(3)	(0)
Cash repayments of short-term borrowings		(273)	(198)
Net cash used in financing activities		**(491)**	**(238)**
Effect of exchange rates on cash		**15**	**55**
Net (decrease)/increase of cash and cash equivalents		(250)	381
Cash and cash equivalents at beginning of the year	4	1,156	775
Cash and cash equivalents at end of the year	4	**906**	**1,156**

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

04.8 ⁄

Notes

adidas AG (hereafter also referred to as "the company") is a listed German stock corporation and parent of the adidas Group located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany. adidas AG and its subsidiaries (collectively the "adidas Group" or the "Group") design, develop, produce and market – increasingly through own-retail activities – a broad range of athletic and sports lifestyle products. The operating activities of the adidas Group are divided into six operating segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands.

- **The Wholesale segment comprises all business activities relating to the distribution of adidas and Reebok products to retail customers.**
- **The Retail segment comprises all business activities relating to the sale of adidas and Reebok products directly to end consumers through own retail and own e-commerce platforms.**
- **adidas and Reebok branded products include footwear, apparel and hardware, such as bags and balls.**
- **TaylorMade-adidas Golf includes the three brands TaylorMade, adidas Golf and Ashworth. TaylorMade designs, develops and assembles high-performance golf clubs, balls and accessories. adidas Golf branded products include footwear, apparel and accessories. Ashworth designs and distributes men's and women's lifestyle sportswear.**
- **Rockport predominantly designs and markets leather footwear for men and women.**
- **Reebok-CCM Hockey designs, produces and markets hockey equipment such as sticks and skates as well as apparel mainly under the brand names Reebok Hockey and CCM.**
- **The Other Centrally Managed Brands segment primarily includes the business activities of the Y-3 label, under which premium footwear and apparel are designed and distributed.**

01 General

The consolidated financial statements of adidas AG as at December 31, 2011 comprise adidas AG and its subsidiaries and are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) as at December 31, 2011, and the additional requirements pursuant to § 315a section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations and amendments to existing standards and interpretations are applicable for the first time for financial years beginning on January 1, 2011:

– **IAS 24 Related Party Disclosures – Revised (2009)** (effective date: January 1, 2011): This amendment had no impact on the Group's financial statements.
– **IAS 32 Amendment – Financial Instruments: Presentation – Classification of Rights Issues** (effective date: February 1, 2010): This amendment had no impact on the Group's financial statements.
– **IFRIC 14 Amendment – Prepayments of a Minimum Funding Requirement** (effective date: January 1, 2011): This amendment had no impact on the Group's financial statements.
– **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** (effective date: July 1, 2010): This interpretation had no impact on the Group's financial statements.
– **Improvements to IFRSs (2010)** (effective date: January 1, 2011): These improvements had no material impact on the Group's financial statements.

New standards and interpretations, and amendments to existing standards and interpretations are usually not applied by the Group before the effective date.

The consolidated financial statements have in principle been prepared on the historical cost basis with the exception of certain items in the statement of financial position such as financial instruments valued at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, plan assets and receivables, which are measured at fair value.

The consolidated financial statements are presented in euros (€) and all values are rounded to the nearest million (€ in millions).

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 its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles. A company is considered a subsidiary if it is controlled by adidas AG, e.g. by directly or indirectly governing the financial and operating policies of the respective enterprise.

The number of consolidated subsidiaries evolved as follows for the years ending December 31, 2011 and 2010, respectively:

Number of consolidated subsidiaries

	2011	2010
January 1	**169**	**177**
First-time consolidated companies:	6	1
Thereof: newly founded	4	1
Thereof: purchased	2	–
Deconsolidated/divested companies	–	(1)
Intercompany mergers	(2)	(8)
December 31	**173**	**169**

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. 218. Furthermore, the schedule of the shareholdings of adidas AG will be published on the electronic platform of the German Federal Gazette.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognised in the statement of financial position at fair value at the acquisition date. A debit difference between the acquisition cost and the proportionate fair value of assets, liabilities and contingent liabilities is shown as goodwill. A credit difference is recorded in the income statement.

Acquisitions of additional investments in subsidiaries which are already controlled are recorded as equity transactions. Therefore, neither fair value adjustments of assets and liabilities nor gains or losses are recognised. Any difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is directly recorded in shareholders' equity.

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

Principles of measurement

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

Overview of selected measurement principles

Item	Measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Short-term financial assets	At fair value through profit or loss
Accounts receivable	Amortised cost
Inventories	Lower of cost or net realisable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant and equipment	Amortised cost
Goodwill	Impairment-only approach
Intangible assets (except goodwill):	
With definite useful life	Amortised cost
With indefinite useful life	Impairment-only approach
Other financial assets (categories according to IAS 39):	
At fair value through profit or loss	At fair value through profit or loss
Held to maturity	Amortised cost
Loans and receivables	Amortised cost
Available-for-sale	At fair value in other comprehensive income
Liabilities	
Borrowings	Amortised cost
Accounts payable	Amortised cost
Other financial liabilities	Amortised cost
Provisions:	
Pensions	Projected unit credit method
Other provisions	Settlement amount
Accrued liabilities	Amortised cost

Currency translation

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

In the individual financial statements of Group companies, 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 Group's non-euro functional currency subsidiaries are translated into the presentation currency, the "euro", which is also the functional currency of adidas AG, at 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,	
	2011	2010	2011	2010
USD	1.3922	1.3279	1.2939	1.3362
GBP	0.8678	0.8584	0.8353	0.8608
JPY	111.0420	116.5624	100.2000	108.6500
CNY	9.0000	8.9885	8.1527	8.8493
RUB	40.8709	40.3032	41.4303	40.8200

Derivative financial instruments

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

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

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges, and that are effective, as defined in IAS 39 "Financial instruments: recognition and measurement", are recognised in equity. When the effectiveness is not 100%, the ineffective portion of the change in the fair value is recognised in the income statement. Accumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecasted transaction affects the income statement.

For derivative instruments designated as fair value hedges, the gains or losses on the derivatives and the offsetting gains or losses on the hedged items are recognised immediately in the income statement.

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

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

The Group documents the relationship between hedging instruments and hedge objects at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific firm commitments and forecasted transactions. The Group 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 forward contracts and currency options 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 market 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.

Cash and cash equivalents

Cash and cash equivalents represent cash at banks, cash on hand and short-term deposits with maturities of three months or less from the date of acquisition.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables and other financial assets

Receivables and other financial assets are recognised at fair value, which correspond to the nominal value for current receivables and other financial assets. For non-current receivables and other financial assets, the fair value is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date. Subsequently, these are measured at amortised cost using the "effective interest method". If necessary, required allowances are determined on the basis of individual risk assessment and of the ageing structure of receivables past due.

Inventories

Merchandise and finished goods are valued at the lower of cost or net realisable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method: the "average cost method". Costs of finished goods include cost of raw materials, direct labour and the components of the manufacturing overheads which can reasonably be attributed. The allocation of overheads is based on the planned average utilisation. The net realisable value allowances are computed consistently throughout the Group based on the age and expected future sales of the items on hand.

Assets/liabilities classified as held for sale

Primarily non-current assets and liabilities expected to be recovered principally through sale rather than through continuing use are classified as held for sale. These are measured at the lower of their carrying amount and fair value less costs to sell. A potential gain or loss is offset against the carrying amount of the assets and liabilities classified as held for sale. Assets classified as held for sale are not depreciated.

Property, plant and equipment

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

Estimated useful lives are as follows:

Estimated useful lives of property, plant and equipment

	Years
Buildings and leasehold improvements	5 – 50
Technical equipment and machinery as well as other equipment and furniture and fixtures	2 – 10

Expenditures for repairs and maintenance are expensed as incurred. Renewals and improvements are capitalised and depreciated separately, if the recognition criteria are met.

Impairment losses

If facts and circumstances indicate that non-current assets (e.g. property, plant and equipment, intangible assets including goodwill and certain financial assets) might be impaired, the recoverable amount is determined. It is measured at the higher of its fair value less costs to sell and value in use. An impairment loss is recognised in other operating expenses if the carrying amount exceeds the recoverable amount. If there is an impairment loss for a cash-generating unit, first the carrying amount of any goodwill allocated to the cash-generating unit is reduced, and subsequently the other non-current assets of the unit are reduced pro rata on the basis of the carrying amount of each asset in the unit.

Irrespective of whether there is an impairment indication, intangible assets with an indefinite useful life and goodwill acquired in business combinations are tested annually for impairment.

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

Leases

Under finance lease arrangements, the substantial risks and rewards associated with an asset are transferred to the lessee. At the beginning of the lease arrangement, the respective asset and a corresponding liability are recognised at the fair value of the asset or, if lower, the net present value of the minimum lease payments. For subsequent measurement, minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability. In addition, depreciation and any impairment losses for the associated assets are recognised. Depreciation is performed over the lease term or, if shorter, over the useful life of the asset.

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

Intangible assets (except goodwill)

Intangible assets are valued at amortised cost less accumulated amortisation (except for assets with indefinite useful lives) and impairment losses. Amortisation is calculated on a straight-line basis taking into account any potential residual value.

Estimated useful lives are as follows:

Estimated useful lives of intangible assets

	Years
Trademarks	indefinite
Software	3 – 5
Patents, trademarks and concessions	5 – 15

The adidas Group determined that there was no impairment necessary for any of its trademarks with indefinite useful lives in the years ending December 31, 2011 and 2010.

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 in discounting notional royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset ("relief-from-royalty method"). These calculations use projections of net sales related royalty savings, based on financial planning which covers a period of five years in total. The level of the applied royalty rate for the determination of the royalty savings is based on contractual agreements between the adidas Group and external licensees as well as publicly available royalty rate agreements for similar assets. Notional royalty savings beyond this period are extrapolated using steady growth rates of 1.7% (2010: 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 Group's major competitors. The discount rate used is an after-tax rate and reflects the specific equity and country risk. The applied discount rate depends on the respective intangible asset being valued and ranges between 6.5% and 8.1% (2010: between 6.4% and 8.3%).

Expenditures during the development phase of internally generated intangible assets are capitalised when they occur if they qualify for recognition under IAS 38 "Intangible Assets".

Goodwill

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

Acquired goodwill is valued at cost and is tested for impairment on an annual basis and additionally when there are indications of potential impairment.

On August 4, 2011, the Group published the error findings of the German Financial Reporting Enforcement Panel (FREP) regarding the inconsistency between the designation of segments and of cash-generating units on which the impairment test for goodwill is based. As a consequence, the cash-generating units were redefined. The geographic regions responsible for the joint distribution of adidas and Reebok were split into Wholesale and Retail for purposes of impairment testing. As a result of the redefinition of cash-generating units, the number of cash-generating units increased to 30 from 19, including the other operating segments TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey.

The cash-generating units (or groups of units) represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The impairment test for goodwill has been performed based on cash-generating units (or groups of units).

Overall, no impairment of goodwill resulted.

The recoverable amount of a cash-generating unit is determined on the basis of value in use. This calculation uses cash flow projections based on the financial planning covering a five-year period in total. The planning is based on the adidas Group's strategic business plan "Route 2015" ⁄ SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 163 and reflects an expected mid- to high-single-digit sales increase for the majority of the cash-generating units (or groups of units). For a few emerging markets, we expect, on average, a low-double-digit sales growth rate. Furthermore, we expect the operating margin to improve, primarily driven by a slight 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 single cash-generating units (or groups of units). Cash flows beyond this period are extrapolated using steady growth rates of 1.7% (2010: 1.7%). According to our expectations, these growth rates do not exceed the long-term average growth rate of the business in which each cash-generating unit 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 the Group's major competitors for each cash-generating unit (or groups of units). The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant cash-generating unit.

The carrying amounts of acquired goodwill as well as of intangible assets 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)	Intangible assets with indefinite useful lives (€ in millions)	Discount rate
Wholesale	940	816	7.0 – 10.5%
Retail	234	390	7.0 – 10.5%
Other Businesses	406	297	6.5 – 7.5%
Total	**1,580**	**1,503**	

The goodwill shown in the table under Wholesale, Retail and Other Businesses is an aggregation of several cash-generating units. The cash-generating units with the highest goodwill of the respective segment are Greater China (€ 162 million), Central Europe (€ 155 million), Northern Europe (€ 134 million) and North America (€ 105 million) within the Wholesale segment as well as CIS (€ 79 million), North America (€ 30 million) and Central Europe (€ 29 million) within the Retail segment. In the Other Businesses segment, the most significant goodwill amount represents the TaylorMade-adidas Golf segment goodwill in an amount of € 284 million.

Research and development

Research costs are expensed in full as incurred. Development costs are also expensed as incurred if they do not meet the recognition criteria of IAS 38 "Intangible Assets".

The Group spent € 115 million and € 102 million on product research and development for the years ending December 31, 2011 and 2010, respectively.

Financial assets

All purchases and sales of financial assets are recognised on the trade date. Costs of purchases include transaction costs. If the fair value of available-for-sale financial assets (i.e. non-derivative financial assets which are not allocable under another category of IAS 39) can be measured reliably, they are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets are included in the income statement for the period in which they arise, except for available-for-sale financial assets where unrealised gains and losses are recognised in equity unless they are impaired.

Borrowings and other liabilities

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

Other provisions and accrued liabilities

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

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

Pensions and similar obligations

Provisions and expenses for pensions and similar obligations relate to the Group's obligations for defined benefit and defined contribution plans. 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 determine 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 at the balance sheet date for high-quality corporate bonds provided there is a deep market for high-quality corporate bonds in a given currency. Otherwise, government bond yields are used as a reference. Calculations are performed by qualified actuaries using the "projected unit credit method" in accordance with IAS 19 "Employee Benefits". Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

In addition to recognising actuarial gains and losses in the income statement according to the "corridor method", IAS 19 grants the option to immediately recognise actuarial gains and losses within equity. The Group utilises this option in order to avoid earnings volatility and recognises actuarial gains or losses for defined benefit plans arising during the financial year immediately in "other reserves" within equity, as shown in the consolidated statement of comprehensive income.

Recognition of revenues

Sales are recognised at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, when the significant risks and rewards of ownership of the goods are transferred to the buyer, and when it is probable that the economic benefits associated with the transaction will flow to the Group.

Royalty and commission income is recognised based on the contract terms on an accrual basis.

Advertising and promotional expenditures

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

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

Interest

Interest is recognised as income or expense as incurred using the "effective interest method" with the exception of interest that is directly attributable to the acquisition, construction or production of a qualifying asset. This interest is capitalised as part of the cost of the qualifying asset.

Income taxes

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

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

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

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

Estimation uncertainties and judgements

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill ⁄ SEE NOTE 12, trademarks ⁄ SEE NOTE 13, other provisions ⁄ SEE NOTE 19, pensions ⁄ SEE NOTE 23, derivatives ⁄ SEE NOTE 28 as well as deferred taxes ⁄ SEE NOTE 33.

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

04.8 ⁄

03 Acquisition/disposal of subsidiaries as well as assets and liabilities

Effective November 4, 2011, adidas America Inc. signed a share purchase agreement to acquire Stone Age Equipment, Inc. ("Five Ten") based in Redlands, California (USA). Five Ten is a company in the outdoor action sports sector focusing on categories such as climbing and mountain biking. Through the acquisition of Five Ten, the adidas Group intends to improve its position in the outdoor category, which provides significant growth opportunities as articulated in the Group's strategic business plan "Route 2015". The entire business of Five Ten was purchased for a purchase price in the amount of US $ 25 million in cash and contingent payments in an amount of US $ 13 million, of which US $ 3 million was paid up front. The contingent payments are dependent on Five Ten achieving certain performance measures over the next three years.

The acquisition had the following effect on the Group's assets and liabilities, based on a preliminary purchase price allocation:

Net assets of Stone Age Equipment, Inc. at the acquisition date
(€ in millions)

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Accounts receivable	2	–	2
Inventories	4	–	4
Other current assets	1	0	1
Property, plant and equipment	0	–	0
Trademarks	–	8	8
Other intangible assets	–	14	14
Other non-current assets	0	–	0
Short-term borrowings	(0)	–	(0)
Accounts payable	(3)	–	(3)
Current accrued liabilities	(0)	–	(0)
Long-term borrowings	(1)	–	(1)
Deferred tax liabilities	–	(9)	(9)
Net assets	**3**	**13**	**16**
Goodwill arising on acquisition			11
Purchase price in consideration of contingent payments			**27**
Less: contingent payments in subsequent years			(7)
Cash outflow on acquisition			**20**

The following valuation methods for the acquired assets were applied:

– Trademark: The "relief-from-royalty method" was applied for the trademark/trade name. The fair value was determined by discounting notional royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset.

– Other intangible assets: For the valuation of technologies and other intangible assets, the "multi-period-excess-earnings method" was used. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected sales by deducting variable and sales-related imputed costs for the use of contributory assets. Subsequently, the outcome was discounted using the appropriate discount rate and adding a tax amortisation benefit.

The excess of the acquisition cost paid versus the net of the amounts of the fair values assigned to all assets acquired and liabilities assumed, taking into consideration the respective deferred taxes, was recognised as goodwill. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognised as goodwill.

The goodwill arising on this acquisition was allocated to those cash-generating units operating in the outdoor product segment at the time of the acquisition. The goodwill is denominated in the local functional currency ⁄ SEE NOTE 02.

If this acquisition had occurred on January 1, 2011, total Group net sales would have been € 13.4 billion and net income would have been € 670 million for the year ending December 31, 2011.

The acquired subsidiary contributed net losses of € 0 million to the Group's net income for the period from November to December 2011.

Notes to the Consolidated Statement of Financial Position

04 Cash and cash equivalents

Cash and cash equivalents consist of cash at banks, cash on hand, short-term bank deposits and investments in money market funds. Short-term financial assets 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.

05 Short-term financial assets

Short-term financial assets are classified at "fair value through profit or loss". Changes in the fair value are recognised in the income statement as they occur.

The majority of short-term financial assets are marketable securities relating to structured deposits.

06 Accounts receivable

Accounts receivable consist mainly of the currencies euro, US dollar and Japanese yen and are as follows:

Accounts receivable (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Accounts receivable, gross	1,858	1,794
Less: accumulated allowances for doubtful accounts	151	127
Accounts receivable, net	**1,707**	**1,667**

Movement in allowances for doubtful accounts
(€ in millions)

	2011	2010
Allowances at January 1	**127**	**124**
Additions	81	50
Reversals	(37)	(31)
Write-offs charged against the allowance accounts	(17)	(23)
Currency translation differences	(3)	7
Allowances at December 31	**151**	**127**

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, 2011	**158**	**70**	**29**	**6**	**2**
Dec. 31, 2010	118	53	11	9	1

With respect to accounts receivable as at the balance sheet date past due but not impaired, based on credit history and current credit ratings, there are no indications that customers will not be able to meet their obligations.

Further, no indications of default are recognisable for accounts receivable that are neither past due nor impaired.

For further information ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145.

07 Other current financial assets

Other current financial assets consist of the following:

Other current financial assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Currency options	26	34
Forward contracts	137	30
Security deposits	74	69
Other financial assets	67	64
Other current financial assets	**304**	**197**

Information in relation to currency options and forward contracts is also included in these Notes ⁄ SEE NOTE 28.

08 Inventories

Inventories by major classification are as follows:

Inventories (€ in millions)

	Dec. 31, 2011			Dec. 31, 2010		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Merchandise and finished goods on hand	1,782	80	1,702	1,538	96	1,442
Goods in transit	746	–	746	641	–	641
Raw materials	28	1	27	23	1	22
Work in progress	7	–	7	14	–	14
Inventories	**2,563**	**81**	**2,482**	**2,216**	**97**	**2,119**

Goods in transit mainly relate to shipments of finished goods and merchandise from suppliers in Asia to subsidiaries in Europe, Asia and the Americas. The carrying amount of inventories which are measured at fair value less costs to sell amounts to € 127 million and € 195 million as at December 31, 2011 and 2010, respectively ⁄ SEE NOTE 02.

09 Other current assets

Other current assets consist of the following:

Other current assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Prepaid expenses	232	200
Tax receivables other than income taxes	151	122
Sundry	88	70
Other current assets, gross	**471**	**392**
Less: accumulated allowances	2	2
Other current assets, net	**469**	**390**

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

10 Assets/liabilities classified as held for sale

Part of the assets of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG and of Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG are still presented as held for sale following concrete plans for sale. At December 31, 2011, the disposal groups contained assets amounting to € 25 million (2010: € 30 million). The prior year amount includes certain assets which have been reclassified and impaired in an amount of € 5 million due to a change in conditions.

At December 31, 2010, a warehouse in the Netherlands in an amount of € 17 million was classified as held for sale as a result of the intention to sell and an existing Memorandum of Understanding. The warehouse was sold in the first quarter of 2011. In 2010, impairment losses in the amount of € 6 million related to this warehouse were recognised in other operating expenses.

11 Property, plant and equipment

Property, plant and equipment consist of the following:

Property, plant and equipment (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Land, buildings and leasehold improvements	674	510
Technical equipment and machinery	180	161
Other equipment as well as furniture and fixtures	1,131	987
	1,985	**1,658**
Less: accumulated depreciation and impairment losses	1,107	943
	878	**715**
Construction in progress, net	85	140
Property, plant and equipment, net	**963**	**855**

Depreciation expenses were € 205 million and € 194 million for the years ending December 31, 2011 and 2010, respectively ⁄ SEE NOTE 30. Impairment losses amounted to € 0 million and € 10 million for the years ending December 31, 2011 and 2010, respectively ⁄ SEE NOTE 30. These are related to assets within other equipment, furniture and fixtures, mainly in the Group's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits. In 2011, reversals of impairment losses were recorded in an amount of € 1 million (2010: € 7 million).

For details see Attachment I to the consolidated financial statements ⁄ SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 216.

12 Goodwill

Goodwill primarily relates to the Group's acquisitions of the Reebok and TaylorMade businesses as well as acquisitions of subsidiaries, primarily in the United States, Australia/New Zealand, Netherlands, Denmark and Italy.

Goodwill (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Goodwill, gross	1,580	1,539
Less: accumulated impairment losses	–	–
Goodwill, net	**1,580**	**1,539**

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 € 30 million and € 61 million was recorded for the years ending December 31, 2011 and 2010, respectively.

The Group determines whether goodwill impairment is necessary at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no need for impairment for the years ending December 31, 2011 and 2010.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted goodwill in the future. For details see Attachment I to the consolidated financial statements ⁄ SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 216.

The reconciliation of goodwill is as follows:

Reconciliation of goodwill (€ in millions)

	Wholesale	Retail	Other Businesses	Total
January 1, 2011	**916**	**228**	**395**	**1.539**
Additions	6	5	–	11
Currency translation differences	18	1	11	30
December 31, 2011	**940**	**234**	**406**	**1.580**

13 Trademarks and other intangible assets

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets
(€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Reebok	1,198	1,159
Rockport	169	163
Reebok-CCM Hockey	101	98
TaylorMade-adidas Golf	27	27
Five Ten	8	–
Trademarks	**1,503**	**1,447**
Software, patents and concessions	669	600
Less: accumulated amortisation and impairment losses	509	458
Other intangible assets	**160**	**142**
Trademarks and other intangible assets	**1,663**	**1,589**

At December 31, 2011, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and Ashworth, Inc. in 2008, have indefinite useful lives. This is due to the expectation of permanent use of the acquired brand names.

The Group tests at least on an annual basis whether trademarks with indefinite useful lives are impaired. This requires an estimation of the fair value less costs to sell of the trademarks. As part of this estimation, the Group is required to make an estimate of the expected future trademark-specific sales and appropriate arm's length notional royalty rates from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no need for impairment for the years ending December 31, 2011 and 2010.

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

Amortisation expenses for intangible assets with definite useful lives were € 48 million and € 55 million for the years ending December 31, 2011 and 2010, respectively ⁄ SEE NOTE 30. Impairment losses amounted to € 0 million and € 11 million for the years ending December 31, 2011 and 2010, respectively ⁄ SEE NOTE 30. These are related to distribution and licensing rights, for which no future economic benefit exists.

For details see Attachment I to the consolidated financial statements ⁄ SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 216.

14 Long-term financial assets

Long-term financial assets include a 9.1% investment in FC Bayern München AG (2010: 9.7%) of € 79 million (2010: € 79 million). The percentage share held in the investment has decreased due to the issuance of new shares which have been bought by another shareholder. 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 settlements were used in order to calculate the fair value as at December 31, 2011. Dividends are distributed by FC Bayern München AG instead of regular interest payments.

Additionally, long-term financial assets include investments which are mainly invested in insurance products and are measured at fair value, as well as other financial assets.

Long-term financial assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Investment in FC Bayern München AG	79	79
Investments and other financial assets	18	14
Long-term financial assets	**97**	**93**

15 Other non-current financial assets

Other non-current financial assets consist of the following:

Other non-current financial assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Interest rate derivatives	–	8
Currency options	8	12
Forward contracts	10	10
Security deposits	22	24
Other financial assets	2	–
Other non-current financial assets	**42**	**54**

Information regarding interest rate derivatives, currency options and forward contracts is also included in these Notes ⁄ SEE ALSO NOTE 28.

16 Other non-current assets

Other non-current assets consist of the following:

Other non-current assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Prepaid expenses	105	98
Sundry	2	2
Other non-current assets	**107**	**100**

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts ⁄ SEE NOTES 37 AND 27.

17 Borrowings and credit lines

Borrowings are denominated in a variety of currencies in which the Group conducts its business. The largest portions of effective gross borrowings (before liquidity swaps for cash management purposes) as at December 31, 2011 are denominated in euros (2011: 56%; 2010: 55%) and US dollars (2011: 35%; 2010: 40%).

The weighted average interest rate on the Group's gross borrowings decreased to 4.9% in 2011 (2010: 5.1%).

As at December 31, 2011, the Group had cash credit lines and other long-term financing arrangements totalling € 5.2 billion (2010: € 5.5 billion); thereof unused credit lines accounted for € 3.9 billion (2010: € 3.9 billion). In addition, the Group had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.2 billion (2010: € 0.3 billion).

The Group's outstanding financings are unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. These covenants may include limits on the disposal of fixed assets, the maximum amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants.

As at December 31, 2011, and December 31, 2010, actual shareholders' equity was well above the amount of the minimum equity covenant. Likewise, the relevant amount of net income clearly exceeded net loss covenants.

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

Gross borrowings as at December 31, 2011 (€ in millions)

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings	126	–	–	–	126
Private placements	163	281	211	–	655
Eurobond	–	499	–	–	499
Total	**289**	**780**	**211**	**–**	**1,280**

In 2011, two floating rate private placements with an original maturity in 2012 and 2014, respectively, and in a total amount of € 104 million were bought back at par.

Gross borrowings as at December 31, 2010 (€ in millions)

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings	–	95	–	–	95
Private placements	273	419	213	112	1,017
Eurobond	–	–	498	–	498
Total	**273**	**514**	**711**	**112**	**1,610**

In 2010, bank borrowings with short-term maturities were classified as long-term borrowings as they represented permanent funding volumes that were covered by the committed mid-term syndicated loan, which ends in 2012.

For further details on future cash outflows ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145.

18 Other current financial liabilities

Other current financial liabilities consist of the following:

Other current financial liabilities (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Interest rate derivatives	4	1
Currency options	6	10
Forward contracts	22	85
Finance lease obligations	3	2
Other financial liabilities	21	25
Other current financial liabilities	**56**	**123**

Information regarding interest rate derivatives, currency options and forward contracts is also included in these Notes ⁄ SEE NOTE 28. For information regarding finance lease obligations ⁄ SEE NOTE 27.

19 Other provisions

Other provisions consist of the following:

Other provisions (€ in millions)

	Jan. 1, 2011	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2011	Thereof non-current
Marketing	63	0	19	1	26	–	69	–
Employee benefits	49	1	25	1	52	–	76	29
Returns, allowances, warranty	171	3	133	1	142	–	182	–
Taxes, other than income taxes	18	0	10	0	15	–	23	0
Sundry	198	0	22	4	41	(1)	212	26
Total other provisions	**499**	**4**	**209**	**7**	**276**	**(1)**	**562**	**55**

Marketing provisions mainly consist of provisions for promotion contracts.

Provisions for employee benefits mainly consist of provisions for short- and long-term variable compensation components. With regard to provisions for early retirement, claims for reimbursement in an amount of € 1 million (December 31, 2010: € 2 million) are shown under other non-current assets.

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 faulty products sold by the Group. The amount of the provision follows the historical development of returns, allowances and warranty as well as current agreements.

Provisions for taxes other than income taxes mainly relate to value added tax, real estate tax and motor vehicle tax.

Sundry provisions mainly include provisions for customs risks as well as anticipated losses from purchases and other transactions, and contingent losses from pending lawsuits.

Management follows past experience from similar transactions when estimating the amounts recognised as other provisions while considering all evidence from events until the preparation of the consolidated financial statements.

20 Accrued liabilities

Accrued liabilities consist of the following:

Accrued liabilities (€ in millions)

	Jan. 1, 2011	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2011	Thereof non-current
Goods and services not yet invoiced	363	11	260	12	311	–	413	–
Marketing and sales	195	3	100	4	173	1	268	2
Payroll and commissions	255	3	165	10	211	–	294	40
Other accruals	68	0	33	0	25	–	60	3
Total accrued liabilities	**881**	**17**	**558**	**26**	**720**	**1**	**1,035**	**45**

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

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

Other accrued liabilities partly include accruals for interest.

21 Other current liabilities

Other current liabilities consist of the following:

Other current liabilities (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Liabilities due to personnel	34	34
Tax liabilities other than income taxes	93	99
Liabilities due to social security	18	16
Deferred income	22	16
Customers with credit balances	73	25
Sundry	61	51
Other current liabilities	**301**	**241**

22 Other non-current financial liabilities

Other non-current financial liabilities consist of the following:

Other non-current financial liabilities (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Interest rate derivatives	–	5
Currency options	2	6
Forward contracts	–	1
Finance lease obligations	4	3
Other financial liabilities	0	0
Other non-current financial liabilities	**6**	**15**

Information regarding interest rate derivatives, currency options and forward contracts is also included in these Notes ⁄ SEE NOTE 28. For information regarding finance lease obligations ⁄ SEE ALSO NOTE 27.

23 Pensions and similar obligations

The Group has recognised post-employment benefit obligations arising from defined benefit plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country.

Pensions and similar obligations (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Pension liability	195	172
Similar obligations	10	8
Pensions and similar obligations	**205**	**180**

Defined contribution plans

The total expense for defined contribution plans amounted to € 36 million in 2011 (2010: € 34 million).

Defined benefit plans

Given the diverse Group structure, different defined benefit plans exist, comprising a variety of post-employment benefit arrangements. The benefit plans generally provide payments in case of death, disability or retirement to former employees and their survivors. The obligations arising from defined benefit plans are partly covered by plan assets. In 2011, the defined benefit plan offered at one of the Japanese subsidiaries of adidas AG was converted into a defined contribution plan, resulting in a plan settlement.

Amounts for defined benefit plans recognised in the consolidated statement of financial position (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Present value of funded obligation	76	74
Fair value of plan assets	(67)	(67)
Funded status	**9**	**7**
Present value of unfunded obligation	184	163
Asset ceiling effect	1	1
Net defined benefit liability	**194**	**171**
Thereof: liability	195	172
Thereof: adidas AG	154	138
Thereof: asset	(1)	(1)
Thereof: adidas AG	(1)	(1)

The asset ceiling effect arises from the German funded defined benefit plan and is recognised in the consolidated statement of comprehensive income.

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 results, i.e. the present value of the actual future performance may differ from the reported present value.

Actuarial assumptions (in %)

	Dec. 31, 2011	Dec. 31, 2010
Discount rate	4.3	4.6
Expected rate of salary increases	3.3	3.3
Expected pension increases	2.1	2.0
Expected return on plan assets	4.8	5.3

The 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, the latter for Germany on the Heubeck 2005 G mortality tables.

The Group recognises actuarial gains or losses arising in defined benefit plans during the financial year immediately outside the income statement in the consolidated statement of comprehensive income. The actuarial losses recognised in this statement for 2011 amount to € 13 million (2010: € 13 million). The accumulated actuarial losses recognised amount to € 51 million (2010: € 38 million).

The expected return on plan assets assumption is set separately for the various benefit plans. Around 90% of the plan assets are related to plan assets in the UK, Germany and Switzerland. The overall expected rate of return on assets is derived by aggregating the expected rate of return for each asset class over the underlying asset allocation. Historical markets are studied and expected returns are based on widely accepted capital market principles.

In the UK, the assumed long-term rate of return on each asset class is assumed to be in line with long-term government bonds, with an additional investment return of 3.5% for equity securities and 1.0% for corporate bonds.

In Germany, the plan assets are invested in insurance contracts and in a pension fund, and the expected return on assets is set equal to the expected return on the underlying insurance contracts.

The plan assets in Switzerland are held by a pension foundation and the expected rate of return is calculated as a weighted average per asset class, based on the investment strategy and the expected return on the varying asset categories.

In the rest of the world, the plan assets consist predominantly of insurance contracts, with the expected return based on the expected return on these insurance contracts.

Pension expenses for defined benefit plans (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Current service cost	12	11
Interest cost	11	10
Expected return on plan assets	(4)	(4)
Pension expenses for defined benefit plans	**19**	**17**

Of the total pension expenses, an amount of € 13 million (2010: € 13 million) relates to employees of adidas AG. The pension expense is recorded within the other operating expenses whereas the production-related part thereof is recognised within the cost of sales.

Present value of the defined benefit obligation (€ in millions)

	2011	2010
Present value of the defined benefit obligation as at January 1	**237**	**207**
Currency translation differences	3	7
Current service cost	12	11
Interest cost	11	10
Contribution by plan participants	0	0
Pensions paid	(10)	(12)
Actuarial loss	10	14
Plan settlements	(3)	–
Present value of the defined benefit obligation as at December 31	**260**	**237**

Fair value of plan assets (€ in millions)

	2011	2010
Fair value of plan assets at January 1	**67**	**61**
Currency translation differences	2	3
Pensions paid	(3)	(5)
Contributions by the employer	4	3
Contributions paid by plan participants	0	0
Actuarial (loss)/gain	(4)	1
Expected return on plan assets	4	4
Plan settlements	(3)	–
Fair value of plan assets at December 31	**67**	**67**

04.8 ⁄

The expected payments for 2012 amount to € 9 million. Thereof, € 6 million relate to benefits paid directly by the Group companies and € 3 million to employer contributions paid into the plan assets. In 2011, the actual return on plan assets was € 0 million (2010: € 5 million).

Constitution of plan assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Equity instruments	21	21
Bonds	9	14
Real estate	1	1
Pension plan reinsurance	22	21
Other assets	14	10
Fair value of plan assets	**67**	**67**

Historical development (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Present value of defined benefit obligation	260	237	207	172	171
Fair value of plan assets	67	67	61	53	60
Thereof: defined benefit assets	(1)	(1)	(2)	(5)	(4)
Deficit in plans	**194**	**171**	**148**	**124**	**115**
Experience adjustments arising on the plan liabilities	(4)	(1)	(3)	2	(1)
Experience adjustments arising on the plan assets	(4)	1	3	(8)	4

24 Other non-current liabilities

Other non-current liabilities consist of the following:

Other non-current liabilities (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Liabilities due to personnel	11	16
Deferred income	25	19
Sundry	0	1
Other non-current liabilities	**36**	**36**

25 Shareholders' equity

The nominal capital of adidas AG ("the company") has remained unchanged since December 31, 2010. As at the balance sheet date, and in the period beyond, up to and including February 15, 2012, it amounted to € 209,216,186 divided into 209,216,186 registered no-par-value shares ("registered 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). Neither at the balance sheet date nor at February 15, 2012 does the company hold any treasury shares.

Authorised Capital

The Executive Board of adidas AG did not make use of the existing amounts of authorised capital of up to € 95,000,000 in the 2011 financial year or in the period beyond the balance sheet date up to and including February 15, 2012. The following description of the existing authorised capital does not contain the cancellation of the Authorised Capital 2009/II, resolved by the Annual General Meeting on May 12, 2011, which had also not been made use of up to May 12, 2011.

The authorised capital of the company, which is set out in § 4 sections 2, 3 and 4 of the Articles of Association as at the balance sheet date, entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital

until June 21, 2014
– by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights (Authorised Capital 2009/I);

until July 4, 2014
– by issuing new shares against contributions in kind once or several times by no more than € 25,000,000 and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorised Capital 2011);

until July 12, 2015
– by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to exclude shareholders' subscription rights when issuing the new shares at a value not essentially below the stock market price of shares with the same features (Authorised Capital 2010). The authorisation to exclude subscription rights pursuant to the previous sentence may, however, only be used to the extent that the pro-rata amount of the new shares in the nominal capital together with the pro-rata amount in the nominal capital of other shares which have been issued by the company since May 6, 2010, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorised capital or following a repurchase, or for which conversion or subscription rights or conversion or subscription obligations were granted after May 6, 2010, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded in accordance with § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of the entry of this authorisation into the commercial register or – if this amount is lower – as of the respective date on which the authorisation is used.

Contingent Capital

The following description of the Contingent Capital is based on § 4 section 5 of the Articles of Association of the company as well as on the underlying resolutions of the Annual General Meeting held on May 6, 2010. Additional contingent capital does not exist.

At the balance sheet date, the nominal capital is conditionally increased by up to € 36,000,000 divided into no more than 36,000,000 registered shares (Contingent Capital 2010). The contingent capital increase will be implemented only to the extent that holders or creditors of option or conversion rights or the persons obligated to exercise option or conversion duties on bonds issued by the company or a group company, pursuant to the authorisation of the Executive Board granted by the resolution adopted by the Annual General Meeting of May 6, 2010 up to May 5, 2015 and guaranteed by the company, exercise their option or conversion rights or, if they are obliged to exercise the option or conversion duties, meet their obligations to exercise the warrant or convert the bond, or to the extent that the company exercises its rights to choose to deliver shares in the company for the total amount or partially instead of a payment and insofar as no cash settlement, treasury shares or shares of another public-listed company are used to serve these rights. The new shares shall be issued at the respective option or conversion price to be established in accordance with the aforementioned authorisation resolution. The new shares shall carry dividend rights from the commencement of the financial year in which the shares are issued. The Executive Board is authorised, subject to Supervisory Board approval, to stipulate any additional details concerning the implementation of the contingent capital increase.

The Executive Board of adidas AG did not issue any option or conversion rights, or any shares from the Contingent Capital 2010 in 2011 or in the period beyond the balance sheet date up to and including February 15, 2012.

Repurchase of adidas AG shares

At the Annual General Meeting on May 6, 2010, the shareholders of the company cancelled the authorisation to repurchase adidas AG shares granted by the Annual General Meeting on May 7, 2009, which had not been used. At the same time, the Annual General Meeting granted the Executive Board a new authorisation to repurchase adidas AG shares up to an amount totalling 10% of the nominal capital until May 5, 2015. The authorisation may be used by the company but also by its subsidiaries or by third parties on account of the company or its subsidiaries or third parties assigned by the company or one of its subsidiaries. For further information ⁄ SEE DISCLOSURES PURSUANT TO § 315 SECTION 4 AND § 289 SECTION 4 OF THE GERMAN COMMERCIAL CODE, P. 135.

The authorisation was not utilised in the year under review and up to and including February 15, 2012.

Changes in the percentage of voting rights

Pursuant to § 160 section 1 no. 8 AktG, existing shareholdings which have been notified to the company in accordance with § 21 section 1 or section 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The following table reflects shareholdings reportable as at February 15, 2012 which have been notified to the company. The respective details are taken from the most recent voting rights notification received by the company. All voting rights notifications disclosed by the company in the year under review and up to and including February 15, 2012 are available on the adidas Group website :// WWW.ADIDAS-GROUP.COM/VOTING_RIGHTS_NOTIFICATIONS. The details on the percentage of shareholdings and voting rights may no longer be up-to-date.

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Notified reportable shareholdings as at February 15, 2012 1)

Notifying party	Date of reaching, exceeding or falling below	Reporting threshold	Attribution in accordance with § 22 WpHG	Shareholdings in %	Number of voting rights
BlackRock, Inc., New York, USA 2)	July 27, 2011	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	5.04	10,549,445
Garett Thornburg, USA 3)	July 13, 2011	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2 4)	5.03	10,527,146
Thornburg Investment Management, Inc., Santa Fe, New Mexico, USA 3)	July 13, 2011	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 4)	5.03	10,527,146
Thornburg International Value Fund, Wilmington, Delaware, USA 3)	July 12, 2011	Exceeding 3%	–	3.05	6,378,646
Aberdeen Asset Management PLC, Aberdeen, Great Britain 5)	April 6, 2011	Falling below 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	2.90	6,065,366
BlackRock Financial Management, Inc., New York, USA 6)	March 2, 2011	Falling below 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	4.82	10,090,695
BlackRock Holdco 2, Inc., Wilmington, Delaware, USA 6)	March 2, 2011	Falling below 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	4.82	10,090,695
BlackRock, Inc., New York, USA 6)	March 2, 2011	Falling below 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	4.98	10,412,345
Capital Research and Management Company, Los Angeles, USA 7)	December 19, 2008	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6	5.01	9,695,127

1) The notifications of Walter Scott & Partners Limited, Edinburgh, Scotland/ Neptune LLC, Pittsburgh, USA/ Mellon International Holdings S.A.R.L., Luxembourg, Luxembourg/ BNY Mellon International Limited, London, Great Britain/ MBC Investment Corp., Greenville, USA and The Bank of New York Mellon Corporation, New York, USA, disclosed in the Notes of the 2010 Annual Report were revoked in 2011 and are thus no longer reflected. See also the company's disclosure dated August 1, 2011.
2) See the company's disclosure dated August 4, 2011.
3) See the company's disclosure dated November 17, 2011.
4) Attributed by Thornburg International Value Fund, see the company's disclosure dated November 28, 2011.
5) See the company's disclosure dated July 22, 2011.
6) See the company's disclosure dated March 9, 2011.
7) See the company's disclosure dated January 7, 2009.

Capital management

The Group'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.

The Group 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 Group further aims to maintain net debt below two times EBITDA over the long term.

Financial leverage is derived by dividing net borrowings (short- and long-term borrowings less cash and cash equivalents as well as short-term financial assets) in an amount of negative € 90 million (2010: € 221 million) by shareholders' equity in an amount of € 5.327 billion (2010: € 4.616 billion). EBITDA amounted to € 1.257 billion for the financial year ending December 31, 2011 (2010: € 1.159 billion). The ratio between net borrowings and EBITDA amounted to negative 0.1 for the financial year ending December 31, 2011 (2010: 0.2).

Reserves

Reserves within shareholders' equity are as follows:

- **Capital reserve:** comprises the paid premium for the issuance of share capital.
- **Cumulative translation adjustments:** 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:** comprise the cumulative net change of actuarial gains or losses and the asset ceiling effect regarding defined benefit plans, expenses recognised for share option plans as well as fair values of available-for-sale financial assets.
- **Retained earnings:** comprise the accumulated profits less dividends paid.

Distributable profits and dividends

Distributable profits 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 2011 Annual General Meeting, the dividend for 2010 was € 0.80 per share (total amount: € 167 million). The Executive Board of adidas AG will propose to shareholders a dividend payment of € 1.00 per dividend-entitled share for the year 2011 to be made from retained earnings of € 312 million reported as at December 31, 2011. The subsequent remaining amount will be carried forward.

209,216,186 dividend-entitled shares exist as at December 31, 2011, which would lead to a dividend payment of € 209 million.

26 Non-controlling interests

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

Non-controlling interests are assigned to seven subsidiaries as at December 31, 2011 and 2010, respectively SEE ATTACHMENT II TO THE CONSOLIDATED FINANCIAL STATEMENTS, SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH, P. 218. These subsidiaries were partly acquired in connection with the acquisition of Reebok and partly through purchases or foundations in the last years.

In compliance with IAS 32 "Financial Instruments: Presentation", certain non-controlling interests are not reported within non-controlling interests. These include non-controlling interests of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG (Germany) as the company is a limited partnership. The fair value of these non-controlling interests is shown within other liabilities and the result for these non-controlling interests is reported within financial expenses SEE NOTE 32.

27 Leasing and service arrangements

Operating leases

The Group leases primarily retail stores as well as offices, warehouses and equipment. The contracts regarding these leases with expiration dates of between 1 and 14 years partly include renewal options and escalation clauses. Rent expenses, which partly depend on net sales, amounted to € 608 million and € 544 million for the years ending December 31, 2011 and 2010, 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, 2011	Dec. 31, 2010
Within 1 year	449	404
Between 1 and 5 years	778	659
After 5 years	331	331
Total	**1,558**	**1,394**

Finance leases

The Group also leases various premises for administration and warehousing which are classified as finance leases.

The net carrying amount of these assets of € 9 million and € 7 million was included in property, plant and equipment as at December 31, 2011 and 2010, respectively. For the year ending December 31, 2011, interest expenses were € 0 million (2010: € 1 million) and depreciation expenses were € 2 million (2010: € 3 million).

The minimum lease payments under these contracts over their remaining terms up to 2016 and their net present values are as follows:

Minimum lease payments for finance leases (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Lease payments falling due:		
Within 1 year	3	2
Between 1 and 5 years	4	3
After 5 years	–	0
Total minimum lease payments	**7**	**5**
Less: estimated amount representing interest	0	0
Present value of minimum lease payments	**7**	**5**
Thereof falling due:		
Within 1 year	3	2
Between 1 and 5 years	4	3
After 5 years	–	0

Service arrangements

The Group 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, 2011	Dec. 31, 2010
Within 1 year	39	40
Between 1 and 5 years	44	65
After 5 years	26	44
Total	**109**	**149**

28 Financial instruments

Additional disclosures on financial instruments

Carrying amounts of financial instruments as at December 31, 2011, according to categories of IAS 39 and their fair values (€ in millions)

	Category according to IAS 39	Carrying amount Dec. 31, 2011	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2011
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	906	906				906
Short-term financial assets	FAHfT	465			465		465
Accounts receivable	LaR	1,707	1,707				1,707
Other current financial assets							
Derivatives being part of a hedge	n.a.	145		145			145
Derivatives not being part of a hedge	FAHfT	18			18		18
Other financial assets	LaR	141	141				141
Long-term financial assets							
Other equity investments	FAHfT	79			79		79
Available-for-sale financial assets	AfS	18		18			18
Loans	LaR	0	0				0
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	14		14			14
Derivatives not being part of a hedge	FAHfT	4			4		4
Other financial assets	LaR	24	24				24
Assets classified as held for sale	LaR	–	–				–
Financial liabilities							
Short-term borrowings							
Bank borrowings incl. commercial paper	FLAC	126	126				126
Private placements	FLAC	163	163				183
Eurobond	FLAC	–	–				–
Accounts payable	FLAC	1,886	1,886				1,886
Accrued liabilities	FLAC	443	443				443
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	22		22			22
Derivatives not being part of a hedge	FLHfT	10			10		10
Other financial liabilities	FLAC	21	21				21
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	492	492				510
Private placements	FLAC	–	–				–
Eurobond	FLAC	499	499				532
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	–		–			–
Derivatives not being part of a hedge	FLHfT	2			2		2
Other financial liabilities	FLAC	–	–				–
Finance lease obligations	n.a.	4				4	4
Liabilities classified as held for sale	FLAC	–	–				–

Carrying amounts of financial instruments as at December 31, 2011, aggregated according to categories of IAS 39 and their fair values (€ in millions)

	Carrying amount Dec. 31, 2011
Financial assets at fair value through profit or loss	566
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)	–
Thereof: Held for Trading (FAHfT)	566
Loans and Receivables (LaR)	1,872
Available-for-Sale Financial Assets (AfS)	18
Financial Liabilities Measured at Amortised Cost (FLAC)	3,504
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)	12

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Carrying amounts of financial instruments as at December 31, 2010, according to categories of IAS 39 and their fair values (€ in millions)

	Category according to IAS 39	Carrying amount Dec. 31, 2010	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2010
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,156	1,156				1,156
Short-term financial assets	FAHfT	233			233		233
Accounts receivable	LaR	1,667	1,667				1,667
Other current financial assets							
Derivatives being part of a hedge	n.a.	46		46			46
Derivatives not being part of a hedge	FAHfT	18			18		18
Other financial assets	LaR	133	133				133
Long-term financial assets							
Other equity investments	FAHfT	79			79		79
Available-for-sale financial assets	AfS	14		14			14
Loans	LaR	0	0				0
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	24		16	8		24
Derivatives not being part of a hedge	FAHfT	6			6		6
Other financial assets	LaR	24	24				24
Assets classified as held for sale	LaR	–	–				–
Financial liabilities							
Short-term borrowings							
Bank borrowings incl. commercial paper	FLAC	–	–				–
Private placements	FLAC	273	273				286
Eurobond	FLAC	–	–				–
Accounts payable	FLAC	1,694	1,694				1,694
Accrued liabilities	FLAC	394	394				394
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	74		74			74
Derivatives not being part of a hedge	FLHfT	22			22		22
Other financial liabilities	FLAC	25	25				25
Finance lease obligations	n.a.	2				2	2
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	95	95				95
Private placements	FLAC	744	744				773
Eurobond	FLAC	498	498				529
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	6		6			6
Derivatives not being part of a hedge	FLHfT	6			6		6
Other financial liabilities	FLAC	–	–				–
Finance lease obligations	n.a.	3				3	3
Liabilities classified as held for sale	FLAC	–	–				–

Carrying amounts of financial instruments as at December 31, 2010, aggregated according to categories of IAS 39 and their fair values (€ in millions)

	Carrying amount Dec. 31, 2010
Financial assets at fair value through profit or loss	336
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)	–
Thereof: Held for Trading (FAHfT)	336
Loans and Receivables (LaR)	1,824
Available-for-Sale Financial Assets (AfS)	14
Financial Liabilities Measured at Amortised Cost (FLAC)	3,723
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)	28

Fair value hierarchy of financial instruments according to IFRS 7 as at December 31, 2011
(€ in millions)

Fair value hierarchy, aggregated by category	Fair value Dec. 31, 2011	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)	–			
Thereof: Held for Trading (Financial Assets Held for Trading – FAHfT)	566		487	79 [1]
Available-for-Sale Financial Assets (AfS)	18		18	
Other financial assets				
Derivatives being part of a hedge	159		159	
Financial assets	**743**		**664**	**79**
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)	12		12	
Other financial liabilities				
Derivatives being part of a hedge	22		22	
Financial liabilities	**34**		**34**	

	Fair value Jan. 1, 2011	Gains	Losses	Fair value Dec. 31, 2011
1) This category relates to a 9.1% investment in FC Bayern München AG of € 79 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments.	79	0	–	79

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).

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 approximate 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 an adidas Group 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 forward contracts and currency options 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, such as the "Garman-Kohlhagen-model". 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.

Net gains/(losses) on financial instruments recognised in the consolidated income statement (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Financial assets or financial liabilities at fair value through profit or loss	(12)	(6)
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	(12)	(6)
Loans and receivables	(44)	(19)
Available-for-sale financial assets	–	–
Financial liabilities measured at amortised cost	15	6

Net gains or losses on financial assets or financial liabilities held for trading include the effects from fair value measurements of the derivatives that are not part of a hedging relationship, and changes in the fair value of other financial instruments as well as interest payments which mainly relate to investment funds.

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

Net gains or losses on financial liabilities measured at amortised cost include effects from early settlement and reversals of accrued liabilities.

The disclosures required by IFRS 7 "Financial Instruments: Disclosures", paragraphs 31 – 42 ("Nature and Extent of Risks arising from Financial Instruments") can be found in ⁄ NOTE 06 and the Group Management Report ⁄ SEE RISK AND OPPORTUNITY REPORT, P. 145.

Financial instruments for the hedging of foreign exchange risk

The adidas Group uses natural hedges and arranges forward contracts, currency options and currency swaps to protect against foreign exchange risk. As at December 31, 2011, the Group had outstanding currency options with premiums paid totalling an amount of € 5 million (December 31, 2010: € 7 million). The effective part of the currency hedges is directly recognised in hedging reserves and as part of the acquisition costs of inventories, respectively, and posted into the income statement at the same time as the underlying secured transaction is recorded. An amount of € 17 million (2010: € 16 million) for currency options and an amount of € 101 million (2010: negative € 25 million) for forward contracts were recorded in hedging reserves. Currency option premiums impacted net income in the amount of € 6 million in 2011 (2010: € 4 million).

The total time value of the currency options not being part of a hedge in an amount of € 2 million (2010: € 1 million) was recorded in the income statement in 2011. Due to a change in the exposure, some of the currency hedges were terminated and consequently an amount of € 2 million was reclassified from hedging reserves to the income statement.

In the years ending December 31, 2011 and 2010, hedging instruments related to product sourcing were bought to hedge a total net amount of US $ 4.8 billion and US $ 3.7 billion, respectively.

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

Notional amounts of all outstanding currency hedging instruments (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Forward contracts	4,051	3,100
Currency options	376	617
Total	**4,427**	**3,717**

The comparatively high amount of forward 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, 2011	Dec. 31, 2010
Forward contracts	2,816	2,248
Currency options	365	576
Total	**3,181**	**2,824**

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

Fair values (€ in millions)

	Dec. 31, 2011		Dec. 31, 2010	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward contracts	147	(22)	40	(86)
Currency options	34	(6)	38	(15)
Total	**181**	**(28)**	**78**	**(101)**

A total net fair value of € 115 million (2010: negative € 35 million) for forward 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 € 10 million (2010: negative €11 million) mainly related to liquidity swaps for cash management purposes and to forward contracts hedging intercompany dividend receivables and was recorded in the income statement. The total fair value of € 28 million (2010: € 23 million) for outstanding currency options related to cash flow hedges.

The fair value adjustments of outstanding cash flow hedges for forecasted sales is reported in the income statement when the forecasted sales transactions are recorded. The vast majority of these transactions are forecasted to occur in 2012. As at December 31, 2011, inventories were adjusted by negative € 5 million (2010: positive € 6 million) which will be recognised in the income statement in 2012.

In the hedging reserve, an amount of negative € 8 million (2010: negative € 3 million) is included for hedges of net investments in foreign entities. This reserve will remain until the investment in the foreign entity has been sold or the loan has been paid back.

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

In 2011, the fair values of the derivatives were determined applying the "par method", which uses actively traded forward rates. In 2010, the "zero method" was applied, which is a theoretical model for the determination of forward rates based on deposit and swap interest rates.

Financial instruments for the hedging of interest rate risk

Interest rate hedges which were outstanding as at December 31, 2011 and 2010, respectively expire as detailed below:

Expiration dates of interest rate hedges (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Within 1 year	105	60
Between 1 and 3 years	–	105
Between 3 and 5 years	–	75
After 5 years	–	–
Total	**105**	**240**

The above-mentioned interest rate swaps in the nominal amount of € 105 million (2010: € 150 million) are classified as cash flow hedges pursuant to IAS 39. The goal of these hedges is to protect future cash flows arising from private placements with variable interest rates by generating synthetic fixed interest rate financing. These interest rate swaps classified as cash flow hedges had a positive fair value in the amount of € 0 million (2010: € 0 million) and a negative fair value of € 4 million (2010: negative € 6 million). The negative fair value change of € 0 million (2010: negative € 2 million) for interest rate swaps which were classified as cash flow hedges was booked in hedging reserves. The amount that was reclassified from equity to the income statement for the period was negative € 3 million (2010: negative € 4 million). Interest rate swaps classified as cash flow hedges in a nominal amount of € 105 million secure variable interest payments arising from private placements with maturities in 2012.

The above summary for 2010 includes an interest rate swap in the amount of € 75 million which is classified as a fair value hedge pursuant to IAS 39. The aim of this US dollar interest rate swap was to obtain variable financing for a private placement in US dollars. The US dollar interest rate swap was closed in 2011 and the resulting income in the amount of € 7 million is amortised to the income statement over the maturity of the private placement.

Notes to the Consolidated Income Statement

29 Other operating income

Other operating income consists of the following:

Other operating income (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Income from accounts receivable previously written off	4	2
Income from release of accrued liabilities and other provisions	27	19
Gains from disposal of fixed assets	0	16
Sundry income	66	66
Reversals of impairment losses for intangible and tangible assets	1	7
Other operating income	**98**	**110**

In 2011, sundry income partly relates to income from insurance compensations.

In 2010, sundry income partly relates to the positive settlement of a lawsuit. In 2010, gains from disposal of fixed assets include income from the divestiture of a trademark.

30 Other operating expenses

Operating expenses include expenses for sales, marketing, research and development, as well as for logistics and central administration. In addition, they include impairment losses as well as depreciation on tangible assets and amortisation on intangible assets, with the exception of depreciation and amortisation which is included in the cost of sales.

Marketing working budget is a material component of other operating expenses. The marketing working budget 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 2011, marketing working budget accounted for approximately 25% (2010: 26%) of the total other operating expenses.

Expenses for central administration include the functions IT, Finance, Legal, Human Resources, Facilities & Services as well as General Management.

Depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses were € 252 million and € 263 million for the years ending December 31, 2011 and 2010, respectively. Thereof, € 3 million and € 3 million were recorded within the cost of sales as they are directly assigned to the production costs.

Other operating expenses (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Marketing working budget	1,361	1,288
Sales working budget	338	308
Marketing overhead [1]	402	380
Sales force [1]	1,653	1,496
Logistics [1]	678	617
Research and development [1]	115	102
Central administration [1]	977	855
Other operating expenses	**5,524**	**5,046**
Thereof:		
Depreciation, amortisation and impairment losses	249	260

1) Including personnel and administration expenses.

31 Cost by nature

Expenses are presented by function according to the "cost of sales method" in the income statement. Supplementary information on the expenses by nature is detailed below.

Cost of materials

The total cost of materials relating to the amount of inventories recognised as an expense during the period was € 6.884 billion and € 6.165 billion for the years ending December 31, 2011 and 2010, respectively.

Personnel expenses

Personnel expenses were as follows:

Personnel expenses (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Wages and salaries	1,439	1,338
Social security contributions	152	132
Pension expenses	55	51
Personnel expenses	**1,646**	**1,521**

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.

32 Financial income/financial expenses

Financial result consists of the following:

Financial income (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Interest income from financial instruments measured at amortised cost	12	16
Interest income from financial instruments at fair value through profit or loss	18	7
Interest income from non-financial assets	0	0
Net foreign exchange gains	–	2
Other	1	0
Financial income	**31**	**25**

Financial expenses (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Interest expense on financial instruments measured at amortised cost	108	112
Interest expense on financial instruments at fair value through profit or loss	0	0
Interest expense on other provisions and non-financial liabilities	0	0
Net foreign exchange losses	7	–
Other	0	1
Financial expenses	**115**	**113**

Interest income from financial instruments, measured at amortised cost, mainly consists of interest income from bank deposits and loans. Interest income/expense from financial instruments at fair value through profit or loss mainly includes interest payments from investment funds as well as net interest payments from interest derivatives not being part of a hedging relationship. Unrealised gains/losses from fair value measurement of such financial assets are shown in other financial income or expenses.

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

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

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Also included in other financial expenses are non-controlling interests, which are not recorded in equity according to IAS 32 "Financial Instruments: Presentation" SEE NOTE 26.

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes SEE NOTES 05, 14, 17 AND 28.

33 Income taxes

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2011 and 2010, 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 11.6% 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, 2011	Dec. 31, 2010
Deferred tax assets	493	508
Deferred tax liabilities	(430)	(451)
Deferred tax assets, net	**63**	**57**

The movements of deferred taxes are as follows:

Movement of deferred taxes (€ in millions)

	2011	2010
Deferred tax assets, net as at January 1	**57**	**(21)**
Deferred tax income	32	76
Change in consolidated companies [1]	(9)	–
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity [2]	(21)	(12)
Currency translation differences	0	11
Change in deferred taxes attributable to actuarial gains and losses recorded in equity [3]	4	3
Deferred tax assets, net as at December 31	**63**	**57**

1) See Note 03.
2) See Note 28.
3) See Note 23.

Gross Group 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, 2011	Dec. 31, 2010
Non-current assets	121	127
Current assets	125	111
Accrued liabilities and provisions	209	203
Accumulated tax loss carry-forwards	76	101
Deferred tax assets	**531**	**542**
Non-current assets	393	443
Current assets	49	19
Accrued liabilities and provisions	26	23
Deferred tax liabilities	**468**	**485**
Deferred tax assets, net	**63**	**57**

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

Deferred tax assets for which the realisation of the related tax benefits is not probable increased on a currency-neutral basis from € 325 million to € 328 million for the year ending December 31, 2011. These amounts mainly relate to tax losses carried forward and unused foreign tax credits of the US tax group. The remaining unrecognised deferred tax assets relate to subsidiaries operating in markets where the realisation of the related tax benefit is not considered probable.

The Group does not recognise deferred tax liabilities for unremitted earnings of non-German subsidiaries to the extent that they are expected to be permanently invested in international operations. These earnings, the amount of which cannot be practicably computed, could become subject to additional tax if they were remitted as dividends or if the Group 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, 2011	Year ending Dec. 31, 2010
Current tax expenses	289	314
Deferred tax (income)	(32)	(76)
Income tax expenses	**257**	**238**

The effective tax rate of the Group differs from an assumed tax rate of 30% for the year ending December 31, 2011 as follows:

Tax rate reconciliation

	Year ending Dec. 31, 2011		Year ending Dec. 31, 2010	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	278	30.0	242	30.0
Tax rate differentials	(81)	(8.8)	(89)	(11.0)
Non-deductible expenses	5	0.6	43	5.3
Losses for which benefits were not recognisable and changes in valuation allowances	1	0.1	8	1.0
Changes in tax rates	(8)	(0.9)	(11)	(1.4)
Other, net	1	0.1	1	0.1
	196	**21.1**	**194**	**24.0**
Withholding tax expenses	61	6.6	44	5.5
Income tax expenses	**257**	**27.7**	**238**	**29.5**

For 2011 and 2010, the line "changes in tax rates" mainly reflects a UK tax rate deduction effective in 2012 and 2011.

For 2011, the line "non-deductible expenses" includes tax benefits of in total € 26 million (2010: € 14 million) related to the favourable resolution of foreign tax disputes for prior years.

34 Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the year.

For 2011 and 2010, no dilutive effects occurred.

Earnings per share

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Net income attributable to shareholders (€ in millions)	671	567
Weighted average number of shares	209,216,186	209,216,186
Basic earnings per share (in €)	**3.20**	**2.71**

Notes – Additional Information

35 Segmental information

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

Following the Group's internal management reporting and in accordance with the definition of IFRS 8 "Operating Segments", six operating segments have been identified: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands. According to the criteria of IFRS 8 for reportable segments, the business segments Wholesale and Retail are reported separately, while the remaining are aggregated under Other Businesses due to their only subordinate materiality.

The adidas and Reebok brands are reported under the segments Wholesale, Retail and Other Centrally Managed Brands.

The operating segment TaylorMade-adidas Golf contains the brands TaylorMade, adidas Golf and Ashworth.

Certain centralised Group functions do not meet the definition of IFRS 8 for a reportable operating segment. This includes functions such as central treasury, global sourcing as well as other headquarter departments. Assets, liabilities, income and expenses relating to these corporate functions are presented together with other non-allocable items and intersegment eliminations in the reconciliations.

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

Information about the Group's segments, in accordance with Management's internal reporting structure, is outlined below.

There are no intersegment sales between the reportable segments. Accounting policies applied for reporting segmental information are the same as those used for the adidas Group / SEE NOTE 02.

The results of the operating segments are reported in the line item "Segmental operating profit". This is defined as gross profit minus costs directly attributable to the segment or the group of segments (primarily sales and logistics costs) before marketing working budget expenditures and operating overhead costs not directly attributable.

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

04.8 ⁄

Segmental liabilities contain accounts payable from operating activities. No other liability items are 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 Executive Board of adidas AG.

Segments (€ in millions)

	Wholesale		Retail		Other Businesses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Net sales (non-Group)	8,971	8,181	2,793	2,389	1,580	1,420	13,344	11,990
Segmental operating profit	2,725	2,572	593	452	427	369	3,745	3,393
Segmental assets	2,859	2,690	703	541	639	514	4,201	3,745
Segmental liabilities	525	537	55	76	137	110	717	723
Capital expenditure	62	33	99	61	28	26	189	120
Depreciation and amortisation	25	22	85	88	9	8	119	118
Impairment losses, net of reversals of impairment losses	0	(1)	(1)	4	0	0	(1)	3

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 (non-Group) (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Reportable segments	11,764	10,570
Other businesses	1,580	1,420
Total	**13,344**	**11,990**

Operating profit (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Operating profit for reportable segments	3,318	3,024
Operating profit for other businesses	427	369
HQ/Consolidation	292	212
Marketing working budget	(1,361)	(1,288)
Other operating expenses	(1,758)	(1,523)
Royalty and commission income	93	100
Operating profit	**1,011**	**894**
Financial income	31	25
Financial expenses	(115)	(113)
Income before taxes	**927**	**806**

Operating profit of centralised functions which do not represent a segment, such as central treasury and global sourcing, is shown under HQ/Consolidation.

Capital expenditure (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Reportable segments	161	94
Other businesses	28	26
HQ/Consolidation	187	149
Total	**376**	**269**

Depreciation and amortisation (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Reportable segments	110	110
Other businesses	9	8
HQ/Consolidation	130	128
Total	**249**	**246**

Impairment losses, net of reversals of impairment losses

(€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Reportable segments	(1)	3
Other businesses	0	0
HQ/Consolidation	0	11
Total	**(1)**	**14**

Total assets (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Accounts receivable and inventories of reportable segments	3,562	3,231
Accounts receivable and inventories of other businesses	639	514
Segmental assets	**4,201**	**3,745**
Non-segmental accounts receivable and inventories	(12)	41
Current financial assets	1,674	1,586
Other current assets	572	508
Non-current assets	4,945	4,738
Total	**11,380**	**10,618**

Total liabilities (€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Accounts payable of reportable segments	579	613
Accounts payable of other businesses	138	110
Segmental liabilities	**717**	**723**
Non-segmental accounts payable	1,169	971
Current financial liabilities	345	396
Other current liabilities	2,050	1,818
Non-current liabilities	1,768	2,087
Total	**6,049**	**5,995**

Product information

Net sales (non-Group) (€ in millions)

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Footwear	6,275	5,389
Apparel	5,734	5,380
Hardware	1,335	1,221
Total	**13,344**	**11,990**

Geographical information

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

Geographical information (€ in millions)

	Net sales (non-Group)		Non-current assets	
	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Western Europe	3,922	3,543	1,511	1,515
European Emerging Markets	1,597	1,385	653	592
North America	3,102	2,805	877	683
Greater China	1,229	1,000	482	520
Other Asian Markets	2,125	1,972	581	557
Latin America	1,369	1,285	209	216
HQ/Consolidation	0	0	0	0
Total	**13,344**	**11,990**	**4,313**	**4,083**

With regard to Germany, Western Europe contains net sales (non-Group) amounting to € 722 million and € 655 million as well as non-current assets amounting to € 393 million and € 363 million for the years 2011 and 2010, respectively. With regard to the USA, North America contains net sales (non-Group) amounting to € 2.688 billion and € 2.427 billion as well as non-current assets amounting to € 701 million and € 546 million for the years 2011 and 2010, respectively.

36 Additional cash flow information

In 2011, the decrease in cash generated from operating activities compared to the prior year was primarily due to increased income taxes paid and higher operating working capital requirements.

Net cash outflow from investing activities in 2011 was mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of stores in the Retail segment, in new office buildings and IT systems as well as the purchase of short-term financial assets.

Cash outflows from financing activities were mainly related to repayment of short-term borrowings totalling € 273 million (2010: € 198 million) and dividends paid in an amount of € 167 million (2010: € 73 million).

Current revolving financial transactions are offset within financing activities.

37 Commitments and contingencies

Other financial commitments

The Group has other financial commitments for promotion and advertising contracts, which mature as follows:

Financial commitments for promotion and advertising
(€ in millions)

	Dec. 31, 2011	Dec. 31, 2010
Within 1 year	681	613
Between 1 and 5 years	1,918	1,474
After 5 years	1,244	695
Total	**3,843**	**2,782**

Commitments with respect to advertising and promotion maturing after five years have remaining terms of up to 19 years from December 31, 2011.

Information regarding commitments under lease and service contracts is also included in these Notes ⁄ SEE NOTE 27.

Litigation

The Group 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 19. In the opinion of Management, the ultimate liabilities resulting from such claims will not materially affect the consolidated financial position of the Group.

38 Related party disclosures

According to the definitions of IAS 24 "Related Party Disclosures", the Supervisory Board and the Executive Board of adidas AG were identified as related parties who solely received 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 39 ⁄ SEE COMPENSATION REPORT, P. 50.

39 Other information

Employees

The average numbers of employees are as follows:

Employees

	Year ending Dec. 31, 2011	Year ending Dec. 31, 2010
Own retail	24,429	21,883
Sales	5,125	4,064
Logistics	5,262	4,749
Marketing	3,864	3,527
Central administration	3,891	3,260
Production	1,957	1,886
Research and development	1,001	991
Information technology	993	927
Total	**46,522**	**41,287**

Accountant service fees for the auditor of the financial statements

In 2011, the expenses for the professional service fees of the auditor KPMG AG amounted to € 0.8 million (2010: € 0.8 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 (2010: € 0.0 million), € 0.0 million (2010: € 0.0 million) and € 0.4 million (2010: € 0.0 million), respectively.

Remuneration of the Supervisory Board and the Executive Board of adidas AG

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board members' fixed annual payment amounted to € 0.9 million (2010: € 0.9 million).

Members of the Supervisory Board were not granted any loans in 2011.

Executive Board

In 2011, the overall compensation of the members of the Executive Board totalled € 14.8 million (2010: € 11.5 million): € 6.2 million thereof relates to short-term benefits (2010: € 7.1 million) and € 8.6 million to long-term benefits (2010: € 4.4 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board) totalled € 0.7 million (2010: € 0.5 million).

In 2011, former members of the Executive Board and their survivors received pension payments totalling € 3.3 million (2010: € 3.2 million).

Provisions for pension obligations relating to former members of the Executive Board and their survivors amount in total to € 46.2 million (2010: € 45.9 million).

Members of the Executive Board were not granted any loans in 2011.

Further information on disclosures according to § 314 section 1 no. 6a German Commercial Code (Handelsgesetzbuch – HGB) is provided in the Compensation Report ⁄ SEE COMPENSATION REPORT, P. 50.

40 Information relating to the German Corporate Governance Code

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

On February 13, 2012, the Executive Board and Supervisory Board of adidas AG issued the updated declaration of conformity in accordance with §161 AktG. The full text of the Declaration of Compliance is available on the Group's corporate website.

41 Events after the balance sheet date

Group-specific subsequent events

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

Date of preparation

The Executive Board of adidas AG prepared and approved the consolidated financial statements for submission to the Supervisory Board on February 15, 2012. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorisation for issue.

Herzogenaurach, February 15, 2012
The Executive Board of adidas AG

04.9

Statement of Movements of Intangible and Tangible Assets

Statement of Movements of Intangible and Tangible Assets (€ in millions)

	Goodwill	Trademarks	Software, patents and concessions
Acquisition cost			
January 1, 2010	**1,478**	**1,342**	**535**
Currency effect	61	105	28
Additions	0	–	41
Increase in companies consolidated	–	–	–
Transfers from assets held for sale	–	–	–
Transfers to assets held for sale	–	–	(1)
Decrease in companies consolidated	–	–	–
Transfers	–	–	(2)
Disposals	–	(0)	(5)
December 31, 2010 / January 1, 2011	**1,539**	**1,447**	**595**
Currency effect	31	47	12
Additions	11	–	58
Increase in companies consolidated	–	8	15
Transfers from assets held for sale	–	–	–
Transfers to assets held for sale	–	–	–
Decrease in companies consolidated	–	–	–
Transfers	–	–	(1)
Disposals	–	–	(17)
December 31, 2011	**1,580**	**1,503**	**662**
Accumulated depreciation, amortisation and impairment			
January 1, 2010	**–**	**0**	**377**
Currency effect	(0)	0	19
Additions	–	0	54
Impairment losses	–	–	11
Reversals of impairment losses	–	–	–
Increase in companies consolidated	–	–	–
Transfers from assets held for sale	–	–	–
Transfers to assets held for sale	–	–	(1)
Decrease in companies consolidated	–	–	–
Transfers	–	–	0
Disposals	–	–	(3)
December 31, 2010 / January 1, 2011	**(0)**	**0**	**456**
Currency effect	0	0	11
Additions	–	0	46
Impairment losses	–	–	0
Reversals of impairment losses	–	–	–
Increase in companies consolidated	–	–	–
Transfers from assets held for sale	–	–	–
Transfers to assets held for sale	–	–	(0)
Decrease in companies consolidated	–	–	–
Transfers	–	–	(0)
Disposals	–	–	(7)
December 31, 2011	**0**	**0**	**506**
Net carrying amount			
December 31, 2009	1,478	1,342	158
December 31, 2010	1,539	1,447	139
December 31, 2011	1,580	1,503	156

Rounding differences may arise in percentages and totals.

ATTACHMENT I

Internally generated software	Total intangible assets	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Total tangible assets
3	**3,358**	**380**	**156**	**876**	**69**	**1,480**
–	194	18	12	75	1	106
0	42	20	5	103	100	227
–	–	–	–	–	–	–
–	–	95	–	–	–	95
–	(1)	(2)	–	(4)	–	(6)
–	–	–	–	–	–	–
2	0	6	4	18	(28)	(0)
(0)	(6)	(6)	(16)	(82)	(2)	(105)
5	**3,586**	**511**	**161**	**987**	**140**	**1,798**
–	90	10	4	18	1	33
0	68	43	6	154	115	318
–	24	–	0	0	0	0
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
3	2	117	15	37	(170)	(2)
(1)	(18)	(6)	(7)	(64)	(1)	(78)
7	**3,752**	**674**	**180**	**1,132**	**85**	**2,071**
0	**377**	**123**	**55**	**579**	**–**	**757**
–	19	7	6	53	–	66
1	55	28	21	145	–	194
–	11	5	0	5	–	10
–	–	(0)	(0)	(7)	–	(7)
–	–	–	–	–	–	–
–	–	15	–	–	–	15
–	(1)	(0)	–	(2)	–	(2)
–	–	–	–	–	–	–
–	0	(0)	(1)	1	–	(0)
(0)	(3)	(5)	(14)	(71)	–	(91)
1	**458**	**173**	**68**	**703**	**–**	**943**
–	11	5	4	23	–	31
2	49	32	22	151	–	205
–	0	0	0	0	–	0
–	–	(1)	–	(1)	–	(1)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	(0)	(0)	–	(0)	–	(1)
–	–	–	–	–	–	–
–	(0)	4	0	(4)	0	0
(0)	(7)	(5)	(7)	(60)	–	(72)
3	**509**	**208**	**87**	**812**	**0**	**1,107**
2	2,980	257	101	297	69	724
4	3,128	338	93	284	140	855
4	3,242	466	93	319	85	963

04.10

Shareholdings

Shareholdings of adidas AG, Herzogenaurach (at December 31, 2011)

ATTACHMENT II

	Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[6]	in %
	Germany					
1	GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG	Herzogenaurach (Germany)	EUR	1,957	directly	90
2	GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH	Herzogenaurach (Germany)	EUR	39	directly	100
3	adidas Insurance & Risk Consultants GmbH[10]	Herzogenaurach (Germany)	EUR	26	directly	100
4	adidas Beteiligungsgesellschaft mbH[10]	Herzogenaurach (Germany)	EUR	354,103	directly	100
5	Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH	Herzogenaurach (Germany)	EUR	35	directly	100
6	Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG	Herzogenaurach (Germany)	EUR	2,771	directly	100
7	adidas CDC Immobilieninvest GmbH	Herzogenaurach (Germany)	EUR	(131)	26	100
8	World of Commerce Management GmbH[5]	Herzogenaurach (Germany)	EUR	–	directly	100
9	World of Commerce GmbH & Co. KG[5]	Herzogenaurach (Germany)	EUR	(43)	directly	100
10	Hotel Herzo-Base GmbH & Co. KG[5]	Herzogenaurach (Germany)	EUR	–	directly	100
11	Herzo-Base Management GmbH[5]	Herzogenaurach (Germany)	EUR	–	directly	100
12	Factory Outlet Herzo-Base GmbH & Co. KG[5]	Herzogenaurach (Germany)	EUR	–	directly	100
13	Reebok-CCM Hockey GmbH	Kirchheim-Heimstetten (Germany)	EUR	4,323	99	100
	Europe (incl. Middle East and Africa)					
14	adidas sport gmbh	Cham (Switzerland)	CHF	8,763	directly	100
15	Sarragan AG	Cham (Switzerland)	CHF	(2,793)	directly	100
16	adidas Austria GmbH	Klagenfurt (Austria)	EUR	7,376	directly	95.89
					14	4.11
17	adidas France S.a.r.l.	Landersheim (France)	EUR	101,696	33	100
18	adidas International B.V.	Amsterdam (Netherlands)	EUR	5,854,079	directly	93.97
					17	6.03
19	adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	765,450	18	100
20	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	37,830	18	100
21	adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	12,114	18	100
22	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	5,249	directly	100
23	Reebok International Finance B.V.	Amsterdam (Netherlands)	USD	574	115	100
24	Rockport (Europe) B.V.	Amsterdam (Netherlands)	USD	3,890	102	100
25	Hydra Ventures B.V.	Amsterdam (Netherlands)	EUR	(139)	18	100
26	adidas International Property Holding B.V.	Amsterdam (Netherlands)	EUR	12	18	100
27	adidas (UK) Limited[1]	Stockport (Great Britain)	GBP	65,603	33	100
28	adidas (ILKLEY) Limited[1] [5]	Stockport (Great Britain)	GBP	–	27	100
29	LARA SPORT (UK) Limited[1] [5]	Stockport (Great Britain)	GBP	–	27	100
30	Sarragan (UK) Limited[1] [5]	Stockport (Great Britain)	GBP	–	27	100
31	adidas Trefoil Trading (U.K.) Limited[1] [5]	Stockport (Great Britain)	GBP	–	30	100
32	Three Stripes Limited[1] [5]	Stockport (Great Britain)	GBP	–	27	50
					28	50
33	Reebok International Limited[9]	London (Great Britain)	GBP	1,268,645	18	65.1
					115	34.9
34	Reebok Finance Limited[5] [9]	London (Great Britain)	GBP	–	115	100
35	RBK Holdings Limited[9]	London (Great Britain)	GBP	–	115	89
					101	11
36	Reebok Sports Limited	London (Great Britain)	USD	1,634	33	100
37	J.W. Foster & Sons (Athletic Shoes) Limited[5] [9]	London (Great Britain)	GBP	–	33	100
38	The Rockport Company Limited[5] [9]	London (Great Britain)	GBP	–	33	100
39	Reebok Eastern Trading Limited[5]	London (Great Britain)	USD	3,112	33	100

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Shareholdings of adidas AG, Herzogenaurach (at December 31, 2011)

ATTACHMENT II

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[6]	in %
40 Reebok Pensions Management Limited[5) 9)]	London (Great Britain)	GBP	–	33	100
41 Reebok Europe Holdings	London (Great Britain)	GBP	42,911	33	100
42 Taylor Made Golf Limited[4)]	Basingstoke (Great Britain)	GBP	(5,913)	18	100
43 Ashworth U.K. Ltd.[4)]	Basingstoke (Great Britain)	GBP	–	42	100
44 adidas (Ireland) Limited	Dublin (Ireland)	EUR	3,318	18	100
45 adidas International Re Limited	Dublin (Ireland)	EUR	9,188	18	100
46 Reebok Ireland Limited	Dublin (Ireland)	EUR	56	44	100
47 adidas Belgium N.V.	Brussels (Belgium)	EUR	3,780	22	100
48 Five Ten Europe NV/SA	Wavre (Belgium)	EUR	(736)	120	100
49 adidas Espana S.A.	Zaragoza (Spain)	EUR	26,013	4	100
50 adidas Finance Spain S.A.	Zaragoza (Spain)	EUR	33,958	115	100
51 Global Merchandising, S.L.	Madrid (Spain)	EUR	–	18	100
52 adidas Italy S.p.A	Monza (Italy)	EUR	48,066	18	100
53 adidas Portugal - Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	13,971	18	100
54 adidas Business Services Lda.	Maia (Portugal)	EUR	118	18	98
				directly	2
55 adidas Norge AS	Lillestrom (Norway)	NOK	28,060	directly	100
56 Reebok-CCM Hockey AS	Gressvik (Norway)	NOK	15,170	55	100
57 adidas Sverige AB	Stockholm (Sweden)	SEK	71,166	directly	100
58 adidas Finance Sverige AB	Solna (Sweden)	SEK	548,380	99	100
59 Reebok-CCM Hockey AB	Malung (Sweden)	SEK	103,927	57	100
60 adidas Suomi Oy	Helsinki (Finland)	EUR	1,698	18	100
61 Reebok-CCM Hockey Oy	Forssa (Finland)	EUR	11,691	18	100
62 adidas Danmark A/S	Århus (Denmark)	DKK	19,992	18	100
63 adidas CR s.r.o.	Prague (Czech Republic)	CZK	143,099	directly	100
64 adidas Budapest Kft.	Budapest (Hungary)	HUF	1,513,140	directly	85
65 adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	11,226	directly	100
66 LLC "adidas, Ltd."	Moscow (Russia)	RUB	717,955	16	100
67 adidas Poland Sp.z.o.o.	Warsaw (Poland)	PLN	38,480	directly	100
68 adidas Finance Poland S.A.	Warsaw (Poland)	PLN	89,629	115	100
69 adidas Romania S.R.L.	Bucharest (Romania)	RON	15,730	18	100
70 adidas Baltics SIA	Riga (Latvia)	EUR	641	18	100
71 adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	EUR	2,105	directly	100
72 adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	1,019	directly	100
73 SC "adidas-Ukraine"	Kiev (Ukraine)	UAH	44,819	directly	100
74 adidas LLP	Almaty (Republic of Kazakhstan)	KZT	14,332	directly	100
75 adidas Serbia d.o.o.	New-Belgrade (Serbia)	RSD	777,834	18	100
76 adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	18,925	18	100
77 adidas Hellas A.E.	Thessaloniki (Greece)	EUR	895	directly	100
78 adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	1,762	directly	100
79 adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	186,928	18	100
80 a-RET Tekstil ve Deri Ürünleri Ticaret A.S.	Istanbul (Turkey)	TRY	974	19	100
81 adidas Emerging Market L.L.C.	Dubai (United Arab Emirates)	USD	41,136	indirectly	51
				17	49
82 adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	40,498	18	100
83 adidas Levant Limited	Dubai (United Arab Emirates)	JOD	2,540	82	55
84 adidas Levant Limited – Jordan	Amman (Jordan)	JOD	1,704	83	100
85 adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	(1,210)	86	100
86 adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	38,511	18	90
				19	10
87 adidas Egypt Ltd.[5)]	Cairo (Egypt)	USD	(1,831)	directly	100
88 adidas Israel Ltd.	Holon (Israel)	ILS	8,278	directly	100

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Shareholdings of adidas AG, Herzogenaurach (at December 31, 2011)

ATTACHMENT II

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89	Life Sport Ltd.	Holon (Israel)	ILS	32,899	18	51
90	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	103,886	directly	100
	North America					
91	adidas North America, Inc.	Portland, Oregon (USA)	USD	4,510,969	18	100
92	adidas America, Inc.	Portland, Oregon (USA)	USD	68,588	91	100
93	adidas International, Inc.	Portland, Oregon (USA)	USD	50,179	91	100
94	adidas Team, Inc.	Portland, Oregon (USA)	USD	(155)	91	100
95	Taylor Made Golf Co. ,Inc.[11]	Carlsbad, California (USA)	USD	73,415	91	100
96	Ashworth, LLC.[11]	Carlsbad, California (USA)	USD	–	95	100
97	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	12,858	115	100
98	Reebok-CCM Hockey, Inc.[8]	Wilmington, Delaware (USA)	USD	156,197	115	100
99	Sports Holdings Corp.	Wilmington, Delaware (USA)	USD	(18,339)	98	100
100	RFC, Inc.	Wilmington, Delaware (USA)	USD	(1)	115	100
101	Reebok Securities Holdings LLC[2]	Wilmington, Delaware (USA)	USD	–	115	100
102	The Rockport Company, LLC	Wilmington, Delaware (USA)	USD	25,646	115	100
103	Textronics, Inc.	Wilmington, Delaware (USA)	USD	13,378	93	100
104	Ashworth Acquisition Corp.[11]	Wilmington, Delaware (USA)	USD	–	96	100
105	Ashworth Store I, Inc.[11]	Wilmington, Delaware (USA)	USD	–	96	100
106	Ashworth Store II, Inc.[11]	Wilmington, Delaware (USA)	USD	–	96	100
107	Ashworth EDC, LLC[11]	Wilmington, Delaware (USA)	USD	–	96	100
108	Sunice Holdings, Inc.[11]	Wilmington, Delaware (USA)	USD	–	96	100
109	Putter, LLC[5][11]	Montgomery, Alabama (USA)	USD	–	104	100
110	Bunker Shot, LLC[5][11]	Montgomery, Alabama (USA)	USD	–	109	100
111	Tee Off, LLC[5][11]	Montgomery, Alabama (USA)	USD	–	109	100
112	SLM Trademark Acquisition Corp.[5][8]	Dover, Delaware (USA)	USD	–	98	100
113	Onfield Apparel Group, LLC[5][7]	Dover, Delaware (USA)	USD	–	115	99
					114	1
114	Reebok Onfield, LLC[5][7]	Dover, Delaware (USA)	USD	–	115	100
115	Reebok International Ltd.[2]	Canton, Massachusetts (USA)	USD	(994,787)	91	100
116	Reebok CHC, Inc.[2][5]	Stoughton, Massachusetts (USA)	USD	–	115	100
117	Sports Licensed Division of the adidas Group, LLC	Boston, Massachusetts (USA)	USD	114,976	115	99
					101	1
118	RBK Thailand, Inc.	Boston, Massachusetts (USA)	USD	369	115	100
119	Reebok-CCM Hockey U.S., Inc.	Montpelier, Vermont (USA)	USD	8,565	98	64
					99	36
120	Stone Age Equipment, Inc.	Redlands, California (USA)	USD	4,756	92	100
121	adidas Canada Ltd.	Concord, Ontario (Canada)	CAD	115,233	directly	100
122	R.C. Investments Ltd.	Montreal (Canada)	CAD	2,243	115	100
123	CCM Holdings (1983) Inc.	Montreal (Canada)	CAD	6,317	125	100
124	Sport Maska Inc.	New Brunswick (Canada)	CAD	39,907	98	100
125	SLM Trademark Acquisition Canada Corporation[5][8]	New Brunswick (Canada)	CAD	–	112	100
	Asia					
126	adidas Sourcing Limited	Hong Kong (China)	USD	295,642	19	100
127	adidas Services Limited	Hong Kong (China)	USD	7,050	18	100
128	adidas Hong Kong Ltd.	Hong Kong (China)	HKD	162,528	directly	100
129	Smedley Industries (Hong Kong) Limited[5][8]	Hong Kong (China)	HKD	–	98	100
130	Reebok Trading (Far East) Limited	Hong Kong (China)	USD	33,659	115	100
131	Reebok (China) Services Limited[5]	Hong Kong (China)	USD	7,413	130	100
132	RIL Indonesia Services Limited[5]	Hong Kong (China)	USD	1,876	130	100
133	adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	197,540	4	100

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Shareholdings of adidas AG, Herzogenaurach (at December 31, 2011)

ATTACHMENT II

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[6]	in %
134 adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	4,213,119	4	100
135 adidas (China) Ltd.	Shanghai (China)	CNY	1,473	18	100
136 Zhuhai adidas Technical Services Limited	Zhuhai (China)	USD	1,874	126	100
137 adidas Japan K.K.	Tokyo (Japan)	JPY	5,146,906	33	100
138 Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	6,138,017	33	100
139 adidas Korea Ltd.	Seoul (Korea)	KRW	112,920,748	directly	100
140 Taylor Made Korea Ltd.	Seoul (Korea)	KRW	25,198,237	directly	100
141 adidas Korea Technical Services Ltd.	Pusan (Korea)	KRW	2,826,180	126	100
142 adidas India Private Ltd.[3]	New Delhi (India)	INR	4,095,294	directly	10.74
				18	89.26
143 adidas India Marketing Pvt. Ltd.[3]	New Delhi (India)	INR	–	142	91.4
				18	8.6
144 adidas Technical Services Pvt. Ltd.	New Delhi (India)	USD	1,111	126	100
145 Reebok India Company	New Delhi (India)	INR	(835,488)	156	93.15
146 PT adidas Indonesia	Jakarta (Indonesia)	IDR	33,857,401	18	99
				directly	1
147 adidas (Malaysia) Sdn. Bhd.	Kuala Lumpur (Malaysia)	MYR	42,690	directly	60
				18	40
148 adidas Philippines Inc.	Manila (Philippines)	PHP	308,093	directly	100
149 adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	19,402	directly	100
150 adidas Taiwan Limited	Taipei (Taiwan)	TWD	566,106	18	100
151 adidas Holding (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	16,308	indirectly	51
				directly	49
152 adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	577,303	directly	100
153 adidas Australia Pty. Limited	Mulgrave (Australia)	AUD	61,949	18	100
154 adidas New Zealand Limited	Auckland (New Zealand)	NZD	7,227	directly	100
155 adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	(23,700,016)	18	100
156 Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,194	115	99
				97	1
Latin America					
157 adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	225,371	18	95
				4	5
158 Reebok Argentina S.A.	Buenos Aires (Argentina)	ARS	(20,394)	18	94.72
				19	5.27
159 adidas do Brasil Ltda.[12]	São Paulo (Brazil)	BRL	316,266	4	100
160 ASPA do Brasil Ltda.	São Paulo (Brazil)	BRL	3	126	100
161 adidas Trading Paraná Ltda.[12]	Pinhais (Brazil)	BRL	–	159	99.99
162 Reebok Produtos Esportivos Brasil Ltda.	Jundiai (Brazil)	BRL	43,372	18	99.99
163 adidas Chile Ltda.	Santiago de Chile (Chile)	CLP	53,528,306	directly	99
				3	1
164 adidas Colombia Ltda.	Bogotá (Colombia)	COP	25,403,870	directly	100
165 adidas de Mexico, S.A. de C.V.	Mexico City (Mexico)	MXN	136,317	directly	100
166 adidas Industrial, S.A. de C.V.	Mexico City (Mexico)	MXN	149,832	directly	100
167 Reebok de Mexico, S.A. de C.V.	Mexico City (Mexico)	MXN	(363,934)	directly	100
168 adidas Latin America, S.A.	Panama City (Panama)	USD	(5,225)	directly	100
169 Concept Sport, S.A.	Panama City (Panama)	USD	2,980	18	100
170 adidas Market LAM, S.A.	Panama City (Panama)	USD	–	18	100
171 3 Stripes S.A. (adidas Uruguay)[5]	Montevideo (Uruguay)	UYU	(436)	directly	100
172 adidas Corporation de Venezuela, S.A.[5]	Caracas (Venezuela)	VEF	(17)	directly	100
173 adisport Corporation	San Juan (Puerto Rico)	USD	(2,519)	18	100

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TOGETHER WE WIN

05 ADDITIONAL INFORMATION

Y-3

Yohji Yamamoto

The latest Y-3 campaign is by artist Collier Schorr and takes its cue from the experimental city of Brasília. Portraits are collaged with architectural images that define the city and are a meditation on the bond between human beings and their environment.

Together we win.

05.1

Ten-Year Overview

Ten-Year Overview

	2011	2010	2009
Income Statement Data (€ in millions)			
Net sales[2]	13,344	11,990	10,381
Gross profit[2]	6,344	5,730	4,712
Royalty and commission income[2]	93	100	86
Other operating income[2]	98	110	100
Other operating expenses[2]	5,524	5,046	4,390
EBITDA[2]	1,257	1,159	780
Operating profit[2] [3]	1,011	894	508
Net financial result[2] [4]	(84)	(88)	(150)
Income before taxes[2] [4]	927	806	358
Income taxes[2]	257	238	113
Net income attributable to non-controlling interests[2] [4]	1	(1)	0
Net income attributable to shareholders[5]	671	567	245
Income Statement Ratios			
Gross margin[2]	47.5%	47.8%	45.4%
Operating margin[2] [3]	7.6%	7.5%	4.9%
Interest coverage[2]	13.0	10.1	3.9
Effective tax rate[2]	27.7%	29.5%	31.5%
Net income attributable to shareholders as a percentage of net sales[5]	5.0%	4.7%	2.4%
Net Sales by Brand (€ in millions)			
adidas	9,867	8,714	7,520
Reebok	1,962	1,913	1,603
TaylorMade-adidas Golf	1,044	909	831
Rockport	261	252	232
Reebok-CCM Hockey	210	200	177
Net Sales by Product Category (€ in millions)			
Footwear[2]	6,275	5,389	4,642
Apparel[2]	5,734	5,380	4,663
Hardware[2]	1,335	1,221	1,076
Balance Sheet Data (€ in millions)			
Total assets[4]	11,380	10,618	8,875
Inventories	2,482	2,119	1,471
Receivables and other current assets	2,558	2,324	2,038
Working capital[4]	2,154	1,972	1,649
Net cash/(net borrowings)	90	(221)	(917)
Shareholders' equity[4]	5,327	4,616	3,771

Rounding differences may arise in percentages and totals.
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.
2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
4) 2003 and 2004 figures have been restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
5) Includes income from continuing and discontinued operations.
6) Figures adjusted for 1:4 share split conducted on June 6, 2006.
7) Subject to Annual General Meeting approval.

2008	2007	2006[1]	2005	2004	2003	2002
10,799	10,299	10,084	6,636	5,860	6,267	6,523
5,256	4,882	4,495	3,197	2,813	2,814	2,819
89	102	90	47	42	42	46
103	80	55	36	n/a	n/a	n/a
4,378	4,115	3,759	2,573	n/a	n/a	n/a
1,280	1,165	1,078	806	716	652	622
1,070	949	881	707	584	490	477
(166)	(135)	(158)	(52)	(59)	(49)	(87)
904	815	723	655	526	438	390
260	260	227	221	193	167	148
(2)	(4)	(13)	(8)	(7)	(11)	(14)
642	551	483	383	314	260	229
48.7%	47.4%	44.6%	48.2%	48.0%	44.9%	43.2%
9.9%	9.2%	8.7%	10.7%	10.0%	7.8%	7.3%
7.4	6.8	5.9	18.4	10.2	8.4	6.4
28.8%	31.8%	31.4%	33.7%	36.7%	38.0%	37.9%
5.9%	5.4%	4.8%	5.8%	5.4%	4.2%	3.5%
7,821	7,113	6,626	5,861	5,174	4,950	5,105
1,717	1,831	1,979	–	–	–	–
812	804	856	709	633	637	707
243	291	293	–	–	–	–
188	210	202	–	–	–	–
4,919	4,751	4,733	2,978	2,620	2,767	2,851
4,775	4,426	4,105	2,798	2,462	2,222	2,288
1,105	1,121	1,246	860	778	1,278	1,385
9,533	8,325	8,379	5,750	4,434	4,188	4,261
1,995	1,629	1,607	1,230	1,155	1,164	1,190
2,523	2,048	1,913	1,551	1,425	1,335	1,560
1,290	1,522	1,733	2,644	1,336	1,433	1,445
(2,189)	(1,766)	(2,231)	551	(665)	(1,018)	(1,498)
3,386	3,023	2,828	2,684	1,544	1,285	1,081

05.1

Ten-Year Overview (continued)

	2011	2010	2009
Balance Sheet Ratios			
Net borrowings/EBITDA [2]	(0.1)	0.2	1.2
Average operating working capital as a percentage of net sales	20.8%	20.8%	24.3%
Financial leverage [4]	(1.7%)	4.8%	24.3%
Equity ratio [4]	46.8%	43.5%	42.5%
Equity-to-fixed-assets ratio [4]	107.7%	97.4%	85.9%
Asset Coverage I [4]	143.5%	141.5%	137.4%
Asset Coverage II [4]	95.5%	97.7%	102.9%
Fixed asset intensity of investments	43.5%	44.6%	49.5%
Current asset intensity of investments	56.5%	55.4%	50.5%
Liquidity I [4]	32.0%	35.5%	30.0%
Liquidity II [4]	71.9%	78.2%	80.4%
Liquidity III [4]	129.9%	132.4%	132.2%
Working capital turnover [4]	6.2	6.1	6.3
Return on equity [4] [5]	12.6%	12.3%	6.5%
Return on capital employed [4] [5]	20.7%	20.2%	11.3%
Data Per Share [6]			
Share price at year-end (in €)	50.26	48.89	37.77
Basic earnings [5] (in €)	3.20	2.71	1.25
Diluted earnings [5] (in €)	3.20	2.71	1.22
Price/earnings ratio at year-end	15.7	18.0	31.0
Market capitalisation at year-end (€ in millions)	10,758	10,229	7,902
Net cash generated from operating activities (in €)	3.79	4.28	6.11
Dividend (in €)	1.00 [7]	0.80	0.35
Dividend payout ratio (in %)	31.2	29.5	29.8
Number of shares outstanding at year-end (in thousands)	209,216	209,216	209,216
Employees			
Number of employees at year-end [2]	46,824	42,541	39,596
Personnel expenses [2] (€ in millions)	1,646	1,521	1,352

Rounding differences may arise in percentages and totals.
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.
2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
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7) Subject to Annual General Meeting approval.

	2008	2007	2006[1]	2005	2004	2003	2002
	1.7	1.5	2.1	(0.7)	0.9	1.6	2.4
	24.5%	25.2%	25.8%	26.0%	28.4%	30.7%	30.8%
	64.6%	58.4%	78.9%	(20,5%)	43.1%	79.2%	138.5%
	35.5%	36.3%	33.8%	46.7%	34.8%	30.7%	25.4%
	73.6%	72.2%	63.5%	194.0%	110.4%	91.1%	75.4%
	127.7%	136.1%	138.7%	284.1%	194.1%	197.6%	196.9%
	89.1%	98.0%	102.0%	150.4%	106.3%	108.3%	107.6%
	48.2%	50.3%	53.2%	24.1%	31.6%	33.7%	33.7%
	51.8%	49.7%	46.8%	75.9%	68.4%	66.3%	66.3%
	10.5%	14.5%	15.8%	92.0%	26.8%	20.8%	5.5%
	55.1%	70.3%	80.4%	148.0%	88.4%	100.8%	99.1%
	109.8%	132.6%	153.7%	219.4%	156.4%	187.4%	185.3%
	8.4	6.8	5.8	2.6	4.4	4.4	4.5
	18.9%	18.2%	17.1%	14.3%	20.4%	20.2%	21.1%
	19.8%	20.2%	17.6%	49.3%	27.5%	22.1%	16.8%
	27.14	51.26	37.73	40.00	29.69	22.58	20.58
	3.25	2.71	2.37	2.05	1.72	1.43	1.26
	3.07	2.57	2.25	1.93	1.64	1.43	1.26
	8.8	19.9	16.8	20.7	18.1	15.8	16.3
	5,252	10,438	7,679	8,122	5,446	4,104	3,738
	2.52	3.83	3.74	1.88	3.17	3.58	2.94
	0.50	0.50	0.42	0.33	0.33	0.25	0.25
	15.1	18.0	17.7	17.2	18.9	17.5	19.8
	193,516	203,629	203,537	203,047	183,436	181,816	181,692
	38,982	31,344	26,376	15,935	14,254	15,686	14,716
	1,283	1,186	1,087	706	637	709	758

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Glossary

A

AFIRM (Apparel and Footwear International Restricted Substances List Management Working Group)
A centre of excellence comprising experts whose aim is to reduce the use and impact of harmful substances in the apparel and footwear supply chains :// WWW.AFIRM-GROUP.ORG.

American Depositary Receipt (ADR)
US-traded negotiable certificate of a foreign-based company held by a US bank that entitles the holder to all dividends and rights of the underlying stock. ADRs provide a way for US-based investors to invest in foreign-based companies by buying their shares in the USA instead of through an overseas exchange.

B

Backlogs
Also called order backlogs. The value of orders received for future delivery. Most retailers' orders are received six to nine months in advance.

Basic Earnings Per Share (Basic EPS)
Performance indicator used to gauge a company's earnings per share, based on the number of shares outstanding.
Basic EPS = net income attributable to shareholders / weighted average number of shares outstanding during the year ⁄ SEE ALSO DILUTED EARNINGS PER SHARE.

Beta factor
Indicates a stock's relative risk. A beta factor of more than one indicates that the stock has a higher risk than the overall market. Conversely, a beta factor of less than one indicates a lower risk.

Better Cotton Initiative (BCI)
The Better Cotton Initiative was created through a collaboration between the World Wildlife Fund (WWF) and a wide range of stakeholders involved in the cotton supply chain. BCI aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide to make it more economically, environmentally and socially sustainable :// WWW.BETTERCOTTON.ORG.

C

CAD design
Computer-aided design (CAD) is the use of computer technology for the process of design and design documentation.

Capital charge
Capital charge is a payment for capital employed by a given business unit. Capital charge is comprised of asset base and weighted average cost of capital. The asset base includes operating working capital as well as other assets needed by a market or operating unit in its day-to-day activities.
Capital charge = asset base x weighted average cost of capital (WACC).

Capital expenditure
Total cash expenditure used for the purchase of tangible and intangible assets, excluding acquisitions and finance leases.

Commercial paper
Tradable unsecured promissory notes issued for the purpose of short-term financing. Commercial paper is issued on an ongoing, revolving basis with maturities typically between seven days and twelve months or more.

Comparable store sales
Comparable (comp) store sales are sales generated in stores which have been open for the entire prior financial year and are currently operating. Remodelled stores are included if the store format or store size has remained unchanged.

Concession corners
Retail space that is fully operated by one brand of the adidas Group and is part of a larger sales area operated by a retail partner.

Consumer price index (CPI)
Measure of the average price of consumer goods and services purchased by households. Determined by measuring the price of a standard group of goods meant to represent the typical market basket of a typical urban consumer. The percentage change in the CPI is a measure of inflation.

Controlled space
Controlled space includes own-retail business, mono-branded franchise stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

Corporate governance
Distribution of rights and responsibilities among the primary stakeholders in a company, in particular shareholders, the Executive Board and the Supervisory Board.

Cost of sales
The amount the Group pays to third parties for expenses associated with producing and delivering our products. Own-production expenses are also included in the Group's cost of sales.

Credit default swap (CDS)
A credit default swap is a derivative in which the buyer of the CDS makes a payment to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) undergoes a defined "Credit Event", often described as a default (failure to pay).

Credit spread
Risk premium which represents the yield difference between risk-free government bonds and corporate bonds with the same duration. A potential investor demands an additional yield (risk premium = credit spread) for the higher risk of default with corporate bonds versus government bonds.

Currency-neutral
This figure eliminates variances arising from currency translation and thus reflects the underlying business performance.

CRM (Customer Relationship Management)
Capabilities and methodologies used by a company with its customers to systematically design and build customer relationships and processes.

D

D&O liability insurance
Directors and Officers (D&O) liability insurance protects directors and officers from liability and litigation related to action taken against them, claiming wrongdoing in connection with the company's business.

Days of Sales Outstanding (DSO)
Average time of receipt of outstanding payments from customers.

Diluted Earnings Per Share (Diluted EPS)
Performance indicator used to gauge a company's earnings per share, assuming that all stock options and conversion rights related to a convertible bond are exercised, which would result in an increase of the number of shares outstanding.
Diluted EPS = (net income attributable to shareholders + interest expense on convertible bonds net of tax) / (weighted average number of shares outstanding during the year + weighted share options + shares from assumed conversion of convertible bonds).

E

EBITDA
Earnings before interest, taxes, depreciation, amortisation and impairment losses as well as reversals of impairment losses for tangible and intangible assets.

Economic value added (EVA)
Economic value added is a measure of a company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit (after tax). EVA can thus also be described as the surplus profit over the WACC demanded by the capital market, indicating whether the shareholders have earned a return that compensates the risk.
EVA = operating profit after tax – cost of capital.

Emerging markets
Developing countries showing potential for growth in both economic strength and private wealth in the future. For the adidas Group, emerging markets are the developing countries of Asia, Eastern Europe, Latin America and Africa.

Enterprise Resource Planning (ERP)
A business management system that integrates all facets of the business, e.g. planning, manufacturing, sales and marketing.

Equity derivatives
Class of derivatives whose value is at least partly derived from one or more underlying equity securities. Options and forward contracts are by far the most common equity derivatives, however there are many other types of equity derivatives that are actively traded.

Equity ratio
Shows the role of shareholders' equity within the overall financing structure of a company.
Equity ratio = (shareholders' equity / total assets) × 100.

E-tailer
Retailer that primarily uses the internet as a medium for consumers to shop for the goods or services provided. E-tailers optimise the internet potential to attract, convert and retain consumers.

F

Fair Factories Clearinghouse (FFC)
The Fair Factories Clearinghouse was established in 2004 with the purpose of improving social, environmental and security standards and helping to create humane working conditions for workers making consumer goods globally. Membership includes many sporting and consumer goods companies as well as a wide range of consumer goods suppliers :// WWW.FAIRFACTORIES.ORG.

Fair Labor Association (FLA)
The Fair Labor Association , a non-profit labour rights organisation, is a multi-stakeholder initiative bringing together companies, colleges and universities, and civil society organisations to improve working conditions worldwide by promoting adherence to international and national labour laws :// WWW.FAIRLABOR.ORG.

Fair value
Amount at which assets are generally traded between business parties. Fair value is often identical to market price.

Finance lease
Method of acquiring an asset that involves a lease with a special leasing company for a specific, non-terminable initial leasing term. The investment risk is borne by the lessee.

Financial leverage
Ratio reflecting the role of borrowings within the financing structure of a company.
Financial leverage = (net borrowings / shareholders' equity) × 100.

FlexPLM
FlexPLM is an adidas Group Product Lifecycle Management System for apparel, accessories and gear; it is a key enabler for the Fast and Lean Creation programme.

Forward contract
Agreement to exchange amounts of one currency for another currency at an agreed fixed rate at a future date.

Franchising
Form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). The franchisor offers assistance in organising, training, merchandising, marketing and managing in return for a monetary consideration.

Free cash flow
Cash that is generated by a company's operating activities after the deduction of capital expenditure and other cash expenses such as taxes and interest from the operating profit.
Free cash flow = operating profit +/– change in operating working capital +/– net investments (capital expenditure less depreciation and amortisation) +/– financial result and income taxes.

05.2 ⁄

G

German Co-Determination Act
Mitbestimmungsgesetz (MitbestG). This act governs the form of co-determination of employees in corporations employing more than 2,000 employees. It stipulates, among other things, that such a corporation's Supervisory Board must be composed of an equal number of employee and shareholder representatives.

Goodwill
Intangible asset that quantifies the price that a buyer of a company has paid for the reputation, know-how and market position of the acquired company. Goodwill is the excess of the amount paid over the fair value of the net assets acquired at the purchase date.

Go-to-market
All instruments, tools and channels used to connect with consumers in order to best fulfil their needs, prior to the launch and/or the commercialisation of a new product.

Grassroots events
Grassroots events involve the advertising and promotion of products and/or services on a local and/or personal level. A message is shared with a small group of influencers within a target group. If successful, these then spread the marketing message, e.g. by sharing it on social media platforms or writing a recommendation.

Green grass retailers
Golf distribution channel. Small golf specialty shops typically located at a golf course.

Gross Domestic Product (GDP)
Market value of all finished goods and services produced within a country in a given period of time. GDP = consumption + investment + government spending + (exports – imports).

Gross margin
Gross profit as a percentage of net sales.
Gross margin = (gross profit / net sales) × 100.

H

Halo effect
The halo effect refers to the cognitive bias effect that when we consider something good (or bad) in one category, we are likely to make a similar evaluation in other (related) categories.

Hardware
Product category which comprises equipment that is used rather than worn by the athlete, such as bags, balls, fitness equipment, golf clubs and hockey sticks.

Hedging
A strategy used to minimise exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.) ⁄ SEE ALSO NATURAL HEDGES.

I

Institutional investors
Investors such as investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. They are financially sophisticated, with a greater knowledge of investment vehicles and risks, and have the means to make large and long-term investments.

International Financial Reporting Standards (IFRS)
Reporting standards (formerly called IAS) which have been issued by the International Accounting Standards Board (IASB). The objective is to achieve uniformity and transparency in the accounting principles that are used by businesses and other organisations for financial reporting around the world.

International Labour Organization
The International Labour Organization (ILO) is a specialised agency of the United Nations that engages in formulating and implementing international social and workplace standards and guidelines :// WWW.ILO.ORG.

ISO 14001
International Organization for Standardization (ISO) Standard 14001 specifies the requirements for an environmental management system within companies/organisations. It applies to those environmental aspects over which the organisation has control and over which it can be expected to have an influence (e.g. energy and water consumption).

J

Joint venture
A cooperation between companies involving the foundation of a new, legally independent business entity in which the founding companies (two or more companies) participate with equity and significant resources.

K

Key accounts
Wholesalers or retailers which are considered to be primary customers for the Group and account for a large percentage of sales.

Kinesiology
The scientific study of the mechanisms associated with human movement.

L

Leather Working Group (LWG)
The Leather Working Group was formed in April 2005 to promote sustainable and appropriate environmental stewardship practices within the leather industry :// WWW.LEATHERWORKINGGROUP.COM.

Licensed apparel
Apparel products which are produced and marketed under a licence agreement. The adidas Group has licence agreements with sports organisations (e.g. FIFA, UEFA), sports leagues (e.g. NBA, NHL), teams (e.g. Real Madrid, AC Milan) and universities (e.g. UCLA, Notre Dame).

Licensees
Companies that have the authorisation to use the name of a brand or business for the production and sale of products. For example, for adidas, licensed products include cosmetics, watches and eyewear, for Reebok, fitness equipment and for TaylorMade-adidas Golf, bags and gloves.

Lien
The right to take and hold or sell the asset of a debtor as security or payment for a debt.

Liquidity I, II, III
The liquidity ratio indicates how quickly a company can liquidate its assets to pay for current liabilities.
Liquidity I:
((Cash + short-term financial assets) / current liabilities) × 100.
Liquidity II:
((Cash + short-term financial assets + accounts receivable) / current liabilities) × 100.
Liquidity III:
((Cash + short-term financial assets + accounts receivable + inventories) / current liabilities) × 100.

M

Market capitalisation
Total market value of all shares outstanding.
Market capitalisation = number of shares outstanding × current market price.

Marketing working budget (MWB)
Promotion and communication spending including sponsorship contracts with teams and individual athletes, as well as advertising, events and other communication activities, but excluding marketing overhead expenses. As marketing working budget expenses are not distribution channel-specific, they are not allocated to the Group's operating segments.

Mono-branded stores
adidas, Reebok or Rockport branded stores that are not operated or owned by the adidas Group but by franchise partners. This concept is used especially in the emerging markets such as China, benefiting from local expertise of the respective franchise partners SEE ALSO FRANCHISING.

N

Natural hedges
Offset of currency risks that occurs naturally as a result of a company's normal operations, without the use of derivatives. For example, revenue received in a foreign currency and used to pay known commitments in the same foreign currency.

Net borrowings/Net cash
Portion of gross borrowings not covered by the sum of cash and short-term financial assets.
Net borrowings/net cash = short-term borrowings + long-term borrowings – cash – short-term financial assets.

Non-controlling interests
Part of net income or equity which is not attributable to the shareholders of the reporting company as it relates to outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

O

OHSAS 18000
OHSAS 18000 is an international occupational health and safety management system specification.

ÖKO-Tex Standard 100
An international testing and certification system for textiles, defining and limiting the use of certain chemicals.

Operating cash flow
Operating cash flow is comprised of operating profit, change in operating working capital and net investments.
Operating cash flow = operating profit +/– change in operating working capital +/– net investments (capital expenditure less depreciation and amortisation).

Operating lease
Method of leasing assets over periods less than the expected lifetime of those assets. An operating lease is accounted for by the lessee without showing an asset or a liability on the balance sheet. Periodic payments are accounted for by the lessee as operating expenses for the period.

Operating overheads
Expenses which are not directly attributable to the products or services sold, such as costs for distribution, marketing overhead costs, logistics, research and development, as well as general and administrative costs, but not including costs for promotion, advertising and communication.

Operating working capital
A company's short-term disposable capital which is used to finance its day-to-day business. In comparison to working capital, operating working capital does not include non-operational items such as financial assets and taxes.
Operating working capital = accounts receivable + inventories – accounts payable SEE ALSO WORKING CAPITAL.

Option
Financial instrument which ensures the right to purchase (call option) or to sell (put option) a particular asset (e.g. shares or foreign exchange) at a predetermined price (strike price) on or before a specific date.

P

Performance business
In the sporting goods industry, business related to technical footwear and apparel, used primarily in doing sports.

Price-earnings ratio (P/E)
A company's share price divided by its current or future diluted earnings per share. The P/E ratio is used by investors as a fundamental measure of the attractiveness of a particular security versus other securities or the overall market. It is usually more useful to compare P/E ratios of one company to other companies in a similar industry. In general, a high P/E ratio suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

Price points
Specific selling prices, normally using "psychological" numbers, e.g. a product price of US $ 99.99 instead of US $ 100.

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Private investor
Individual who invests his/her own money in the capital market, as opposed to an institutional investor.

Private placement
Placement of debt securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds and foundations.

Product Life Cycle Management (PLM)
Product life cycle management is a systematic approach to managing the life cycle of a product, from its design and development to its ultimate sale.

Promotion partnerships
Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the adidas Group, the party is provided with cash and/or promotional material.

Push model/pull model
A push-pull system in the retail business describes the supply and demand dynamic between retailers and consumers. Under the push model, products are supplied based on anticipated customer orders, whereas in a pull model system goods are supplied based on consumer point-of-sale demand and actual market sales trends.

⁄ R

Regions
The adidas Group distinguishes six regions: Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.

RFID tag
A radio-frequency identification (RFID) tag is a microchip combined with an antenna that electronically stores information and can be attached to any kind of object. The tag's antenna picks up signals from an RFID reader or scanner and then returns the signal, usually with some additional data (such as a unique serial number or other customised information).

Risk-free rate
Rate of return to be expected on a risk-free investment.

Risk premium
Extra return that the overall market or a particular stock must provide over the risk-free rate to compensate an investor for taking a relatively higher risk.
Risk premium = overall market rate – risk-free rate.

Rolling forecast
A rolling forecast is a projection about the future that is updated at regular intervals, keeping the forecasting period constant (e.g. twelve months).

⁄ S

Sales working budget
Sales working budget expenditures relate to advertising and promotion initiatives at the point of sale as well as to store fittings and furniture. As sales working budget expenses are channel-specific, they are allocated to the Group's operating segments.

Segment
Also called Business Segment. Units within a company that have profit and loss responsibility. The adidas Group is currently divided into six business segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands.

Sell-through
An indicator of how fast retailers are selling a particular product to the consumer.

Shop-in-shop
Exclusive adidas, Reebok or Rockport area within a wholesale partner's or retailer's store. The concept may be operated by the store or the adidas Group depending on individual arrangements. The goal of this distribution method is to give consumers a similar experience to an own-retail environment, albeit on a smaller scale.

Signature collection
Collection bearing the name or the brand of top athletes.

Stakeholders
All groups that have a direct or indirect interest in the efforts and results of a company, e.g. lenders, shareholders, consumers, retailers, suppliers, licensees, business partners in the supply chain, employees, international sport federations, non-governmental organisations, media, etc.

Swap
A derivative in which two counterparties agree to exchange one stream of cash flows against another stream.

Syndicated loan
A syndicated loan is one that is provided by a group of lenders and is structured, arranged and administered by one or several commercial banks or investment banks, known as arrangers.

⁄ T

Top and bottom line
A company's bottom line is its net income, or the "bottom" figure on a company's income statement. More specifically, the bottom line is a company's income after all expenses have been deducted from revenues. The top line refers to a company's sales or revenues.

Top-down, bottom-up
Specific concept for information and knowledge processing. Information and empowerment of management decisions is delegated from top to bottom in a first step. After going into more detail on the bottom level, the final information/decision is transported back to the top.

Toxproof/TÜV Rheinland
The Toxproof mark is a safety mark issued by TÜV Rheinland, especially for testing the quantities of toxins in products.

Trend scouting
Identification and commercialisation of future trends, particularly lifestyle trends.

/ V

Vertical retailer
A retail company that (vertically) controls the entire design, production and distribution processes of its products.

Visual merchandising
Activity of promoting the sale of goods, especially by their presentation at the point of sale. This includes combining products, environments and spaces into a stimulating and engaging display to encourage the sale of a product or service.

VOCs (Volatile Organic Compounds)
Volatile organic compounds (VOCs) are organic chemical compounds that can vaporise into the air and may be harmful and cause breathing and health problems. VOCs are by-products of the shoe manufacturing process.

/ W

Weighted average cost of capital (WACC)
Calculation of the cost of capital according to the debt/equity structure, utilising a weighted average cost of capital (WACC) formula. The cost of equity is typically computed utilising a risk-free rate, market risk premium and a beta factor. The cost of debt is calculated through the risk-free rate, credit spread and average tax rate.

Working capital
A company's short-term disposable capital used to finance the day-to-day operations.
Working capital = total current assets – total current liabilities / SEE ALSO OPERATING WORKING CAPITAL.

World Business Council for Sustainable Development (WBCSD)
The WBCSD is a global association of around 200 international companies dealing exclusively with business and sustainable development :// **WWW.WBCSD.ORG**.

World Federation of the Sporting Goods Industry (WFSGI)
The WFSGI is an independent non-profit organisation formed by sporting goods brands, manufacturers, suppliers, retailers and other sporting industry-related businesses. It is the world authoritative body for the sporting goods industry and is officially recognised by the International Olympic Committee (IOC) as the industry representative :// **WWW.WFSGI.ORG**.

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Index

This Annual Report includes the booklet adidas Group At A Glance, referred to in this Index as Booklet.

05.4 ⁄

Declaration of Support

adidas AG declares support, except in the case of political risk, that the below-mentioned companies are able to meet their contractual liabilities. This declaration replaces the declaration dated February 15, 2011. The 2011 Declaration of Support is invalid.

adidas (China) Ltd., Shanghai, China
adidas (Cyprus) Limited, Nicosia, Cyprus
adidas (Ireland) Limited, Dublin, Ireland
adidas (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia
adidas (South Africa) (Pty) Ltd., Cape Town, South Africa
adidas (Suzhou) Co. Ltd., Suzhou, China
adidas (Thailand) Co., Ltd., Bangkok, Thailand
adidas (UK) Limited, Stockport, Great Britain
adidas America, Inc. (formerly adidas Sales, Inc.), Portland, Oregon, USA
adidas Argentina S.A., Buenos Aires, Argentina
adidas Australia Pty. Limited, Mulgrave, Australia
adidas Austria GmbH, Klagenfurt, Austria
adidas Baltics SIA, Riga, Latvia
adidas Belgium N.V., Brussels, Belgium
adidas Benelux B.V., Amsterdam, Netherlands
adidas Beteiligungsgesellschaft mbH, Herzogenaurach, Germany
adidas Bulgaria EAD, Sofia, Bulgaria
adidas Business Services Lda., Maia, Portugal
adidas Canada Ltd., Concord, Ontario, Canada
adidas CDC Immobilieninvest GmbH, Herzogenaurach, Germany
adidas Chile Ltda., Santiago de Chile, Chile
adidas Colombia Ltda., Bogotá, Colombia
adidas CR s.r.o., Prague, Czech Republic
adidas Croatia d.o.o., Zagreb, Croatia
adidas Danmark A/S, Århus, Denmark
adidas de Mexico, S.A. de C.V., Mexico City, Mexico
adidas do Brasil Ltda., São Paulo, Brazil
adidas Emerging Market L.L.C., Dubai, United Arab Emirates
adidas Emerging Markets FZE, Dubai, United Arab Emirates
adidas Espana S.A., Zaragoza, Spain
adidas Finance Poland S.A., Warsaw, Poland
adidas Finance Spain S.A., Zaragoza, Spain
adidas Finance Sverige AB, Solna, Sweden
adidas France S.a.r.l., Landersheim, France
adidas Hellas A.E., Thessaloniki, Greece
adidas Hong Kong Ltd., Hong Kong, China
adidas Imports & Exports Ltd., Cairo, Egypt
adidas India Marketing Pvt. Ltd., New Delhi, India
adidas Industrial, S.A. de C.V., Mexico City, Mexico
adidas Insurance & Risk Consultants GmbH (formerly adidas Versicherungs-Vermittlungs GmbH), Herzogenaurach, Germany
adidas International B.V., Amsterdam, Netherlands
adidas International Finance B.V., Amsterdam, Netherlands
adidas International Marketing B.V., Amsterdam, Netherlands
adidas International Property Holding B.V., Amsterdam, Netherlands
adidas International Re Limited, Dublin, Ireland
adidas International Trading B.V., Amsterdam, Netherlands
adidas International, Inc., Portland, Oregon, USA
adidas Italy S.p.A, Monza, Italy
adidas Japan K.K., Tokyo, Japan
adidas Korea Ltd., Seoul, Korea
adidas Korea Technical Services Ltd., Pusan, Korea
adidas Latin America, S.A., Panama City, Panama
adidas Levant Limited – Jordan, Amman, Jordan
adidas LLP, Almaty, Republic of Kazakhstan
adidas Market LAM, S.A, Panama City, Panama
adidas New Zealand Limited, Auckland, New Zealand
adidas Norge AS, Lillestrom, Norway
adidas North America, Inc., Portland, Oregon, USA
adidas Philippines Inc., Manila, Philippines
adidas Poland Sp.z.o.o., Warsaw, Poland
adidas Portugal - Artigos de Desporto, S.A., Lisbon, Portugal
adidas Romania S.R.L., Bucharest, Romania
adidas Serbia d.o.o., New Belgrade, Serbia
adidas Services Limited, Hong Kong, China
adidas Singapore Pte. Ltd., Singapore, Singapore
adidas Slovakia s.r.o., Bratislava, Slovak Republic
adidas Sourcing Limited, Hong Kong, China
adidas Spor Malzemeleri Satis ve Pazarlama A.S., Istanbul, Turkey
adidas sport gmbh, Cham, Switzerland
adidas Sporting Goods Ltd., Cairo, Egypt
adidas Sports (China) Co. Ltd., Suzhou, China
adidas Suomi Oy, Helsinki, Finland
adidas Sverige AB, Stockholm, Sweden
adidas Taiwan Limited, Taipei, Taiwan
adidas Team, Inc., Portland, Oregon, USA
adidas Technical Services Pvt. Ltd., New Delhi, India
adidas Trgovina d.o.o., Ljubljana, Slovenia
adidas Vietnam Company Limited, Ho Chi Minh City, Vietnam
adisport Corporation, San Juan, Puerto Rico
ASPA do Brasil Ltda., São Paulo, Brazil
Concept Sport, S.A., Panama City, Panama
Factory Outlet Herzo-Base GmbH & Co. KG, Herzogenaurach, Germany
Five Ten Europe NV/SA, Wavre, Belgium
GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH, Herzogenaurach, Germany
Herzo-Base Management GmbH, Herzogenaurach, Germany
Hotel Herzo-Base GmbH & Co. KG, Herzogenaurach, Germany
Hydra Ventures B.V., Amsterdam, Netherlands
Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG, Herzogenaurach, Germany
Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH, Herzogenaurach, Germany
LLC "adidas, Ltd.", Moscow, Russia
PT adidas Indonesia, Jakarta, Indonesia
Reebok (China) Services Limited, Hong Kong, China
Reebok de Mexico, S.A. de C.V., Mexico City, Mexico
Reebok Europe Holdings, London, Great Britain
Reebok International Limited, London, Great Britain
Reebok International Ltd., Canton, Massachusetts, USA
Reebok-CCM Hockey AB, Malung, Sweden
Reebok-CCM Hockey AS, Gressvik, Norway
Reebok-CCM Hockey Oy, Forssa, Finland
Reebok-CCM Hockey U.S. Inc., Montpelier, Vermont, USA
Reebok-CCM Hockey, Inc., Wilmington, Delaware, USA
RIL Indonesia Services Limited, Hong Kong, China
Rockport (Europe) B.V., Amsterdam, Netherlands
SC "adidas-Ukraine", Kiev, Ukraine
Sport Maska Inc., New Brunswick, Canada
Sports Licensed Division of the adidas Group, LLC, Boston, Massachusetts, USA
Stone Age Equipment, Inc., Redlands, California, USA
Taylor Made Golf Co., Inc., Carlsbad, California, USA
Taylor Made Golf Co., Ltd., Tokyo, Japan
Taylor Made Golf Limited, Basingstoke, Great Britain
Taylor Made Korea Ltd., Seoul, Korea
The Rockport Company, LLC, Wilmington, Delaware, USA
World of Commerce GmbH & Co. KG, Herzogenaurach, Germany
World of Commerce Management GmbH, Herzogenaurach, Germany
Zhuhai adidas Technical Services Limited, Zhuhai, China

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Financial Calendar
2012

March 7, 2012

Full Year 2011 Results
Analyst and press conferences in Herzogenaurach, Germany
Press release, conference call and webcast
Publication of 2011 Annual Report

May 3, 2012

First Quarter 2012 Results
Press release, conference call and webcast
Publication of First Quarter 2012 Report

May 10, 2012

Annual General Meeting
Fuerth (Bavaria), Germany
Webcast

May 11, 2012

Dividend payment
(Subject to Annual General Meeting approval)

August 2, 2012

First Half 2012 Results
Press release, conference call and webcast
Publication of First Half 2012 Report

November 8, 2012

Nine Months 2012 Results
Press release, conference call and webcast
Publication of Nine Months 2012 Report

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