



Annual Report

09



adidas GROUP

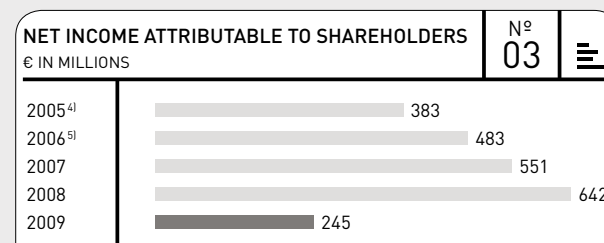
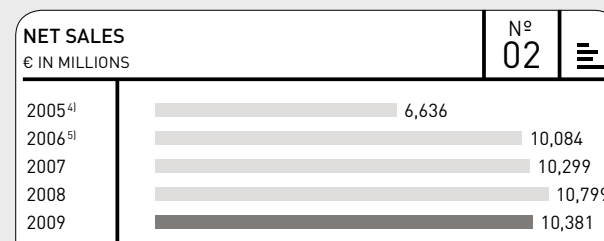
EVERY PRODUCT  
TELLS A STORY







FINANCIAL HIGHLIGHTS (IFRS)		N° 01	
	2009	2008	Change
<b>Operating Highlights (€ in millions)</b>			
Net sales	10,381	10,799	(3.9%)
EBITDA	780	1,280	(39.1%)
Operating profit	508	1,070	(52.6%)
Net income attributable to shareholders	245	642	(61.8%)
<b>Key Ratios (%)</b>			
Gross margin	45.4%	48.7%	(3.3pp)
Operating expenses as a percentage of net sales	42.3%	40.5%	1.7pp
Operating margin	4.9%	9.9%	(5.0pp)
Effective tax rate	31.5%	28.8%	2.7pp
Net income attributable to shareholders as a percentage of net sales	2.4%	5.9%	(3.6pp)
Operating working capital as a percentage of net sales <sup>1)</sup>	24.3%	24.5%	(0.2pp)
Equity ratio	42.5%	35.5%	7.0pp
Financial leverage	24.3%	64.6%	(40.3pp)
Return on equity	6.5%	18.9%	(12.4pp)
<b>Balance Sheet and Cash Flow Data (€ in millions)</b>			
Total assets	8,875	9,533	(6.9%)
Inventories	1,471	1,995	(26.3%)
Receivables and other current assets	2,038	2,523	(19.2%)
Working capital	1,649	1,290	27.8%
Net borrowings	917	2,189	(58.1%)
Shareholders' equity	3,771	3,386	11.3%
Capital expenditure	240	380	(36.8%)
Net cash from operating activities	1,198	497	140.9%
<b>Per Share of Common Stock (€)</b>			
Basic earnings	1.25	3.25	(61.5%)
Diluted earnings	1.22	3.07	(60.2%)
Operating cash flow	6.11	2.52	142.6%
Dividend	0.35 <sup>2)</sup>	0.50	(30.0%)
Share price at year-end	37.77	27.14	39.2%
<b>Other (at year-end)</b>			
Number of employees	39,596	38,982	1.6%
Number of shares outstanding	209,216,186	193,515,512	8.1%
Average number of shares	196,220,166	197,562,346 <sup>3)</sup>	(0.7%)



1) Twelve-month trailing average.

2) Subject to Annual General Meeting approval.

3) After deduction of treasury shares.

4) Reflects continuing operations as a result of the divestiture of the Salomon business segment.

5) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

## TARGETS 2009

Low- to mid-single-digit currency-neutral sales decline

Bring major new concepts, technology evolutions and revolutions to market

On a currency-neutral basis:

- low- to mid-single-digit sales decline for adidas segment
- at least stable sales for Reebok segment
- low-single-digit sales increase at TaylorMade-adidas Golf

Gross margin decline (2008: 48.7%)

Operating margin decline (2008: 9.9%)

Reduce operating working capital as a percentage of sales (2008: 24.5%)

Capital expenditure range € 300 million – € 400 million

Reduce net borrowings (2008: € 2.189 billion)

Net income attributable to shareholders and diluted earnings per share decline (2008: € 642 million and € 3.07, respectively)

Further increase shareholder value

## RESULTS 2009

→ Net sales reach € 10.4 billion;  
Group currency-neutral sales decrease 6%

→ Major 2009 product launches:

**adidas:**

- adiSTAR® Salvation running shoe
- F50i football boot

**Reebok:**

- EasyTone™ shoe

**TaylorMade-adidas Golf:**

- R9™ metalwood, Burner® family of irons
- Penta TP ball

**Rockport:**

- DresSport® 2

**Reebok-CCM Hockey:**

- U+™ Crazy Light Stick

→ On a currency-neutral basis:

- Wholesale segment sales decline 9%
- Retail segment sales increase 7%
- Total adidas brand sales decline 5%
- Total Reebok brand sales decline 8%
- Sales of Other Businesses decline 4%
- TaylorMade-adidas Golf revenues decline 2%

→ Gross margin: 45.4%

→ Operating margin: 4.9%

→ Operating working capital as a percentage of sales improves to 24.3%

→ Capital expenditure: € 240 million

→ Net borrowings reduced substantially to € 917 million;  
year-end financial leverage: 24.3%

→ Net income attributable to shareholders declines 62%  
to € 245 million;  
diluted earnings per share decline 60% to € 1.22

→ adidas AG share price increases 39%;  
dividend of € 0.35 per share (subject to  
Annual General Meeting approval)

## OUTLOOK 2010

→ Low- to mid-single-digit currency-neutral sales increase

→ Bring major new concepts, technology evolutions and revolutions to market, such as:

adidas:

- F50 football boot
- miCoach training system

Reebok:

- ZigTech™ training shoe

TaylorMade-adidas Golf:

- R9™ SuperTri Driver

Rockport:

- TruWALK footwear collection

Reebok-CCM Hockey:

- 11K skates

→ On a currency-neutral basis, sales to increase:

- at a low- to mid-single-digit rate for Wholesale segment
- at a high-single-digit rate for Retail segment
- at a low-single-digit rate for Other Businesses

→ Increase gross margin to a level between 46% and 47%

→ Increase operating margin to a level around 6.5%

→ Further reduction of operating working capital as a percentage of sales

→ Capital expenditure range € 300 million – € 400 million

→ Further reduction of net borrowings;  
net borrowings/EBITDA ratio to be maintained below 2

→ Diluted earnings per share to increase to a level  
between € 1.90 and € 2.15

→ Further increase shareholder value

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## EVERY PRODUCT TELLS A STORY

We know the passion and heart that goes into sport. The effort and skill that goes into being the best. We are privileged to be part of so much. 2009 was adidas' 60th birthday, 20 years since the birth of Reebok's legendary "The Pump™" and the 30th anniversary since TaylorMade's metalwoods revolutionised the world of golf. All reminding us of the heritage and inspirational events we have experienced. Of stories about the greatest talents performing in our products. Moments that our brands have shaped and our products have helped achieve. These stories fuel our passion, our spirit for innovation, our ambition to be better, in our products, in our business, in everything we do. Ensuring our products continue making sporting history. Every product tells a story.



### F50i TUNi™

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Lionel Messi is the best-known F50 player in the world. He knows he can rely fully on this boot. It is the first football boot with a single-layer upper, the SprintSkin. The incorporated lace cover provides a perfect contact surface; the synthetic material is supple and water-repellent. The TUNi™ technology enables players to combine single components individually to adapt to their specific needs, the weather and the ground.



LIONEL MESSI  
ARGENTINA





➔ **ROME, ITALY – MAY 27, 2009**

It's the 70th minute of the UEFA Champions League Final. Xavi centres the ball. Messi jumps up to score a phenomenal header, the second goal for Barcelona and also the decisive goal of the match: 2-0 for FC Barcelona against titleholders Manchester United. Overjoyed, he kisses his new F50i. The picture goes around the world. Messi is later in the year awarded European Player of the Year and FIFA World Player of the Year.



## NFL Pro Lite Fade Gloves

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This full compression glove with a one-piece back for uncompromised fit incorporates the Griptonite™ MAX all-weather palm treatment, providing a secure grip in all conditions. Santonio Holmes' touchdown proved the effectiveness of the Griptonite™ MAX treatment. In addition, a single-layer mesh with Ultra-lite technology has been incorporated to increase air flow and moisture wicking, while the Keystone thumb with independent construction adds support and durability.

**Reebok**



SANTONIO  
HOLMES  
USA







➔ TAMPA BAY/FLORIDA, USA – FEBRUARY 1, 2009

35 seconds remaining. 23-20 against the Pittsburgh Steelers at the Super Bowl XLIII. Roethlisberger passes the ball to Santonio Holmes who is surrounded by Arizona Cardinals defenders. Holmes manages to pull down the pass just inside the corner of the end zone. Touchdown. Holmes is the man of the match, the MVP. Afterwards, he autographs his winning gloves which are then auctioned, benefiting the Sickle Cell Disease Association of America, Inc.

## r7<sup>®</sup> TP Iron

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Excellent iron play was critical to Yong-Eun Yang's victory at the 2009 PGA Championship, where he played the TaylorMade r7<sup>®</sup> TP, the first iron to incorporate TaylorMade's Inverted Cone Technology (ICT). Originally developed for TaylorMade drivers, ICT increases the area of the clubface that delivers high ball speed, promoting greater forgiveness and distance on off-center hits. ICT has proved so valuable that it has been incorporated into every TaylorMade iron since the r7<sup>®</sup> TP, including the current Burner<sup>®</sup>, R9<sup>™</sup> and R9<sup>™</sup> TP models.

 TaylorMade

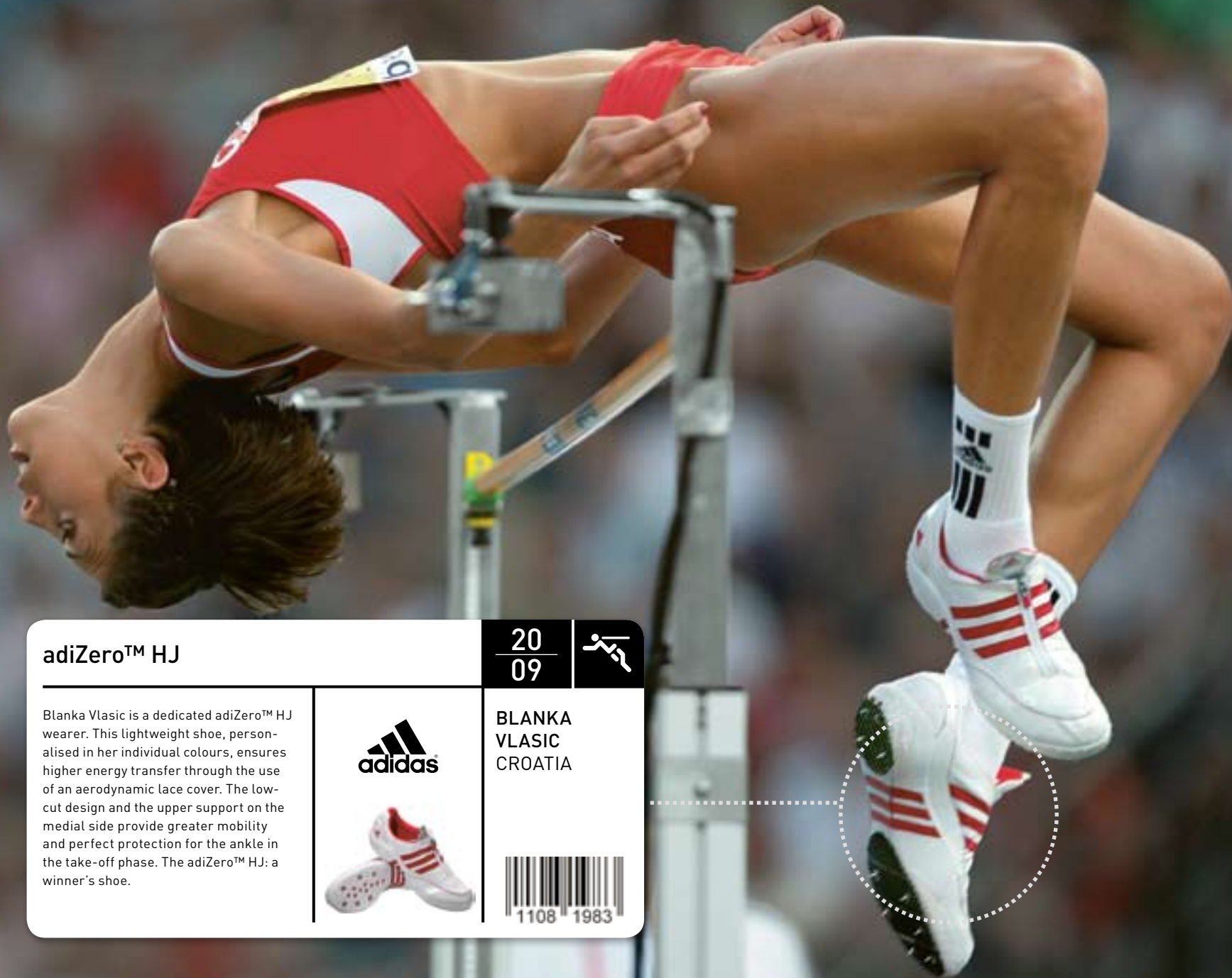


YONG-EUN  
YANG  
SOUTH KOREA





➔ HAZELTINE/MINNESOTA, USA – AUGUST 16, 2009  
Yong-Eun Yang hits a towering shot. 197 yards. A burst of emotion. Yang acts out his feelings. He now knows he can win. Indeed, it's this drive which clinches victory for Yang at the PGA Championship, making him the first golfer to overtake Tiger Woods in a major championship, in which Woods led until the final round.



## adiZero™ HJ

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Blanka Vlasic is a dedicated adiZero™ HJ wearer. This lightweight shoe, personalised in her individual colours, ensures higher energy transfer through the use of an aerodynamic lace cover. The low-cut design and the upper support on the medial side provide greater mobility and perfect protection for the ankle in the take-off phase. The adiZero™ HJ: a winner's shoe.



BLANKA  
VLASIC  
CROATIA





➔ **BERLIN, GERMANY – AUGUST 20, 2009**

The gripping duel between high jump world champion titleholder Blanka Vlasic and her German rival Ariane Friedrich captivates the stadium. Both are inspired to win. The tension is palpable. Friedrich gambles. But Vlasic takes gold – the only high jumper to clear 2.04m at the IAAF World Championships. An emotional moment for Blanka Vlasic and the huge crowd in the stadium.

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## Bislett Pole Vault Spikes

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The Reebok Bislett Pole Vault spikes with incorporated midfoot strap provide the ultimate support – and this came at just the right time for injured Steven Hooker at the IAAF World Championships in 2009. Additional features include a sharkskin outsole, which ensures lightweight traction, and the Pebax seven-spike plate, which improves power generation and energy efficiency. Personalised and optimised, Steven Hooker was able to clear 5.90m with this competition shoe.

**Reebok**



STEVEN  
HOOKER  
AUSTRALIA



0716 1982





## 01

## TO OUR SHAREHOLDERS

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➔ **BERLIN, GERMANY – AUGUST 22, 2009**

A groin injury makes every movement a pain for Steven Hooker at the IAAF World Championships. But giving up is not an option. He fails with his first attempt. The bar is at 5.90m. Hooker prepares for his second and last run-up. The pressure is on – a physical and mental fight. He clears the height and scales the next level after his Olympic triumph in 2008: He becomes World Champion in the men's pole vault for the first time.

## Operational and Sporting Highlights 2009



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### JANUARY

**12.01.** TaylorMade-adidas Golf signs 17 new players to use TaylorMade equipment on the PGA Tour for the 2009 season.

**19.01.** TaylorMade introduces the R9™ and R9™ TP drivers, which combine the well-proven Movable Weight Technology™ with Flight Control Technology. **26.01.** adidas unveils the new NBA All-Star Game uniforms, featuring a number of technological enhancements. **30.01.** Reebok unveils SmoothFit™ SelectRide™, an innovative two-in-one shoe that can be changed from a running shoe into a training shoe at the push of a button.

### FEBRUARY

**01.02.** In an all-adidas final, the French national handball team wins the Handball World Championship title, beating host nation Croatia Picture 01. **01.02.** adidas Originals and MTV Europe start a collaboration, including a Facebook contest and a TV and online campaign. **01.02.** Reebok sponsored football player Santonio Holmes is named Most Valuable Player after catching the decisive touchdown pass for the Pittsburgh Steelers in the Super Bowl XLIII Picture 02. **14.02.** adidas Basketball sponsors the NBA All-Star weekend watched by millions of viewers all over the world Picture 03. **15.02.** On the occasion of the New York Fashion Week, adidas opens its first adidas SLVR store Picture 04. **25.02.** Reebok and Cirque du Soleil launch JUKARI Fit to Fly™, a new workout for women Picture 05.

### MARCH

**01.03.** Reebok launches EasyTone™, an innovative technology that helps tone key leg and butt muscles Picture 06. **10.03.** adidas Golf introduces FitRX and FitRX SPORT, two new shoes featuring custom footbed technology to enhance support and provide personalised comfort Picture 07. **16.03.** Numerous celebrities such as Mischa Barton and Jenny Garth experience Reebok's newly launched JUKARI Fit to Fly™ in Los Angeles. **18.03.** Reebok-CCM Hockey presents its 2009 product line at the "Let's Play Hockey" Expo in St. Paul, Minnesota, with more than 30,000 visitors. **19.03.** adidas Outdoor launches the "Outdoor is everything" campaign featuring extreme climbers Alexander and Thomas Huber, also known as the "Huber Brothers". **25.03.** adidas and the Russian Football Union unveil the new jersey of the Russian National Football Team in Moscow.



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## APRIL

**07.04.** adidas opens its first South East Asian adidas SLVR store in Bangkok, Thailand Picture 01. **16.04.** adidas and the Boston Athletic Association (B.A.A.) extend their contract which keeps adidas as the Official Supplier and Outfitter of the Boston Marathon. **20.04.** The new 10K Sickick II, Reebok's lightest hockey stick ever, hits retailers' shelves Picture 02.

## MAY

**06.05.** adidas and the DFL (German Football League) announce that adidas will provide the official match ball as of the 2010/2011 season. **12.05.** TaylorMade-adidas Golf opens the TaylorMade Center of Excellence™ in Herzogenaurach in the presence of Sergio Garcia and Franz Beckenbauer Picture 03. **13.05.** Reebok launches the "Your Reebok" iPhone applet which enables users to customise and buy their self-designed shoes through their mobile phone. **13.05.** TaylorMade introduces the R9™ 460 driver, which combines TaylorMade's renowned Flight Control Technology with a 460cc titanium clubhead and an extremely lightweight graphite shaft Picture 04. **22.05.** Reebok unveils its new workout concept JUKARI Fit to Fly™ at the Russian Fitness Festival in Moscow. **25.05.** adidas launches the new global football campaign "Every team needs the spark" with Zinedine Zidane and Lionel Messi Picture 05.

## JUNE

**23.06.** Last year's BMW International Open winner Martin Kaymer is to join TaylorMade-adidas Golf's Tour Staff. **23.06.** Numerous female celebrities such as Karina Smirnoff, the Kardashians and DJ Samantha Ronson gather in Los Angeles to celebrate Reebok's EasyTone™. **25.06.** Reebok-CCM Hockey enters into multi-year partnership agreements with the top three 2009 NHL Draft picks John Tavares, Victor Hedman and Matt Duchene. **27.06.** adidas sponsored swimmer Britta Steffen sets a new world record in the 100m freestyle finals of the German Championships. **29.06.** Vogue.com names JUKARI Fit to Fly™ the "Best New Indoor Workout". **30.06.** adidas and Reebok participate in the Bread & Butter fashion and lifestyle trade show in Berlin Picture 06.



## JULY

**01.07.** adidas introduces the new adilibria collection, incorporating the new Skintex® technology which contains vitalising essential oils and vitamin E extracts to reawaken the senses. **15.07.** Reebok and supermodel Bar Rafaeli launch Reebok's highlight shoe EasyTone™ throughout Europe 📺 Picture 01. **24.07.** adidas and UEFA announce the extension of their long-term partnership for the UEFA Champions League and also an agreement for the newly created UEFA Europa League as well as for the UEFA Super Cup.

## AUGUST

**15.08.** The IAAF World Championships in Berlin begin. adidas and Reebok are highly visible throughout the whole event. **16.08.** TaylorMade-adidas Golf Tour Staff professional Yong-Eun Yang wins the US PGA Championship 📺 Picture 02. **16.08.** R&B superstar MC Fabolous and Reebok team up to debut the Reebok Classic Remix footwear collection, sold exclusively at select Foot Locker locations throughout the USA. **18.08.** adidas celebrates its greatest moments to mark its 60th anniversary. Adi Dassler registered his company "Adolf Dassler adidas Sportschuhfabrik" in August 1949 📺 Picture 03. **21.08.** Reebok Russia celebrates the launch of Alexander Ovechkin's Reebok apparel line called the Ovechkin Signature Collection.

## SEPTEMBER

**02.09.** TaylorMade introduces Penta TP, a new tour ball designed to deliver a superior balance of performance in five key shot categories 📺 Picture 04. **02.09.** adidas Group is awarded No. 2 in the DAX-30 category and No. 3 overall in the German Manager Magazin "Best Annual Reports 2009" ranking. **04.09.** For the tenth consecutive time, adidas AG is selected to join the Dow Jones Sustainability Group Indexes. **10.09.** The adidas sponsored German women's football team celebrates its victory at the UEFA WOMEN'S EURO 2009™ in Helsinki 📺 Picture 05. **21.09.** adidas and UEFA announce the extension of their long-term partnership for UEFA EURO 2012™ and UEFA EURO 2016™. **21.09.** In support of the peace initiative PEACE ONE DAY, employees of adidas and PUMA as well as the CEOs of both companies, Herbert Hainer and Jochen Zeitz, play football together. **28.09.** adidas announces its partnership with the European Rugby Cup.



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## OCTOBER

**06.10.** TaylorMade becomes the No. 1 selling iron brand in golf in the USA. **12.10.** adidas Golf debuts the Tour360 4.0, incorporating THiNTech™ low-profile technology and a new ultra-thin cleat attachment mechanism for more stability and more consistency Picture 01. **15.10.** adidas presents the Basketball campaign for the 2009/2010 NBA season: "It's on me for my brotherhood" Picture 02. **24.10.** Reebok launches its first major TV campaign in the USA since 2007, highlighting the benefits of EasyTone™ Picture 03. **26.10.** adidas releases the PREDATOR®\_X, marked by its incorporated OptiFit and the new PowerSpine technology to provide better fit and greater control in movement and ball handling Picture 04.

## NOVEMBER

**03.11.** Top Five ranked tennis star Andy Murray, the winner of 13 ATP titles to date, signs a long-term contract with adidas. **05.11.** Reebok athlete and New York Yankees starting pitcher Andy Pettitte leads his team to a record 27th World Series title. **07.11.** adidas Group signs a memorandum with Nobel Peace Prize Laureate Professor Muhammad Yunus, committing to a social business model. **10.11.** adidas launches the new German football jersey Picture 05. **13.11.** adidas and Justine Henin announce the renewal of their partnership. After an 18-month break from competitive tennis, Henin is striving for further big wins. **19.11.** The adidas golf adventure "Wear in the World" tests adidas Golf apparel at the world's most extreme golf courses.

## DECEMBER

**03.12.** Fernando Verdasco wears personalised mi adidas Barricade V shoes at the Davis Cup Final and wins with the Spanish national tennis team 5-0 against the Czech Republic. **04.12.** adidas launches JABULANI, the official match ball of the 2010 FIFA World Cup™. With eight thermally bonded 3-D panels and a Grip'n'Groove Profile, JABULANI is perfectly round, more accurate and more stable than any ball ever before Picture 06. **04.12.** The adidas Group presents its redesigned website www.adidas-Group.com. The centrepiece of the new website is the section "Spirit of Sport" which contains stories about the brands, products and athletes of the adidas Group. **10.12.** adidas and Disney announce a new product line for infants and children, combining adidas Kids top performance products with classic Disney characters Picture 07.

## Interview with the CEO

In 2009, the sporting goods industry faced unprecedented challenges. However, the adidas Group rose to the occasion. Despite a decline in sales and profitability, the Group generated record levels of cash from operations and significantly improved its financial position. During the year, the Group also completed a major reorganisation, setting a strong foundation for sustainable long-term growth. In the following interview, Herbert Hainer, adidas Group CEO, reflects on 2009 and discusses the strategic and financial outlook as the Group shapes up to return to growth in 2010.

### QUESTION



Herbert, against a difficult economic backdrop – what do you think was the Group's biggest achievement in 2009?

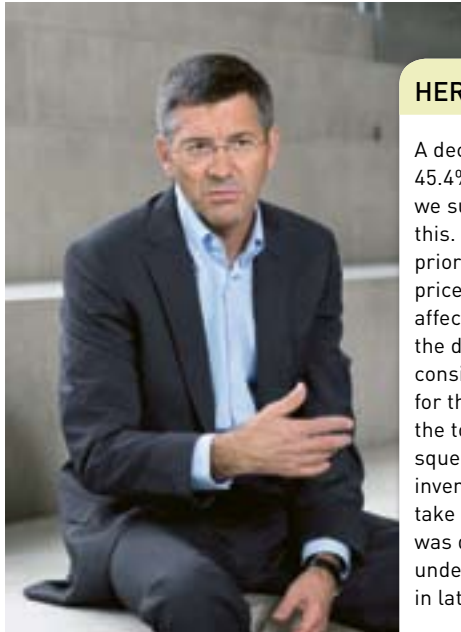
### HERBERT HAINER



Without question, 2009 was the most difficult year since I became CEO of the Group. We got off to a weak start as profitability declined substantially and inventories and net borrowings were simply too high. However, we rose to the challenge and moved swiftly to tackle these issues, driven in particular by a high focus on cash generation. The results speak for themselves. Despite a 53% decline in operating profit, we generated a 141% increase in net cash from operations for a record € 1.2 billion. This is definitely the outstanding achievement of the year and a credit to all the hard work and dedication of our employees.

Balance sheet improvements were key to this success. Inventories were reduced by an industry-leading 27% currency-neutral and are now at their lowest levels since 2005. And our net debt level has fallen to € 917 million, representing a financial leverage of 24.3%. This means we have already more than achieved our medium-term goal of financial leverage below 50%. As a result, we go into 2010 in a much improved position and can fully focus our energy on returning our business to growth.





## HERBERT HAINER



A decline in gross margin of over three percentage points to 45.4% was the primary reason for the bottom-line decrease we suffered in 2009. There were three main reasons for this. Firstly, input costs increased sharply versus the prior year as a consequence of record-high raw material prices and significant wage cost pressures in 2008 which affected our product costs for 2009. Equally important was the devaluation of the Russian rouble, which depreciated considerably versus the US dollar, our functional currency for the Russian market. As we were not able to compensate the top-line effect with price increases, this development squeezed gross profit by over € 200 million. Thirdly, excess inventories at the beginning of the year meant we had to take extra measures to clear stock at lower margins. This was due to our commitment to product orders prior to a full understanding of the magnitude of the economic downturn in late 2008.

The decisive steps we started to take in late 2008 and during 2009 to increase operational efficiency have certainly helped us mitigate some of these effects. But at the same time, we had to get the balance right between cutting costs and maintaining investments in areas such as controlled space, promotion partnerships and product innovation to support future growth. I believe we definitely found the right balance in 2009, and we will see material benefits from our actions in 2010 and beyond.

## QUESTION



Profitability declined significantly in 2009. Can you outline the main reasons for this?

## QUESTION



What were the key highlights at your major brands in 2009?

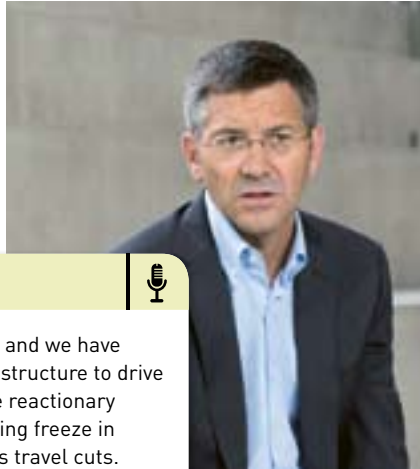
## HERBERT HAINER



Although our Group revenues declined 6% currency-neutral in 2009, I believe all of our brands have made the most out of the difficult environment, with each in some way enhancing its market position. For adidas, in the year we celebrated the 60th anniversary of the brand, the key highlight was achieving 9% currency-neutral revenue growth in our adidas Sport Style division to a new record sales level of € 1.65 billion. In addition, we again showed our prowess in football as we successfully launched many of our FIFA World Cup™ initiatives in the fourth quarter, which had an immediate impact driving football sales up 27% currency-neutral for the quarter. At Reebok, after four years of hard work, we are finally seeing the first real commercial successes from our product and creative efforts to reposition the brand. We are leading the industry in the emerging toning category which experts are tipping as the next billion dollar category. Reebok has made a big statement here with the introduction of the EasyTone™. In 2009 we over-achieved our sales target three-fold, and we expect to sell several million pairs of toning footwear in 2010. At TaylorMade, our unrivalled innovation pipeline has again paid off to tremendous success. We have extended our market share lead in metalwoods and taken significant market share from our major competitors in a host of categories, most notably in irons where we are now the market leader in the United States.

## QUESTION

How have you used the crisis to make the Group stronger for the future?



## HERBERT HAINER



Crisis always expedites the need for change and we have done a lot this year to build a more efficient structure to drive our business forward. Some measures were reactionary to the crisis, to rein in costs, such as our hiring freeze in all non-retail-related functions and business travel cuts. Others, however, were more fundamental and already in motion prior to the crisis. Since mid-2008, we have been re-evaluating our Group structure to find new opportunities to make our Group leaner, more efficient and stronger. The result has been a move from a vertically integrated brand structure into a function-related structure for the adidas and Reebok brands, creating a Global Sales function responsible for the commercial activities and a Global Brands function responsible for the marketing activities of both brands. In addition, the Global Sales organisation was split into Wholesale and Retail, to cater more appropriately to the different needs of these two distinctive business models. This new structure follows two important principles: to foster further alignment and strengthen brand management, while at the same time ensuring coordinated and best practice execution in the marketplace. These changes will start to positively influence our brands and enhance our flexibility and speed-to-market already from 2010.

## HERBERT HAINER



Our strategic vision for Retail is to become one of the most proficient retailers in the world by delivering healthy, sustainable growth with outstanding return on investment. Prior to 2002, our retail operations were mainly limited to factory outlets. Since then, the portion of own retail has grown substantially and today we operate over 2,200 stores for the adidas and Reebok brands worldwide. We have learnt a considerable amount from our experience in retail which has benefited our entire business and been a meaningful profit contributor along the way. However, we are by no means a leading retailer and, as a natural consequence of its size and relevance to our future financial performance, we must put an even greater focus on becoming a better and, to a certain extent, a more commercially driven retailer.

That is why in 2009 we established a new leadership team for retail led by a seasoned industry professional. This team is mandated to create global retail guidelines that enable higher efficiency and a common framework to drive long-term profitability for the adidas and Reebok retail operations around the globe. In the short term this will require additional investment in people and IT infrastructure as we strive to create greater retail competency in areas such as product merchandising, real estate management and store processes. At the same time we will also continue to selectively open and remodel retail stores to continue growing our retail footprint, with about 150 planned new store openings and around 200 store remodellings in 2010. With a more consolidated business model, driving retail decision-making centrally rather than locally as in the past, we will be in a stronger position to make the right investments and achieve operational excellence for our retail activities around the world.

## QUESTION

You mentioned you have set up a dedicated Retail unit. What is your strategic vision and what are your short-term priorities for this business?





## QUESTION

Can you talk about the most recent developments in your key markets during the last quarter and are any trends emerging?



## HERBERT HAINER

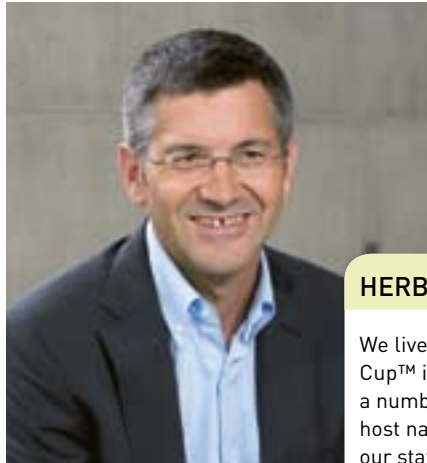
In the fourth quarter, we definitely saw a stabilisation in most of our key markets around the world. In Western Europe and European Emerging Markets, which grew 3% and 8% currency-neutral, respectively, we saw the first benefits of the FIFA World Cup™. This will be a supporting factor in both regions throughout 2010. In Greater China, we continued to work hard in the fourth quarter to ensure our distribution channels are clean, resulting in sales being down 22% currency-neutral. While we will be exerting a similar discipline in the first half of 2010, we are definitely seeing trends improving and I fully expect a resumption of growth in the second half. In Other Asian Markets, which grew 2%, strong growth in emerging markets such as India continued. However, the Japanese consumer environment is still weak, a trend we expect to impact our business in 2010. In Latin America, trading remains robust, with growth of 20% as our market share continues to advance. Finally, in North America, sales declined 7% in the fourth quarter. However, here I am seeing an emerging trend. And that's Reebok. For the first time since the acquisition, Reebok grew in the quarter, up 4% on the back of outstanding sell-throughs in the toning category. While North America will still be one of our most challenging markets in 2010, I believe Reebok is poised to switch gear with further new initiatives built on the great platform we have started in 2009.

## QUESTION

Capital management is still a big topic in the financial community. What are your policies in this regard?

## HERBERT HAINER

First and foremost, the best form of capital management is to deliver continuous strong cash flows from operations. That being said, we believe in managing our balance sheet actively and continue to look for ways to improve our capital structure while at the same time remaining flexible. For example, during the year, we took the opportunity of healthy demand for corporate issuances and good financing conditions to further improve our term structure in favour of longer maturities. In June, we completed a € 200 million German Schuldscheindarlehen. And in July, we launched our first ever Eurobond in an amount of € 500 million. Finally in October, we announced the early redemption of our € 400 million convertible bond, which was subsequently converted in full by bondholders into adidas AG shares. With unutilised credit lines amounting to € 4.1 billion, there is little question about the resources we have at our disposal to take our business forward. Given that our net borrowings are now below € 1 billion, we have decided to update our policies for debt and dividends. For the short term, we are still very much focused on conserving cash as the economic environment remains quite fragile. In general, it is our aim to keep the ratio of net borrowings over EBITDA below 2 times. In addition, we have decided to increase our dividend payout ratio corridor from 15% to 25% to a new target range of 20% to 40% of consolidated net income. As a result, for 2009, we will propose a dividend payout of 30% of net income attributable to shareholders, doubling the payout ratio from the prior year.



### HERBERT HAINER

We live for big events, and this summer's FIFA World Cup™ in South Africa will be something very special for a number of reasons. Twelve of our teams including the host nation will compete in the finals, which combined with our status as official sponsor, supplier and licensee gives us an unparalleled presence at the event. It will also have an unprecedented scale of media coverage as the world's largest television event, broadcast to over 190 countries and an estimated cumulative audience of 26.3 billion. It's also the first time the competition will be hosted on the African continent, where football is always a celebration – vibrant, colourful and passionate. And we will take this flair global in 2010. A great example is the adidas JABULANI match ball, the eleventh adidas World Cup ball. Eleven different colours are used, representing the 11 players in every team, the 11 official languages of South Africa and the 11 South African tribes. With our experience in leveraging such events, and having the most comprehensive representation in South Africa, I am convinced this FIFA World Cup™ will be even more exceptional for us than the last. Taking this and all our other football initiatives together, I am confident that we will generate over €1.3 billion in sales in the football category in 2010.

### QUESTION

The FIFA World Cup™ is just around the corner. Do you think it will be as successful for you as in 2006 and are you still confident you will reach your goals?

### QUESTION

What are your financial expectations for 2010?

### HERBERT HAINER

We emerge from the challenges of 2009 with renewed optimism. Our financial position is healthy; our brand concepts and campaigns are strong; and the retail industry is finally beginning to show early signs of life again, as global trade strengthens and consumer confidence slowly begins to recover. There will undoubtedly be some more tough months ahead but, in general, I feel confident enough to say that 2010 will be a much better year. We forecast full year sales to increase at a low- to mid-single-digit rate on a currency-neutral basis, driven by growth in both Wholesale and Retail. Sales will also increase at both the adidas and Reebok brands. We expect gross margin to improve to between 46% and 47% with lower sourcing costs and less margin pressure from clearance of excess inventories. To capitalise on major sports events as well as new product and campaign launches, we will invest in marketing and controlled space, securing share of voice and premium distribution. At the same time, we will remain disciplined in managing our operating cost base, and we expect operating margin to increase to around 6.5% from 4.9% in 2009. Summing up, I expect an improvement in diluted earnings per share to a level between € 1.90 and € 2.15 from € 1.22 in 2009.

## QUESTION



Marketing expenses are one of your major costs. Why is marketing so important to you and how will you approach marketing spend in 2010?

## QUESTION



As you look out to this year and beyond, what do you believe is your biggest competitive advantage?

## HERBERT HAINER



Innovation is our most discerning competitive advantage. In everything we do, we perpetuate our founder's commitment to the athlete, pride in what we do, quality and love of sport and a sporting lifestyle. As you go through this year's annual report aptly titled "Every product tells a story", you will see how our innovative products have taken us to the pinnacle of world sport. Whether it's Lionel Messi scoring the winning goal in the Champions League final, Santonio Holmes' MVP performance at Super Bowl XLIII, Yong-Eun Yang's incredible 2009 PGA Championship victory, or Blanka Vlasic's gold medal high jump at the IAAF World Championships in Berlin, they all performed at the top of their game with products from the adidas Group. And this is what also makes me most excited for the future. When I look around the marketplace today, I do not see any other company with a product pipeline as compelling, original or technologically advanced. Whether it's adidas' miCoach training system, Supernova™ Glide, TECHFIT™ PowerWEB™, or Reebok's EasyTone™, RunTone™ and ZigTech™, or TaylorMade's r9™ SuperTri and Burner® SuperFast drivers or Rockport's DresSport® – we are the most comprehensive sporting goods company in the world. There is a product energy at all of our brands which I am convinced will support our Group's development well into the future. You know it from adidas and TaylorMade. And now you will see it from Reebok as well.

## HERBERT HAINER



The sporting goods industry is one of the most competitive consumer spaces in the world. And to be successful, we must have a clear profile towards our target consumers. Therefore, I do not consider marketing a cost – but rather an investment. Each year we make this investment to secure the highest possible return on our key assets – our brands and our products. As such, all of our brands have an extensive partnership portfolio of high-profile endorsees and 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. In addition, we also endeavour to be at the forefront of new communication techniques such as digital social networks or digital broadcast mediums, particularly as information flow becomes faster and faster. These methods are providing a new scope of consumer experiences in a real-time and cost-effective way.

In 2009, we limited marketing to 12.2% of sales, which equates to an absolute decline of € 160 million. From today's perspective, I do not believe this level is appropriate as I am convinced there is a major opportunity for all of our brands to capitalise on a rebounding consumer environment and the opportunities we have in the current year. Therefore, in 2010, we will go on a marketing offensive. For example at adidas, we will use the "EVERY TEAM NEEDS..." platform to transcend our entire football offering ahead of the 2010 FIFA World Cup™. To keep momentum going in the adidas Sport Style division, we will launch a new campaign which takes a close look at the "Street Where Originality Lives". This highly visible campaign will once again include musicians, skaters, athletes and even STAR WARSTM characters. At Reebok, we will increase marketing efforts to support the turnaround of the brand with our new global campaign which uses the motto "Ree", as Reebok strives to "ReeDefine" sport and style. And TaylorMade-adidas Golf will secure and drive market shares with campaigns like "TaylorMade versus TaylorMade" in metalwoods and "Project Burner" in irons to keep momentum going. With this kind of support against a backdrop of major sporting events and powerful product concepts, I believe we can use our marketing to great effect this year to outgrow our major competitors.



Herbert, thank you for this interview.

## Executive Board

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



### 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<sup>1)</sup> 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, Engelhorn KGaA, Mannheim, Germany
- Member of the Supervisory Board, Allianz Deutschland AG, Munich, Germany



### 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.

<sup>1)</sup> adidas-Salomon AG from December 19, 1997 to May 29, 2006.



### **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<sup>1)</sup> 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.



### **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 2009 he assumed responsibility for Global Brands. Erich Stamminger is married and lives in Nuremberg.

1) adidas-Salomon AG from December 19, 1997 to May 29, 2006.

## Supervisory Board

### SUPERVISORY BOARD MEMBERS



**IGOR LANDAU**

**Chairman<sup>1)</sup>**

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



**SABINE BAUER<sup>2)</sup>**

**Deputy Chairwoman<sup>1)</sup>**

Senior Manager Quality Analysis & Reporting, Global Operations, adidas AG<sup>4)</sup>



**WILLI SCHWERDTLE**

**Deputy Chairman<sup>1)</sup>**

General Manager, Procter & Gamble GmbH, Schwalbach am Taunus, Germany



**DIETER HAUENSTEIN<sup>2)</sup><sup>3)</sup>**

Chairman of the Works Council Herzogenaurach, adidas AG



**DR. WOLFGANG JÄGER<sup>2)</sup><sup>3)</sup>**

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



**DR. STEFAN JENTZSCH**

Partner, Perella Weinberg Partners UK LLP, London, Great Britain<sup>5)</sup>

- Member of the Supervisory Board, Sky Deutschland AG (formerly Premiere AG), Unterföhring, Germany



**HERBERT KAUFFMANN<sup>3)</sup>**

Management Consultant, Stuttgart, Germany<sup>6)</sup>



**ROLAND NOSKO<sup>2)</sup>**

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

- Member of the Supervisory Board, CeramTec AG, Plochingen, Germany



**ALEXANDER POPOV<sup>3)</sup>**

Chairman, RFSO "Lokomotiv", Moscow, Russia



**HANS RUPRECHT<sup>2)</sup>**

Sales Director Customer Service, Area Central, adidas AG



**HEIDI THALER-VEH<sup>2)</sup>**

Member of the Central Works Council, adidas AG



**CHRISTIAN TOURRES**

Former Member of the Executive Board of adidas AG

- Member of the Board of Directors, Beleta Worldwide Ltd., Guernsey, Channel Islands

## SUPERVISORY BOARD MEMBERS INCUMBENT UNTIL THE END OF THE ANNUAL GENERAL MEETING HELD ON MAY 7, 2009

### DR. HANS FRIDERICHS

#### Chairman

Former Federal Minister,  
Mainz, Germany

- Chairman of the Supervisory Board, allit AG Kunststofftechnik, Bad Kreuznach, Germany

### FRITZ KAMMERER<sup>2)</sup>

#### Deputy Chairman

Chairman of the Central  
Works Council, adidas AG

### DR. IUR. MANFRED GENTZ

Chairman of the Administrative Board, Zurich Financial Services S.A., Zurich, Switzerland

- Chairman of the Supervisory Board, Deutsche Börse AG, Frankfurt am Main, Germany
- Member of the Supervisory Board, DWS Investment GmbH, Frankfurt am Main, Germany
- Chairman of the Administrative Board, Zurich Financial Services S.A., Zurich, Switzerland

### KLAUS WEIß<sup>2)</sup>

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

- Member of the Supervisory Board, Wohnungsbau-gesellschaft mbH Glückauf, Lünen, Germany

## STANDING COMMITTEES UNTIL MAY 7, 2009

**Steering Committee:** Dr. Hans Friderichs (Chairman), Fritz Kammerer, Igor Landau

**General Committee:** Dr. Hans Friderichs (Chairman), Fritz Kammerer, Igor Landau, Klaus Weiß

**Audit Committee:** Dr. iur. Manfred Gentz (Chairman), Dr. Hans Friderichs, Hans Ruprecht, Klaus Weiß

**Mediation Committee:** Dr. Hans Friderichs, Fritz Kammerer, Igor Landau, Roland Nosko

**Nomination Committee:** Dr. Hans Friderichs (Chairman), Igor Landau, Christian Tourres

## STANDING COMMITTEES AS OF MAY 7, 2009

**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

### Other Committees

#### Committee for Real Estate Projects (as of August 3, 2009):

Herbert Kauffmann (Chairman), Dr. Wolfgang Jäger, Dr. Stefan Jentzsch

1) Since the constituent meeting of the Supervisory Board on May 7, 2009.

2) Employee representative.

3) Since the end of the Annual General Meeting held on May 7, 2009.

4) Until December 31, 2009; thereafter as of January 1, 2010, Chairwoman of the Central Works Council, adidas AG.

5) Since July 1, 2009; formerly from January 12, 2009, General Manager, SB Asset Management GmbH, Kronberg, Germany and until January 12, 2009, Member of the Executive Board, Dresdner Bank AG, Frankfurt am Main, Germany.

6) Since July 1, 2009; formerly Senior Vice President, Daimler AG, Stuttgart, Germany.

## Supervisory Board Report

Dear Shareholders,

2009 was a year of major challenges, particularly in light of the ongoing global economic and financial crisis. But despite this difficult environment, the adidas Group was able to maintain its strong competitive position globally. Changed conditions were catered to with a leaner management structure and corresponding cost-saving opportunities. In addition, considerable progress was made in the improvement of the Group's financing, including a significant reduction of financial leverage. The adidas Group is looking forward with cautious optimism to 2010, a year with major sports events and many promising new product initiatives.



**Igor Landau**  
Chairman of the Supervisory Board

### Supervision and advice in dialogue with the Executive Board

In 2009, we, as the Supervisory Board, carefully and regularly monitored the Group's management, in particular the legality, expediency and regularity of the Executive Board's management and supported the strategic development of the Group as well as major individual measures.

In this respect, 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 involved in all of the Group's fundamental decisions in a timely manner. After in-depth consultation and examination of the detailed documents submitted to us by the Executive Board, we approved transactions requiring Supervisory Board approval and in cases where, in our opinion, review by the Supervisory Board was necessary in the best interest of the Group. In 2009, the Supervisory Board did not define any new business matters as being subject to approval.

We held five Supervisory Board meetings in 2009. In addition, as the mandates of the newly elected Supervisory Board members commenced at the end of the Annual General Meeting on May 7, 2009, a constituent meeting of the newly elected Supervisory Board took place immediately following the Annual General Meeting. We also held a meeting in February 2010, at which we discussed matters relating to the 2009 financial year.

In individual cases, we passed additional resolutions between our meetings. More than half of the Supervisory Board meetings were attended by all Supervisory Board members. All committee members were present at all the respective committee meetings. The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (KPMG), attended four of our meetings. In addition, the Supervisory Board Chairman and the Audit Committee Chairman also maintained contact with the Executive Board, in particular with the CEO and the CFO, between the Supervisory Board meetings, discussing the new organisational structure, brand strategy and the impact of the global economic and financial crisis on the adidas Group, and reporting to the entire Supervisory Board on a regular basis. The employee representatives met separately prior to the Supervisory Board meetings to discuss major agenda topics.



### Main topics covered and examined by the entire Supervisory Board

The development of sales and earnings as well as the financial position of the Group and the development of the individual brand segments were presented to us in detail by the Executive Board and subsequently discussed jointly at each of our meetings following the end of the year and the respective quarter. The effects of the global economic and financial crisis on the development of the Group's sales and earnings and the employment situation were topics dealt with regularly by the Supervisory Board as a whole. Other Supervisory Board agenda items included numerous individual topics, which we discussed in depth with the Executive Board. 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.

Having already reviewed the amendments to the German Corporate Governance Code in detail and discussed the main points to be incorporated in the Declaration of Compliance in November 2008, we approved the updated Declaration of Compliance, issued on February 11, 2009, by way of written circular vote.

The main topic on the agenda of the March 3, 2009 financial statements meeting was the review of the consolidated financial statements and the adidas AG annual financial statements as well as the respective Management Reports for the year ending December 31, 2008, as certified by KPMG. We also reviewed the Executive Board's proposal regarding the appropriation of retained earnings. Following initial Audit Committee examination and consultation, we discussed material aspects of these financial statements with the Executive Board and KPMG. Both the Executive Board and KPMG provided us with detailed responses to all of our questions. After having carefully considered adidas AG's financial position and the expectations of shareholders and the capital market, we approved the proposal submitted by the Executive Board regarding the appropriation of retained earnings. Additionally, we discussed the resolutions that were proposed to the 2009 Annual General Meeting. In this connection, we were also able to assure ourselves of the suitability of the Supervisory Board candidates proposed by the Nomination Committee as shareholder representatives standing for election at the Annual General Meeting for the first time. The candidates were present at our meeting. Following the recommendation of the Audit Committee, we resolved to propose to the Annual General Meeting that KPMG be appointed as auditor of the adidas AG annual statements and the consolidated financial statements for 2009 and, if applicable, to examine the interim financial statements.

Furthermore, after in-depth discussions, we approved all other resolutions to be put to the Annual General Meeting. We also utilised this meeting to discuss and subsequently approve the resolutions prepared by the General Committee with respect to determination of the bonus resulting from the Long-Term Incentive Plan (LTIP) 2006/2008 and the 2008 Performance Bonus. In addition, we set the key targets for payment of the 2009 Performance Bonus and resolved upon a new LTIP for the members of the Executive Board. Lastly, the Executive Board reported to us in detail on business development at the Reebok and Rockport brands.

The main focus of our May 6, 2009 meeting was the Executive Board's report on the cost-saving measures initiated by the Executive Board in the autumn of 2008 in light of the economic and financial crisis, as well as the report on the financial results for the first quarter of 2009. Additionally, we resolved upon the reappointment of Herbert Hainer as a member of the Executive Board and his renewed appointment as CEO. The Executive Board was not present during these discussions.

At the constituent meeting of the Supervisory Board following the Annual General Meeting on May 7, 2009, the composition of the Steering Committee and all other committees was resolved upon.

At our August 3, 2009 Supervisory Board meeting, we discussed the report for the first half year and the anticipated development of business for the remainder of 2009. In addition, the Executive Board presented a detailed report on the development of TaylorMade-adidas Golf and business development at the golf apparel brand Ashworth, which was acquired in the fourth quarter of 2008. We established the Committee for Real Estate Projects ad hoc, which deals with the utilisation of real estate that is not required for the Group's core business.

At our Supervisory Board meeting held on November 3, 2009, discussions centred on the report for the first nine months of the year presented by the Executive Board and the outlook for the remainder of 2009. Following in-depth discussions during which the Executive Board members were not present, we resolved upon the compensation structure for the Executive Board prepared by the General Committee in cooperation with an external compensation expert. The expert, acting independently of the Executive Board and adidas AG, had been commissioned by the Supervisory Board.

The compensation structure takes into account the new requirements resulting from the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). We examined the detailed structure proposed by the General Committee and the individual components of the three-year Long-Term Incentive Plan for the Executive Board, LTIP 2009/2011, which the Supervisory Board had resolved upon in principle at the beginning of the year, and we approved its implementation. In addition, after in-depth discussions with the Executive Board, we approved the new organisational structure for the adidas Group comprising “Wholesale” and “Retail” segments, whereby we examined in particular the resulting effects on the Group’s segmental reporting. Another topic on the agenda of this meeting was the report on the current business development at Reebok and internal corporate restructuring measures in the context of the ongoing Reebok integration.


At the meeting of the Supervisory Board on December 10, 2009, at which the Executive Board was not present, we approved the key individual financial parameters for the LTIP 2009/2011 that had been prepared by the General Committee.

Additionally, we approved the conclusion of the new service contract with the CEO, Herbert Hainer, which had been prepared by the General Committee. Furthermore, we resolved upon several adjustments to the service contracts of the other Executive Board members related to the new VorstAG requirements.

In mid-January 2010, we resolved upon changes to the adidas AG Articles of Association relating to the nominal capital and the Contingent Capital amounts. These amendments were necessary as a result of an increase in the nominal capital in the fourth quarter of 2009 due to the final issuance of shares under the company’s Management Share Option Plan (MSOP) and the issuance of shares in connection with the conversion of all bonds relating to a convertible bond, which had resulted in a corresponding reduction in the related Contingent Capital.

On February 10, 2010, we held our Supervisory Board meeting by way of a conference call. We discussed and approved the resolution proposals prepared by the General Committee with respect to the determination of the Performance Bonus 2009 and the key targets for payment of the Performance Bonus 2010. The Executive Board was not present during these discussions. In addition, we approved the issuance of the Declaration of Compliance and the amendment to the Rules of Procedure of the Executive Board in line with the new statutory regulations and the allocation of duties under the new organisational structure.

### Report from the committees

In order to perform our tasks in an efficient manner, we have five Supervisory Board standing committees. We also established the project-related Committee for Real Estate Projects ad hoc  see Supervisory Board, p. 26. These committees have the task of preparing topics and resolutions of the Supervisory Board. In some cases, the Supervisory Board has also delegated decision-making powers to its committees. At our Supervisory Board meetings, the chairmen of the committees reported to us, in detail and in a timely manner, on the committees’ work and meetings, ensuring complete exchange of information and good cooperation between the committees and the Supervisory Board as a whole.

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** met five times in 2009 and held one meeting in February 2010 by way of a conference call. This committee is responsible for preparing personnel decisions of the Supervisory Board and for submitting proposals with regard to the Executive Board compensation system and also the contents, structure and conclusion of Executive Board members’ service contracts. The committee members dealt with the structure of the compensation system and determination of the respective compensation, as well as with the reappointment of Herbert Hainer as CEO, and prepared corresponding resolution proposals for the Supervisory Board. Since the coming into force of the VorstAG requirements, responsibility for resolutions on Executive Board compensation lies with the Supervisory Board as a whole.

— The **Audit Committee** met five times in 2009. The auditor and the Chief Financial Officer attended all meetings. The committee members focused on the adidas AG annual financial statements and the consolidated financial statements for 2008, the auditor's reports as well as the first half year report and quarterly financial reports for 2009, which they examined in detail prior to publication. The auditor reported to the committee members in detail on his auditing activities and results. Furthermore, the Audit Committee obtained the required auditor's declaration of independence and prepared the Supervisory Board proposal for the Annual General Meeting recommending the appointment of the auditor for 2009. Together with the auditor, the Audit Committee also established the priority topics for the audit of the adidas AG annual financial statements and the consolidated financial statements for 2009 and resolved upon the assignment of the audit to the auditor. In addition, the committee members discussed the impact of the economic and financial crisis on the adidas Group on a regular basis. Furthermore, the Audit Committee, which under the Rules of

Procedure for the Supervisory Board is also responsible for matters relating to corporate governance, dealt intensively with the new provisions of the German Corporate Governance Code as amended on June 18, 2009 and discussed the contents of the Declaration of Compliance to be issued by the Supervisory Board. Additional major topics of discussion at the committee meetings were the further development of risk management and the compliance programme, as well as the report on the internal control system and the Internal Audit report. The committee members were informed in detail on these topics, including the methods and systems used and the efficiency thereof, through written and oral reports. They discussed these matters in depth and thus assured themselves of the effectiveness of the systems. The structure of the adidas Group's new segmental reporting and the effects thereof was also the subject of intensive discussions. At its last meeting in the year under review, the Chief Financial Officer explained to the committee the draft budget and investment plan for 2010. In addition to the oral reports from the Audit Committee Chairman on the results of all meetings, the Supervisory Board members received written information on the contents and results of the Audit Committee's work on a regular basis.

- The **Nomination Committee** held two meetings in 2009, during which the committee members prepared the proposals for the Annual General Meeting concerning the election of the shareholder representatives to the Supervisory Board. A list of candidates was subsequently put forward.
- The **Mediation Committee** again had no reason to meet in 2009.
- In September 2009, the **Committee for Real Estate Projects**, which had been established ad hoc in August 2009, dealt with real estate matters of the adidas Group, in particular relating to the utilisation of real estate that is not required for the Group's core business.

### Corporate Governance and Declaration of Compliance

The subject of corporate governance is very important to the Supervisory Board. The Supervisory Board believes it continues to have an adequate number of independent members after the new election. In the year under review, our Supervisory Board members again had no conflicts of interest as defined by the German Corporate Governance Code. The composition of the Audit Committee also fulfils the requirement of the German Accounting Law Modernisation Act (Gesetz zur Modernisierung des Bilanzrechts – BilMoG) with regard to the inclusion of at least one financial expert. After detailed discussions on corporate governance topics within the Audit Committee, the Executive Board and the Supervisory Board followed the recommendation of the Audit Committee and on February 11, 2010, jointly issued an updated Declaration of Compliance in accordance with § 161 German Stock Corporation Act (Aktengesetz – AktG). This declaration is permanently available to shareholders on the corporate website at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance). All previous declarations are also available here. Further information on corporate governance within the adidas Group, including Executive Board and Supervisory Board compensation, is contained in the [Declaration on Corporate Governance including the Corporate Governance Report](#), p. 33.

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

KPMG audited the consolidated financial statements and the Group Management Report for 2009 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 2009 annual financial statements and the 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 submitted to all Supervisory Board members in a timely manner. They were examined in depth by the Audit Committee at its meeting on February 26, 2010, and at the Supervisory Board meeting on March 2, 2010, and were discussed in detail in the presence of the Executive Board and the auditor. At both meetings, the auditor reported the material results of the financial statements audit with focus on the 2009 priority topics as agreed with the Audit Committee. The

examination of the internal control and risk management system relating to the financial accounting process showed that the system is capable of performing its functions. The auditor was available for questions and the provision of additional information to the Audit Committee and the other Supervisory Board members. Having examined the adidas AG annual financial statements and the consolidated financial statements as well as the Management Reports, we came to the conclusion that there were no objections to be raised. Following the recommendation of the Audit Committee, at our financial statements meeting we therefore approved the audit results and adopted the financial statements prepared by the Executive Board. The annual financial statements of adidas AG were thus adopted. We also discussed with the Executive Board the proposal concerning the appropriation of retained earnings with regard to the dividend policy and, in light of the position of the company and the financial and investment planning, we approved the proposal.

### Changes on the Supervisory Board

At the end of the Annual General Meeting on May 7, 2009, the regular five-year term in office of all Supervisory Board members expired. The Annual General Meeting elected as shareholder representatives, on an individual basis, Dr. Stefan Jentzsch, Herbert Kauffmann, Igor Landau, Alexander Popov, Willi Schwerdtle and Christian Tourres as members of the Supervisory Board. Dr. Hans Friderichs and Dr. iur. Manfred Gentz retired from the Supervisory Board effective May 7, 2009.

In spring 2009, the employees had already elected Sabine Bauer and Heidi Thaler-Veh as well as Dieter Hauenstein, Dr. Wolfgang Jäger, Roland Nosko and Hans Ruprecht as their representatives on the Supervisory Board. Fritz Kammerer and Klaus Weiß retired from the Supervisory Board effective May 7, 2009.

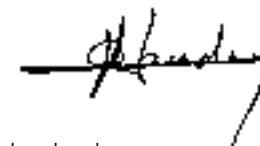
At the constituent meeting of the newly elected Supervisory Board on May 7, 2009, Igor Landau was elected as Chairman of the Supervisory Board and Sabine Bauer and Willi Schwerdtle were elected as Deputy Chairwoman and Deputy Chairman, respectively.

### Expression of thanks

We wish to expressly thank the retired Supervisory Board Chairman, Dr. Hans Friderichs, for his many years of exceptional service to adidas AG. He accompanied the transition of the Group from a family-run company to one of the world's leading, listed sporting goods companies with prudent advice and entrepreneurial vision. We also thank all other Supervisory Board members who left the Supervisory Board at the end of the Annual General Meeting for the contributions they have made to the company.

Additionally, the Supervisory Board would like to express its appreciation of the tremendous personal dedication, the performance and the ongoing commitment of the Executive Board, the managements of Group companies, the Works Council and all adidas Group employees.

For the Supervisory Board



Igor Landau  
Chairman

March 2010

## Declaration on Corporate Governance including the Corporate Governance Report

Our actions are determined by the principles of responsible and transparent management and company control. Good corporate governance supports a sustainable increase in value and enhances the confidence placed in our company by our shareholders, business partners, employees and the financial markets. It is thus essential for the Group's long-term success. We see corporate governance as an ongoing process during which values and principles continue to evolve in accordance with changing requirements. The statutory obligations and company-internal guidelines, with which we comply, are presented in the following report which includes the Declaration on Corporate Governance as well as the Corporate Governance Report prepared by the Executive Board and Supervisory Board.

### Declaration by the Executive Board and Supervisory Board of adidas AG in accordance with § 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, 2009. The following declaration refers to the German Corporate Governance Code (hereinafter referred to as the "Code") as amended on June 6, 2008 for the period between February 12 and August 5, 2009. For the period as of August 6, 2009, the following declaration refers to the recommendations of the Code as amended on June 18, 2009, which was published in the electronic Federal Gazette on August 5, 2009.

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:

#### — Deductible with regard to the D&O liability insurance (section 3.8)

So far, the D&O liability insurance policy for our Executive Board and Supervisory Board members does not provide for a deductible as this is a group insurance for a number of executives in Germany and abroad and a deductible is not common practice outside of Germany. Since the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) became effective, § 93 section 2 sentence 3 AktG in its new version stipulates that a deductible is mandatory when concluding a D&O liability insurance for Executive Board members.

adidas AG will comply with the statutory provisions on the deductible and amend existing D&O liability insurance policies within the statutory transition period, i.e. at the latest effective July 1, 2010. In addition, section 3.8 of the Code as amended on June 18, 2009 recommends agreeing upon a respective deductible for Supervisory Board members. adidas AG has decided to comply also with this recommendation as of July 1, 2010 at the latest.

#### — Agreeing severance payment caps when concluding Executive Board service contracts (section 4.2.3 subsection 4)

The recommendation of the Code provides for a severance payment cap for contracts with a term of more than three years. 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.

#### — Age limit for Supervisory Board members (section 5.4.1 sentence 2)

We do not set an age limit for Supervisory Board members as this is, in our opinion, an unnecessary limitation of the rights of our shareholders and employees when electing their representatives to the Supervisory Board.

#### — Compensation of the Supervisory Board (section 5.4.6 subsection 2)

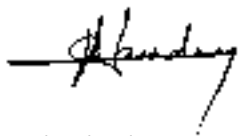
The members of our Supervisory Board do not receive any performance-oriented compensation in order to exclude any potential conflicts of interest with regard to decisions of the Supervisory Board, which might have influence upon performance criteria.

— 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' interests worthy of protection.

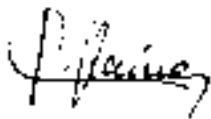
Herzogenaurach, February 11, 2010

For the Supervisory Board



Igor Landau  
Chairman of the Supervisory Board

For the Executive Board



Herbert Hainer  
Chief Executive Officer

The aforementioned Declaration of Compliance dated February 11, 2010 has been published together with all former Declarations of Compliance and can be downloaded at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance).

**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 only if required.

**Dual board system**

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

**Composition and working methods of the Executive Board**

Our Executive Board consists of four members [see Executive Board, p. 24](#). There are no Executive Board committees. The Executive Board is responsible for managing the company, developing the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. In doing so, it is bound to the company's interests and obliged to achieve a sustainable increase in company value. The members of the Executive Board are jointly responsible for the entire management.

The details of the work of the Executive Board is regulated by its Rules of Procedure, which can be found on our corporate website at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance). Irrespective of their overall responsibility, the members of the Executive Board 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 business policy of the Group. In addition, he is in charge of various fields such as Global Sales (Wholesale and Retail) of the adidas and Reebok brands, Internal Audit and Social & Environmental Affairs as well as Compliance. Finance, Global Brands and Global Operations are each assigned to another member of the Executive Board in accordance with the plan on the allocation of the areas of responsibility, which is published in extracts at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance).

Executive Board meetings are held on a regular basis or, if required, ad hoc. They are convened by the CEO. As a rule, the Executive Board makes its decisions by resolution with a simple majority unless a larger majority is required by law. If a vote results in a tie, the CEO has the casting vote. However, in practice, the Executive Board strives to take its decisions unanimously. Hence, decisions are, in general, unanimous.

The Executive Board participates in meetings of the Supervisory Board upon being invited. At these meetings, it reports in writing and orally on the agenda items as well as proposed resolutions and answers all questions from the individual Supervisory Board members.

Furthermore, the CEO discusses the Group's strategy, business development and risk management with the Chairman of the Supervisory Board on a regular basis.

**Composition and working methods of the Supervisory Board**

In accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), our Supervisory Board consists of six shareholder representatives [see Supervisory Board, p. 26](#). The shareholder representatives are elected by the Annual General Meeting whereas the employee representatives are elected prior to the Annual General Meeting in accordance with MitbestG regulations. Our Supervisory Board members were appointed on May 7, 2009. Their terms in office expire at the end of the Annual General Meeting in 2014.

The Supervisory Board oversees and advises the Executive Board in matters concerning management. The Executive Board reports to the Supervisory Board regularly, expeditiously and comprehensively on all matters relevant for the company's business development, planning as well as risk situation and coordinates the strategy and its implementation with the Supervisory Board. For certain business transactions and measures, the Executive Board must obtain the Supervisory Board's prior consent. This includes, for example, entering or exiting major fields of activity and acquiring or divesting substantial corporate holdings.

Furthermore, the Executive Board must obtain the Supervisory Board's approval for the budget, including the annual capital expenditure and financial plan. Details are set out in the company's Articles of Association and the Rules of Procedure for the Supervisory Board [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance).

The Chairman of the Supervisory Board coordinates the Supervisory Board's work and chairs the meetings. Every year, he explains the work of the Supervisory Board and its committees in his report to the shareholders and at the Annual General Meeting. The essential duties of the Supervisory Board include the approval of the financial statements of adidas AG and the adidas Group, taking into consideration the auditor's reports. Furthermore, the Supervisory Board is responsible for decisions concerning the appointment of members of the Executive Board. The meetings of our Supervisory Board are convened at least fourteen days in advance, also indicating the items on the agenda. The Supervisory Board constitutes a quorum if all members have been invited in due form and at least six members participate in the taking of the resolution. It passes its decisions by resolutions requiring a simple majority, unless a different majority is stipulated by law. In the event that a vote results in a tie, the Chairman of the Supervisory Board has the casting vote if a new vote again results in a tie.

For particularly urgent matters, the Supervisory Board may also resolve on issues by way of a written circular vote. We report on the meetings and working methods of the Supervisory Board in our Supervisory Board Report [see p. 28](#).

Every two years, the Supervisory Board examines the efficiency of its work. The next efficiency examination will be carried out after the Annual General Meeting in 2010.

#### Increased efficiency through Supervisory Board committees

In order to perform its tasks in the most efficient manner, our Supervisory Board has formed five permanent expert committees [see Rules of Procedure for the Supervisory Board www.adidas-Group.com/corporate\\_governance](#). For the organisation and working methods of the committees the same rules are applicable in principle as for the entire Supervisory Board. A committee constitutes a quorum if half of its members, but no less than three members, participate in the passing of the resolutions. The chairmen of the committees report to the entire Supervisory Board on a regular basis. The composition of the committees [see Supervisory Board, p. 26](#) as well as a description of their working methods are presented in detail in the Supervisory Board Report [see p. 28](#).

— The **Steering Committee**, which consists of the Supervisory Board Chairman and his two deputies, discusses major issues, prepares resolutions and is authorised in particularly urgent cases to pass resolutions on behalf of the Supervisory Board.

— The co-determined **General Committee**, with four members, is responsible in particular for the preparation of Supervisory Board decisions regarding the appointment of Executive Board members. Furthermore, the committee is responsible for preparing all resolutions for the entire Supervisory Board which concern the Executive Board compensation system, determination of the total compensation of the individual members of the Executive Board as well as the content, form and conclusion of their service contracts.

— The co-determined **Audit Committee** also consists of four members. The Audit Committee Chairman is independent and was not a member of the company's Executive Board prior to his becoming a member of the Supervisory Board. He has expert knowledge in accounting and the auditing of annual financial statements. The Chairman is hence considered to be an independent financial expert as defined by the German Stock Corporation Act.

The committee meets five times a year on a regular basis. It examines the adidas AG annual financial statements and the consolidated financial statements including the Management Reports. It also prepares the respective Supervisory Board resolutions. Furthermore, it deals with the quarterly and half-year financial reports. In addition, it prepares the proposal of the Supervisory Board to the Annual General Meeting for the appointment of the auditor as well as the audit assignment to the auditor. Beforehand, it assures itself of the auditor's independence and determines audit priorities. The Audit Committee supervises, in particular, accounting matters and deals with risk management and compliance. It assures itself of the efficiency of the internal control system as well as the risk management system and is regularly informed on the work undertaken by Internal Audit. The Audit Committee's exact methods of working are regulated by the Rules of Procedure, which were resolved upon by the entire Supervisory Board in the year under review [see www.adidas-Group.com/corporate\\_governance](#).

— The co-determined four-member **Mediation Committee**, formed in accordance with § 27 section 3 MitbestG, is responsible for submitting a proposal to the Supervisory Board regarding the appointment or dismissal of Executive Board members if the two-thirds Supervisory Board majority required for an appointment or dismissal is not achieved in the preceding resolution.

DIRECTORS' DEALINGS IN 2009						Nº 01	☰
Frankfurt am Main, Date	Name	Position	Type of transaction	Number of shares	Price in €	Total volume in €	
August 5	Christian Tourres	Supervisory Board member	Sale	50,000	31.999875	1,599,993.75	
December 1	Christian Tourres	Supervisory Board member	Sale	50,000	38.30	1,915,000.00	

— The **Nomination Committee**, comprised of three members, is the only Supervisory Board committee consisting exclusively of shareholder representatives. Its tasks involve preparations with regard to elections of shareholder representatives to the Supervisory Board, and it submits recommendations to the Supervisory Board for its proposal to the Annual General Meeting. When drawing up proposals for the election to the Supervisory Board, care is taken to ensure that candidates have the required knowledge, abilities and professional experience. In addition, the candidates are chosen with a view to diversity on an international level.

In addition, a committee which is responsible for the handling of real estate matters, composed of three members, was established ad hoc in 2009

➔ see Supervisory Board Report, p. 28.

### Avoiding conflicts of interest

In accordance with the Rules of Procedure of our Supervisory Board, the members of the Executive Board and Supervisory Board disclose any conflicts of interest to the General Committee instead of the entire Supervisory Board without delay. Significant transactions between the company and the members of the Executive Board or persons in close relationship with them require the approval of the General Committee. The Supervisory Board reports any conflicts of interest, as well as the handling thereof, to the Annual General Meeting. In the year under review, neither the members of the Executive Board nor the members of the Supervisory Board faced any conflicts of interest.

### Relevant management practices

Our business actions are orientated towards the legal systems in the various countries and regions from which manifold obligations arise for the adidas Group and its employees in Germany and abroad. Besides responsible management in compliance with laws, provisions and other guidelines, we have established Group-internal policies which reflect the values and leadership principles of our everyday actions.

### Compliance in the adidas Group

We regard compliance as the conformity of our actions with statutory provisions and regulations as well as ethical and moral principles which our company is required to observe or to which we have committed voluntarily. The adidas Group perceives compliance as being all-embracing, oriented towards the product cycle and extending from the supply chain to the final consumer. Our Social & Environmental Affairs team deals with the rights of employees in the supply chain and coordinates product safety standards. Before our products reach the market, our Intellectual Property department researches the technologies, trademarks, logos and other designs to identify possible infringements of the rights of third parties. The internal compliance programme includes, inter alia, web-based training which is implemented consistently. This training is available to all employees worldwide and in ten languages. Furthermore, we have designated local Compliance Officers globally as contact persons, to whom complaints and information concerning possible compliance infringements can be reported. In the area of data protection, we also have a web-based training programme for all employees, in ten languages. Additionally, the Group has a "Marketing Guide" to raise our employees' awareness with regard to data protection when in contact with customers. As a next measure, additional online training programmes in the sectors anti-trust law and competition law are being prepared.



### 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 global company policy. Our Group has an individual supply chain code of conduct, the "Workplace Standards". These standards [see www.adidas-Group.com/sustainability](http://www.adidas-Group.com/sustainability) are oriented 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. Together with our business partners, we actively work on positive changes and have appointed an expert team especially for the coordination of compliance with and control of the Workplace Standards. We report on our sustainability programme at [www.adidas-Group.com/sustainability](http://www.adidas-Group.com/sustainability) and publish sustainability reports regularly.

### Handling insider information

The provision of transparent and reliable information to the capital market and shareholders is an important element for the success of our Group. Hence, proper handling of insider information is indispensable. For this purpose, we have established an insider committee which examines the existence of insider facts, provides for the observance of obligations in connection with insider facts and prepares the required decisions. Our employees are trained with regard to the proper handling of insider information and treat such information in strict confidence.

### Transparency and protection of shareholders' interests

It is our goal to provide all institutional investors, private shareholders, financial analysts, employees and the interested public with the same information at the same time, in both English and German, by regular, open and up-to-date communication, and to thus create the greatest possible transparency. As an up-to-date platform for publications, we mainly use our website [www.adidas-Group.com](http://www.adidas-Group.com). In addition, we publish corporate and capital market information subject to disclosure regulations Europe-wide. All documents and information on our Annual General Meeting are available on our website to all interested persons. Through our Investor Relations activities, we are also in close contact with our shareholders

[see Our Share](#), p. 42.

At the Annual General Meeting, our shareholders who do not wish to exercise their voting rights themselves have the opportunity to have these rights exercised by an authorised person or a proxy appointed by the company and bound by instructions. All shareholders can follow the Annual General Meeting live and in full length online. In addition, we are available for answering questions of our shareholders by phone or electronically. At our next Annual General Meeting, taking place on May 6, 2010 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service.

### Directors' Dealings in 2009

Pursuant to § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Executive Board and Supervisory Board members, other key executives as well as persons in close relationship with them are obliged to disclose the purchase or sale of adidas AG shares or related financial instruments (Directors' Dealings) if the value of the transactions in the financial year reaches or exceeds € 5,000. In 2009, we received two Directors' Dealings' notifications relating to adidas shares (ISIN DE0005003404), which were published at [www.adidas-Group.com/directors\\_dealings](http://www.adidas-Group.com/directors_dealings).

### Share ownership of the Executive Board and Supervisory Board

At the end of the financial year 2009, the total number of shares held by the members of the Executive Board of adidas AG amounted to less than 1% of the shares issued by the company.

At the same time, the members of the Supervisory Board owned 2.15% of the shares issued by the company.

### Accounting and annual audit

The statutory annual financial statements of adidas AG relevant for the distribution of dividends are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch - HGB) and the AktG. The annual consolidated financial statements and the interim financial reports of the adidas Group are prepared by the Executive Board in accordance with the principles of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual accounts are audited and adopted by the Supervisory Board. The financial statements of adidas AG are therewith adopted.

KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, was appointed as auditor for the adidas AG annual financial statements and the consolidated financial statements for 2009 by the Annual General Meeting after the Supervisory Board had confirmed the independence of the auditor.

## Compensation Report<sup>1)</sup>

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 of the Executive Board and Supervisory Board and outline the structure and level of Executive Board and Supervisory Board compensation. We are also reporting on the benefits the members of our Executive Board will receive if they resign from office or retire.

### Responsibility of the Supervisory Board

Following preparation by the General Committee, the individual compensation of our Executive Board members is discussed and determined by the entire Supervisory Board in accordance with the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) effective as of August 5, 2009 and a corresponding regulation stipulated in the Rules of Procedure for the Supervisory Board. In addition, the Supervisory Board resolves upon the Executive Board compensation system following the proposal by the General Committee and is also responsible for its regular review.

In the financial year 2009, the Supervisory Board had the compensation system examined in detail by an external compensation expert being independent of the Executive Board and the company. This examination showed that the current compensation system had, to a large extent, already been in compliance with the new statutory regulations and only few adjustments were required.

### Compensation system

The compensation system of our Executive Board, which includes fixed and variable elements, consists of the following components:

- non-performance-related compensation component,
- performance-related compensation component,
- compensation component with long-term incentive effect.

The individual components are structured as follows:

- The non-performance-related compensation component consists of a fixed annual salary paid in twelve monthly instalments. Other benefits are granted in addition. These benefits are primarily composed of the values set in accordance with tax guidelines for the private use of a company car and the payment of insurance premiums.

- The performance-related compensation component is paid as a variable Performance Bonus. Its amount is linked to the fixed annual salary and is determined by the individual performance of the respective Executive Board member as well as by the development of income before taxes (IBT) and the reduction of net debt. The Performance Bonus is paid out following the end of the respective financial year upon adoption of the annual financial statements and determination of target achievement.
- As a compensation component with a long-term incentive effect, our Executive Board members receive compensation from the Long-Term Incentive Plan 2009/2011 (LTIP 2009/2011). Payments resulting from the LTIP 2009/2011 (LTIP Bonus) depend on the fulfilment of the following performance criteria which are exactly defined in the LTIP 2009/2011, with different weightings:
  - Increase of consolidated net income
  - Reduction of net debt (adjusted for non-operating effects)
  - Sales growth with regard to the Reebok, Rockport and Reebok-CCM Hockey brands as well as

- Absolute and relative share price development, each measured over the three-year period from 2009 to 2011. The amount of the LTIP Bonus is calculated by multiplying the accumulated degree of achievement of the performance criteria by the target bonus determined for each member of the Executive Board in advance. The individual payout amount of the LTIP Bonus is limited to a maximum of 150% of the individual target bonus (Cap). If the degree of target achievement lies below 50%, no LTIP Bonus will be paid. The possible payout of the LTIP Bonus will be effected following the approval of the consolidated financial statements for the period ending on December 31, 2011.

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

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

### Executive Board compensation in detail

The total compensation paid to our Executive Board in the financial year 2009 amounted to € 10.494 million (2008: € 8.416 million). The increase in comparison to the previous year results from higher contributions to the reserves for the LTIP 2009/2011. These are based on the new Executive Board compensation structure which in accordance with the statutory requirements is oriented towards sustainable corporate development. The new compensation structure provides for an increase in the share of the LTIP Bonus in the total compensation and a decrease in the weighting of the Performance Bonus. For 2009, however, the Performance Bonus laid down in the prior year is applicable, which had a higher share in the total compensation than the LTIP Bonus. In absolute terms, the Performance Bonus decreased in 2009, despite the significant reduction of net debt, due to the decline in consolidated net income.

Taking into account the compensation structure of the adidas Group and relevant benchmarks, the review of the compensation system and the individual compensation components in the financial year 2009 convinced the Supervisory Board that all compensation elements, both individually and in total, are appropriate and aligned with sustainable development of the company.

Criteria for the appropriateness of compensation are the tasks and contribution of the respective Executive Board member to the Group's success, his individual performance as well as that of the entire Executive Board.

In addition, the Group's size and global orientation as well as its economic situation and prospects are taken into consideration. The variable compensation components are designed in such a way that the achievement of the sustainable targets set by the LTIP 2009/2011 poses a significantly higher incentive for our Executive Board members than the achievement of the targets necessary for granting the Performance Bonus. Corresponding contractual regulations ensure that this weighting will also be maintained in the future. Through its three-year term and the concrete definition of the performance criteria, the LTIP 2009/2011 contains the required perennial basis for determination.

### Benefits in case of resignation from office

The following description of the benefits which our Executive Board members will receive in the event of termination of their Executive Board mandate already takes into account the service contract concluded with our CEO in December 2009, which is effective as of March 6, 2010.

#### — Pension commitments

The individual contractual pension commitments entitle our Executive Board members to a lifelong retirement pension or survivor's benefits upon reaching the age of 65 years, in case of permanent occupational disability or death.

- The level of retirement pension payment is determined as a percentage of the pensionable income which currently corresponds to the fixed annual salary stated in the adjacent table.<sup>2)</sup>

2) Exception for Glenn Bennett and Robin J. Stalker, who, in the financial year 2009, abstained from the contractually agreed increase in their annual fixed salaries for the calendar year 2009 as of the point of renewing their contract on March 6, 2009. Base amount for Glenn Bennett: \$ 660,000 (= € 474,000). Base amount for Robin J. Stalker: € 550,000.

EXECUTIVE BOARD TOTAL COMPENSATION IN 2009					Nº
€ IN THOUSANDS					01
	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect <sup>1)</sup>	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2009/2011	
Herbert Hainer (CEO)	1,250	27	1,512	1,400	4,189
Glenn Bennett <sup>2)</sup>	431	25	581	700	1,737
Robin J. Stalker	500	13	612	700	1,825
Erich Stamminger	700	36	1,107	900	2,743
<b>Total</b>	<b>2,881</b>	<b>101</b>	<b>3,812</b>	<b>3,700</b>	<b>10,494</b>

1) The indicated amount corresponds to the amount placed in reserves based on the forecasted degree of target achievement as at the balance sheet date. The amount of a possible payout is not specified. 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) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary \$ 600,000, other benefits \$ 35,000, Performance Bonus \$ 810,000. An exchange rate of 1.3932 \$/€ (annual average rate 2009) was used as the basis for calculation.

EXECUTIVE BOARD TOTAL COMPENSATION IN 2008					Nº
€ IN THOUSANDS					02
	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2006/2008	
Herbert Hainer (CEO)	1,250	26	1,680	480	3,436
Glenn Bennett <sup>1)</sup>	408	13	612	240	1,273
Robin J. Stalker	500	11	680	240	1,431
Erich Stamminger	700	106 <sup>2)</sup>	1,230	240	2,276
<b>Total</b>	<b>2,858</b>	<b>156</b>	<b>4,202</b>	<b>1,200</b>	<b>8,416</b>

1) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary \$ 600,000, other benefits \$ 19,000, Performance Bonus \$ 900,000. An exchange rate of 1.4702 \$/€ (annual average rate 2008) was used as the basis for calculation.

2) Also contains a tax adjustment due to different tax rates in Germany and the USA.

Starting from a base amount totalling 10% of the pensionable income, the pension entitlement increases by 2% for each full year of tenure as an Executive Board member of adidas AG<sup>1)</sup> and can reach a maximum level of 40% of pensionable income. In the event of the retirement of an Executive Board member prior to reaching the statutory retirement age, the non-forfeiture of the pension entitlement will be in line with the legal provisions. The dynamisation of current pension payments is made in accordance with statutory regulations unless a surplus from the pension fund is used after the commencement of retirement for an increase in retirement benefits.

- The disability pension amounts to 100% of the achieved pension entitlements.
- The lifelong survivor's benefits amount to 50% of the pension entitlements for the spouse, a half-orphan's pension of 15% or an orphan's pension of 30% of the pension entitlements for dependent children, in total however not more than 100% of the pension entitlements.

#### — Commitments to Executive Board members upon premature end of tenure

If a member of the Executive Board dies during the term of his service contract, his spouse, or alternatively any dependent children of the Executive Board member, 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.

Further commitments to Executive Board members upon the premature termination of tenure do not exist. For Herbert Hainer, CEO, whose service contract has a term of more than three years, however, the severance payment relating to payment claims for the remaining period of his service contract has been limited to a maximum of twice the overall annual compensation (Severance Payment Cap) in case of premature termination of tenure which is not due to good cause. In this respect, the overall annual compensation means his overall compensation for the last full financial year prior to his resignation from the Executive Board as presented in the compensation report while considering the expected total compensation for the current financial year. If the contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap.

For the other Executive Board members, who all have service contracts for a duration of up to three years, no Severance Payment Caps exist due to the relatively short contractual terms.

#### — Commitments to Executive Board members upon regular end 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 the retirement age, the respective Executive Board member receives a follow-up bonus up to the amount of 75%<sup>2)</sup>, 100%<sup>3)</sup> or 125%<sup>4)</sup> of the Performance Bonus received for the last full financial year as individually agreed. The follow-up bonus is payable in two tranches, 12 and 24 months following the end of the contract. Instead of the follow-up bonus, the service contract with Erich Stamminger contains a severance payment of 100% of the last annual fixed salary in the event that adidas AG decides not to renew his contract although he would be willing to continue his function as Executive Board member under the existing conditions.

#### No loans granted to Executive Board members

As in the years before, the members of the Executive Board did not receive any loans or advance payments from adidas AG in 2009.

#### Miscellaneous

Our Executive Board members do not receive any additional compensation for mandates held within the adidas Group.

In the event of claims raised against members of the Executive Board for indemnification of losses incurred in connection with their acts and omissions, the adidas Group's directors' and officers' group liability insurance covers the personal liability of the Executive Board members. For cases of damage occurring after July 1, 2010, there is, for the first time, a deductible of 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 in accordance with the statutory provisions and recommendations of the German Corporate Governance Code  see the Declaration on Corporate Governance including the Corporate Governance Report, p. 33.

1) Herbert Hainer and Erich Stamminger were both first appointed on April 1, 1997. Robin J. Stalker was first appointed on 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 pension entitlement.

2) Glenn Bennett

3) Robin J. Stalker

4) Herbert Hainer

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

In the financial year 2009, pension payments to former Executive Board members amounted to € 2.188 million (2008: € 1.735 million). Total pension provisions for pension entitlements of this group of persons amount to € 39.522 million (2008: € 36.422 million).

### Compensation of the Supervisory Board

The compensation of our 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. There is no variable compensation granted in addition [see the Declaration on Corporate Governance including the Corporate Governance Report, p. 33](#). Supervisory Board members who have been members of the Supervisory Board only for a part of the financial year receive a pro-rated amount of compensation.

The fixed annual payment for each member of the Supervisory Board amounts to € 40,000. Three times this amount is paid to the Chairman and twice this amount is paid to each Deputy Chairperson. Members of the General Committee or the Audit Committee receive an allowance of € 20,000 and € 40,000, respectively. The chairman of a committee receives an additional annual allowance of € 40,000, while the Chairman of the Audit Committee receives an allowance of € 60,000. 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 receives only 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 can charge for it separately and do so.

Due to the new arrangement of memberships in committees and the chairmanships on May 7, 2009 following the election of the new Supervisory Board [see Supervisory Board, p. 26](#), the overall compensation of the Supervisory Board increased to € 898,871 (2008: € 860,000) in the financial year 2009.

### No loans to Supervisory Board members

As in the years before, the members of the Supervisory Board did not receive any loans or advance payments from adidas AG in 2009.

### Miscellaneous

In the event of claims raised against members of the Supervisory Board for indemnification of losses incurred in connection with their acts and omissions, the adidas Group's directors' and officers' group liability insurance covers the personal liability of the Executive Board members. For cases of damage occurring after July 1, 2010, there is, for the first time, 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 [see the Declaration on Corporate Governance including the Corporate Governance Report, p. 33](#).

COMPENSATION OF THE SUPERVISORY BOARD IN €	N° 03	
	2009	2008
<b>Members of the Supervisory Board as at December 31, 2009</b>		
Igor Landau (Chairman of the Supervisory Board, Chairman of the General Committee)	138,871	100,000
Sabine Bauer (Deputy Chairwoman of the Supervisory Board, Member of the General Committee)	78,871	40,000
Willi Schwerdtle (Deputy Chairman of the Supervisory Board, Member of the General Committee)	78,871	40,000
Dieter Hauenstein <sup>1)</sup>	25,914	—
Dr. Wolfgang Jäger <sup>1)</sup> (Member of the Audit Committee)	51,828	—
Dr. Stefan Jentzsch (Member of the Audit Committee)	65,914	40,000
Herbert Kauffmann <sup>1)</sup> (Chairman of the Audit Committee)	64,785	—
Roland Nosko (Member of the General Committee)	52,957	40,000
Alexander Popov <sup>1)</sup>	25,914	—
Hans Ruprecht (Member of the Audit Committee)	80,000	80,000
Heidi Thaler-Veh	40,000	40,000
Christian Tourres	40,000	40,000
<b>Members of the Supervisory Board incumbent until the end of the Annual General Meeting on May 7, 2009</b>		
Dr. Hans Friderichs (Chairman of the Supervisory Board, Chairman of the General Committee, Member of the Audit Committee)	56,344	160,000
Fritz Kammerer (Deputy Chairman of the Supervisory Board, Member of the General Committee)	35,215	100,000
Dr. iur. Manfred Gentz (Chairman of the Audit Committee)	35,215	100,000
Klaus Weiß (Member of the General Committee, Member of the Audit Committee)	28,172	80,000
<b>Total</b>	<b>898,871</b>	<b>860,000</b>
1) Since the end of the Annual General Meeting on May 7, 2009, member of the Supervisory Board for the first time.		

## Our Share

In 2009, the adidas AG share as well as international stock markets recovered significantly from prior year declines. Negative impacts of recessionary pressures, low consumer confidence and rising unemployment at the beginning of the year were more than offset by major economic indicators signalling an accelerating economic recovery over the course of the year. Supported by rising confidence in our Group's medium-term prospects, the adidas AG share increased 39% in 2009. It thereby significantly outperformed the DAX-30, which gained 24% over the same period. As a result of the decline in the Group's net income attributable to shareholders in 2009, we intend to propose a lower dividend per share at our 2010 Annual General Meeting compared to the prior year.

THE ADIDAS AG SHARE		N <sup>o</sup> 01	☰
Number of shares outstanding			
2009 average	196,220,166		
At year-end 2009 <sup>1)</sup>	209,216,186		
Type of share	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)	DE0005003404		
Stock symbol	ADS, ADSG.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 FTSE4Good Europe Ethibel Index Excellence Europe ASPI Eurozone Index ECPI Ethical Index EMU		
1) All shares carry full dividend rights.			

### International stock markets perform strongly after weak prior year

In 2009, international stock markets, the DAX-30 and the adidas AG share recovered considerably from the significant declines in the prior year. The adidas AG share price increased 39% over the course of the year, clearly outperforming the DAX-30, but underperforming the MSCI World Textiles, Apparel & Luxury Goods Index, which gained 24% and 53%, respectively [▶ see 05](#). The strong performance of the latter was mainly attributable to the high share of luxury goods companies in the index, which on average outperformed companies in the sporting goods sector. At the beginning of the year, equity markets declined to 12-year lows as a result of continued weak economic data points, record low consumer confidence, rising unemployment rates and depressed corporate earnings prospects. During the second quarter, markets started to recover, spurred by further monetary and fiscal stimuli by policymakers. Better than expected results of the US bank stress test as well as rising oil and commodity prices also added to positive investor sentiment.

In the third quarter, international stock markets sustained the positive momentum and gained substantially. This was mainly attributable to major economic indicators signalling that the economic and financial crisis had passed its trough, further solidifying market participants' expectations of an approaching recovery. Better than expected corporate results and positive news flow during the Q2 earnings season added to the trend. In the fourth quarter, increases in global indices moderated. Deteriorating sovereign debt ratings and mixed economic data points led to volatile international stock markets as question marks were raised about the pace and magnitude of the economic recovery.

### adidas AG share price recovers significantly

In line with equity market performance, the adidas AG share price declined at the beginning of the year, continuing the downward trend from 2008.

While the announcement of cost-saving initiatives and better than expected 2008 annual results positively impacted our share price, weak retail sales data and the lack of catalysts for a quick economic recovery burdened our share price performance throughout the first quarter. In line with market sentiment improvements at the beginning of the second quarter, the adidas AG share recovered the losses of the previous quarter. However, the announcement of our first quarter results on May 5 negatively impacted our share price on the day and immediately following the announcement. From mid-May onwards, however, the adidas AG share started to increase again due to several broker upgrades and in line with general market trends. During the third quarter, positive momentum continued.

The adidas Group first half year results, announced on August 5, were well received by investors and further supported the upward development. Several analysts' upgrades and favourable comments regarding the Group's efforts to reduce inventories and net borrowings helped the adidas AG share outperform the market.

In the fourth quarter, after the announcement of the early redemption of our €400 million convertible bond on October 7, all bondholders converted into ordinary shares. However, the resulting issuance of 15.7 million additional ordinary shares had only a limited negative impact on our share price development. Instead, analysts acknowledged the early achievement of the Group's medium-term financial leverage target and better than expected third quarter results published at the beginning of November. As a result, our share price performed better than the market through to year-end, as several analysts expressed their confidence in the Group's medium-term strategy. Accordingly, the adidas AG share closed 2009 at €37.77, having gained 39% over the course of the year. Due to this development, our market capitalisation increased to €7.9 billion at the end of 2009 versus €5.3 billion at the end of 2008  see **02**.

#### 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.

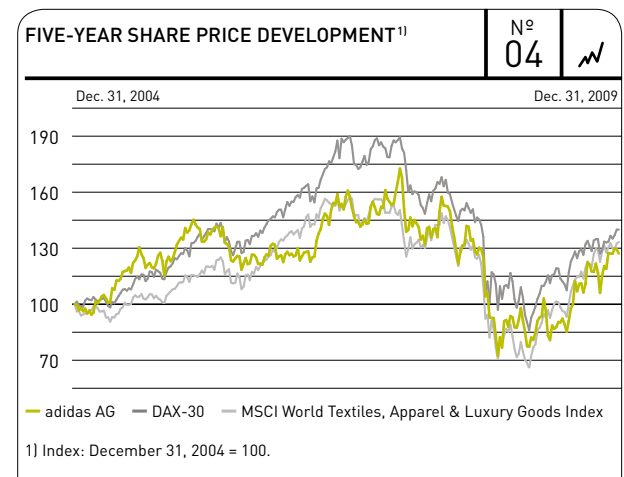
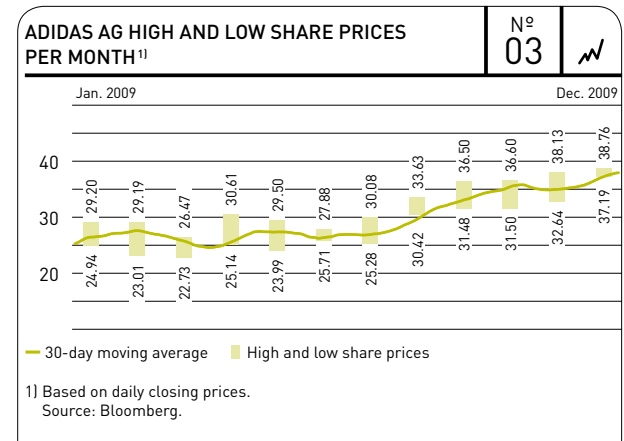
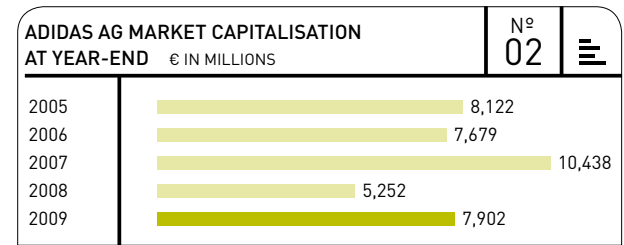
The DAX-30 is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The MSCI World Textiles, Apparel & Luxury Goods Index comprises our Group's major competitors. At December 31, 2009, our weighting in the DAX-30, which is calculated on the basis of free float market capitalisation and 12-month share turnover, was 1.49% (2008: 1.19%). Our increased weighting compared to the prior year was mainly a result of our higher market capitalisation, as well as a more moderate decline in share turnover compared to the rest of the market. Average daily trading volume of the adidas AG share (excluding bank trades) declined from 2.0 million in 2008 to 1.4 million shares in 2009. Within the DAX-30, we ranked 17 on market capitalisation (2008: 19) and 22 on turnover (2008: 25) at year-end 2009.

#### Strong sustainability track record reflected in index memberships

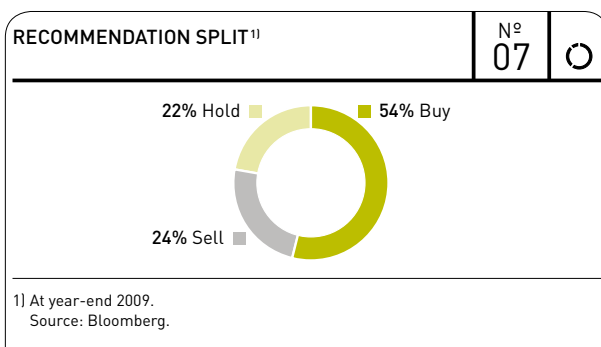
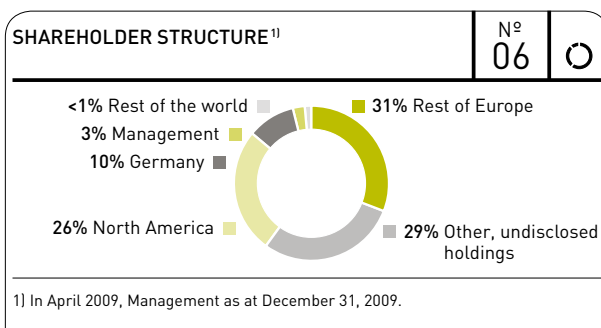
In recognition of our social and environmental efforts, adidas AG is listed in several sustainability indices. For the tenth consecutive time, adidas AG has been included in the Dow Jones Sustainability Indexes (DJSI). The indexes, which analyse and track the social, environmental and financial performance of more than 300 companies worldwide, rated adidas AG for the seventh time in a row as industry leader in sustainability issues and corporate responsibility in the category "Clothing, Accessories & Footwear". In addition, adidas AG was named "Super Sector Leader" 2009/2010 in the sector "Personal & Household Goods" for the second consecutive time and thus ranks among the most sustainable companies worldwide.

In addition, adidas AG was again included in the FTSE4Good Europe Index. This positive reassessment acknowledges the Group's social, environmental and ethical engagement, and encourages us to continue and intensify our efforts to improve our sustainability performance. Also, adidas AG was again included in the Vigeo Group's Ethibel Excellence Sustainability Index Europe as well as in the ASPI Eurozone Index. The Vigeo Group is a leading European supplier of extra-financial analysis that measures companies' performance in the fields of sustainable development and social responsibility. Further, the adidas Group was included for the fifth 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.



HISTORICAL PERFORMANCE OF ADIDAS AG SHARE <sup>1)</sup>		AND IMPORTANT INDICES AT YEAR-END 2009 IN %				
	1 year	3 years	5 years	10 years	since IPO	
adidas AG	39	0	27	103	335	
DAX-30	24	(10)	40	(14)	170	
MSCI World Textiles, Apparel & Luxury Goods	53	(4)	33	58	137	

1) Source: Bloomberg.



### adidas AG 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 103%. This represents a clear outperformance of both the DAX-30, which decreased 14%, and the MSCI Index, which increased 58% during the period.

### 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. Roughly in line with the development of our common stock, the Level 1 ADR closed the year at US \$27.15, representing an increase of 40% versus the prior year (2008: US \$19.35). The number of Level 1 ADRs outstanding decreased to 5.4 million at year-end 2009 (2008: 8.9 million). The average daily trading volume decreased 33% compared to the prior year. 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.

### Convertible bond fully converted

On October 8, 2009, we announced the early redemption of our € 400 million convertible bond (ISIN DE0009038968). As a result of the favourable adidas AG share price, all bondholders exercised their conversion rights before redemption. Due to the conversion process, 15,684,274 new shares based on the Contingent Capital 2003/II of the company were issued. These new shares are entitled to dividends as of the beginning of the financial year 2009.

### Dividend proposal of € 0.35 per share

The adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 0.35 to shareholders at the Annual General Meeting (AGM) on May 6, 2010 (2008: € 0.50). Subject to the meeting's approval, the dividend will be paid on May 7, 2010. As a result of the decline in the Group's net income attributable to shareholders in 2009, Management has taken the decision to lower the dividend level. In light of the strong cash flow generation in 2009 and the significantly reduced level of net borrowings, however, Management has decided to change its dividend policy. Going forward, we intend to pay out between 20 and 40% of net income attributable to shareholders (previously: 15 to 25%). The total payout of € 73 million (2008: € 97 million) reflects an increase of our payout ratio to 30% of net income compared to 15% in the prior year.

### Strong international investor base



Based on the amount of invitations to our AGM in May 2009, we estimate that adidas AG currently has around 60,000 shareholders. In our latest ownership analysis conducted in April 2009, we identified 71% of our shares outstanding. Shareholdings in the North American market account for 26% 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 31%, while 1% 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 3% in total [see Corporate Governance Report, p. 33](#). Undisclosed holdings, which also include private investors, account for the remaining 29% [see 06](#).

### Voting rights notifications received

All voting rights notifications in accordance with § 21 section 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) received in 2009 and thereafter can be viewed on our corporate website [www.adidas-Group.com/voting\\_rights\\_notifications](http://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 26, p. 189](#).



### adidas Group again receives strong analyst support


The adidas Group continued to receive strong analyst support in 2009. Around 35 analysts from investment banks and brokerage firms regularly published research reports on our Group, reflecting a noticeable increase compared to the prior year. Among others, Barclay's Capital, Morgan Stanley and ICAP Plc. initiated coverage during the year. The majority of analysts are confident about the medium- and long-term potential of our Group. This is reflected in the recommendation split for our share as at December 31, 2009. 54% of analysts recommended investors to "buy" our share in their last publication during the 12-month period (2008: 53%). 22% advised to "hold" our share (2008: 34%). 24% of the analysts recommended to "sell" our share (2008: 13%)  see  07.


### Award-winning Investor Relations activities

adidas AG strives to maintain continuous close contact to institutional and private shareholders as well as analysts. In 2009, Management and the Investor Relations team spent more than 35 days on roadshows and presented at numerous national and international conferences.

The continuous efforts of the adidas Group to deliver outstanding services to our investors and analysts were acknowledged in the investor relations surveys conducted by the Institutional Investor magazine and Thomson Reuters. In the sector Consumer/Luxury Goods, the adidas Group was ranked number two by the buy-side analysts in both surveys. The print version of our 2008 Annual Report also achieved high recognition, taking second place in the DAX-30 and third in the overall ranking by the "Manager Magazin" competition "The Best Annual Reports". In addition, the adidas Group Annual Report 2008 was awarded the top spot in the global ReportWatch ranking, which assesses a total of 300 companies worldwide.

### Extensive financial information available online

We offer extensive information around our share as well as the Group's strategy and financial results on our corporate website  [www.adidas-Group.com/investors](http://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. Since July 2009, we offer a quarterly Investor Relations Newsletter in order to give our shareholders and the financial market community a regular update about the latest developments of the adidas Group and the adidas AG share.

SHARE RATIOS AT A GLANCE		N° 08 	
		2009	2008
Basic earnings per share	€	1.25	3.25
Diluted earnings per share	€	1.22	3.07
Operating cash flow per share	€	6.11	2.52
Year-end price	€	37.77	27.14
Year-high	€	38.76	50.09
Year-low	€	22.73	21.48
Dividend per share	€	0.35 <sup>1)</sup>	0.50
Dividend payout	€ in millions	73 <sup>2)</sup>	97
Dividend payout ratio	%	30 <sup>2)</sup>	15
Dividend yield	%	0.9	1.8
Shareholders' equity per share	€	18.02	17.50
Price-earnings ratio at year-end		31.0	8.8
Average trading volume per trading day	shares	1,381,912	1,966,669
DAX-30 ranking <sup>3)</sup> at year-end			
by market capitalisation		17	19
by turnover		22	25

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

## TERREX Lite Softshell Jacket

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09



The Huber Brothers and adidas worked closely together in developing the high-quality features of the adidas Outdoor product range. One example is the TERREX Lite Softshell Jacket which allows total freedom of movement due to FORMOTION™ technology, while a unique hybrid construction of WINDSTOPPER® and Softshell finished with Nano-Tex® optimises the wearer's body temperature.



HUBER  
BROTHERS  
GERMANY



## GROUP MANAGEMENT REPORT – OUR GROUP

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Reebok Strategy .....	70
TaylorMade-adidas Golf Strategy .....	76
Rockport Strategy .....	82
Reebok-CCM Hockey Strategy .....	84
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Employees .....	97
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➔ **NAMELESS TOWER, PAKISTAN – AUGUST 14, 2009**

It is day 4 in the rocks. The Huber Brothers reach another of their “impossibles”: the first redpoint ascent of the Eternal Flame during their Pakistan expedition. Great weather conditions and high-quality products smoothed their way to the summit. Several legendary climbers have tried and failed, but the Huber Brothers finally succeed in completing the 24 pitches red point with difficulty levels up to 9+.

# Corporate Mission Statement

## WE ARE COMMITTED

to continuously strengthening our brands and products to improve our competitive position.



## WE ARE DEDICATED

to consistently delivering outstanding financial results.



## Our Mission

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09



The adidas Group strives to be the global leader in the sporting goods industry with sports brands built on a passion for sports and a sporting lifestyle.



## WE ARE CONSUMER FOCUSED

and therefore we continuously improve the quality, look, feel and image of our products and our organisational structures to match and exceed consumer expectations and to provide them with the highest value.



## WE ARE A GLOBAL ORGANISATION

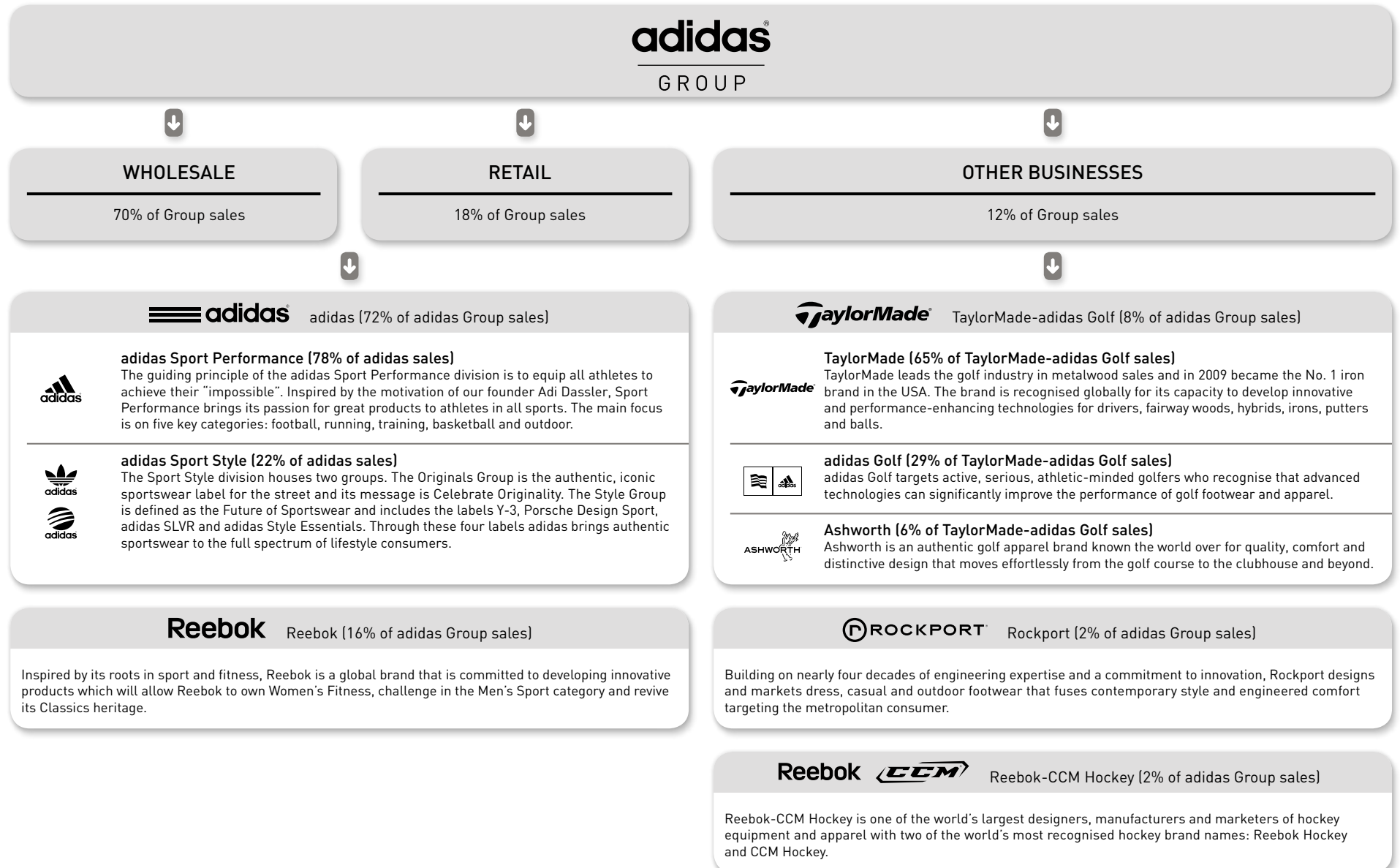
that is socially and environmentally responsible, creative and financially rewarding for our employees and shareholders.



## WE ARE INNOVATION AND DESIGN LEADERS

who seek to help athletes of all skill levels achieve peak performance with every product we bring to market.

## Group Brands



## Major Locations and Promotion Partnerships

The adidas Group sells products in virtually every country around the world. As at December 31, 2009, the Group had 177 subsidiaries worldwide with our headquarters located in Herzogenaurach, Germany. Our Group has also assembled an unparalleled portfolio of promotion partnerships around the world, including sports associations, events, teams and individual athletes. Our Group's most important locations and upcoming sporting events are highlighted on the world map.

### MAJOR LOCATIONS

#### EUROPE

adidas Group Headquarters, Herzogenaurach, Germany	01
adidas International Finance, Amsterdam, Netherlands	02
adidas International Trading, Amsterdam, Netherlands	03
adidas Group Russia, Moscow, Russia	04

#### NORTH AMERICA

adidas North America, Portland/Oregon, USA	05
Reebok International Headquarters, Canton/Massachusetts, USA	06
The Rockport Company Headquarters, Canton/Massachusetts, USA	07
Reebok-CCM Hockey Headquarters, Montreal/Quebec, Canada	08
TaylorMade-adidas Golf Headquarters, Carlsbad/California, USA	09
Sports Licensed Division Headquarters, Canton/Massachusetts, USA	10

#### ASIA

adidas Group Asia, Hong Kong, China	11
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#### LATIN AMERICA

adidas Group Latin America, Panama City, Panama	12
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### MAJOR PROMOTION PARTNERSHIPS 2010

<b>Orange Africa Cup of Nations 2010, Angola</b> January 10–31, 2010	A
adidas Official Match Ball Supplier	
<b>EHF Handball EURO 2010, Austria</b> January 19–31, 2010	B
adidas Official Partner of European Handball Federation	
<b>NFL Super Bowl, Miami/Florida, USA</b> February 7, 2010	C
Reebok Official Outfitter of National Football League	
<b>NBA All-Star Game, Dallas/Texas, USA</b> February 14, 2010	D
adidas Official Outfitter of National Basketball Association	
<b>IAAF Indoor World Championships, Doha, Qatar</b> March 12–14, 2010	E
adidas Official Partner	
<b>Boston Marathon, Boston/Massachusetts, USA</b> April 19, 2010	F
adidas Official Apparel and Footwear Outfitter	
<b>Flora London Marathon, London, UK</b> April 25, 2010	G
adidas Official Sponsor	
<b>UEFA Europa League Final, Hamburg, Germany</b> May 12, 2010	H
adidas Official Match Ball Supplier	
<b>ICC World Twenty20, West Indies</b> April 30–May 16, 2010	I
adidas Official Supplier of Australia and England cricket teams	
<b>UEFA Champions League Final, Madrid, Spain</b> May 22, 2010	J
adidas Official Ball Supplier for UEFA Champions League	
<b>French Open, Paris, France</b> May 23–June 6, 2010	K
adidas Official Partner of Roland Garros	
<b>2010 FIFA World Cup™, South Africa</b> June 11–July 11, 2010	L
adidas Official Partner of Fédération Internationale de Football Association, Official Match Ball Supplier of FIFA	
<b>MLB All-Star Game, Anaheim/California, USA</b> July 13, 2010	M
Reebok Official Licensee of Major League Baseball fan and lifestyle apparel and Official Authentic Collection Footwear Supplier	
<b>UEFA Super Cup, Monaco</b> August 27, 2010	N
adidas Official Match Ball Supplier	
<b>2010 FIBA World Championship, Turkey</b> August 28–September 12, 2010	O
adidas Official Supplier	
<b>real,- Berlin Marathon, Berlin, Germany</b> September 26, 2010	P
adidas Official Partner	

## EUROPE

02 – adidas International Finance

03 – adidas International Trading

G – Flora London Marathon

K – French Open

J – UEFA Champions League Final

H – UEFA Europa League Final

P – real,- Berlin Marathon

01 – adidas Group Headquarters

B – EHF Handball EURO 2010

N – UEFA Super Cup

05 – adidas North America

M – MLB All-Star Game

09 – TaylorMade-adidas Golf Headquarters

D – NBA All-Star Game

12 – adidas Group Latin America

08 – Reebok-CCM Hockey Headquarters

F – Boston Marathon

06 – Reebok International Headquarters

07 – The Rockport Company Headquarters

10 – Sports Licensed Division Headquarters

I – ICC World Twenty20

C – NFL Super Bowl

04 – adidas Russia

O – 2010 FIBA World Championships

11 – adidas Group Asia

E – IAAF Indoor World Championships

A – Orange Africa Cup of Nations 2010

L – 2010 FIFA World Cup™

# Group Strategy

Our goal as a Group is to lead 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.



## Reorganisation of Group provides solid platform for growth

In 2009, the adidas Group took the strategic decision to move from a vertically integrated brand structure into a functional multi-brand structure for the adidas and Reebok brands. This led to the creation of a Global Sales function responsible for the commercial activities and a Global Brands function responsible for the marketing activities of both brands. In addition, the Global Sales organisation was split into Wholesale and Retail, to cater more appropriately to the different needs of these two distinctive business models. This new structure follows two important principles: to foster further alignment and strengthen brand management to drive long-term sustainable growth, while at the same time ensuring coordinated and best practice execution in the marketplace.

To transition to the new structure, the Group initiated several measures in 2009 including:

- Establishment of joint operating models for the adidas and Reebok brands in most markets around the globe.
- Elimination of regional headquarters, moving to more direct interaction between local markets and global functions.
- Separation of the responsibility between Global Brands and Global Sales management on the Board level. Herbert Hainer, adidas Group CEO, additionally assumed direct responsibility for Global Sales. At the same time, Erich Stamminger, Member of the Executive Board of the adidas Group, took responsibility for Global Brands.

The new structure will allow us to better leverage the strengths of our management team and deliver best-in-class service to our consumers and customers.

Due to the different business models of TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey, these operating segments are not part of the new matrix structure.

## 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.



### Investments focused on highest potential markets and channels

As a Group, we target leading market positions in all markets where we compete. However, with almost 180 subsidiaries worldwide, 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 continue to place a considerable emphasis on expanding our activities in the emerging markets, particularly China and Russia [see Subsequent Events and Outlook, p. 156](#).

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 channel approach. 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, p. 54](#).

### 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 product availability in the correct size and colour, providing game-changing technical innovations and also the latest high-end fashion product to the highest quality standards.

We strive to shorten creation and production lead times 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. 88](#).

### Leading through innovation

Everyone in the adidas Group 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 meaningful innovative 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. 92](#). Beyond this, enhancing services for our customers [see Global Sales, p. 54](#), and implementing more efficient and effective internal processes are other areas where our organisation strives to innovate.

### Develop a team grounded in our heritage

Our culture is continuously shaped by influences from the past, present and future. 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 [see i](#) "Shared Values".

Further, we are particularly focused on ensuring best-practice social and environmental standards. We encourage socially and environmentally responsible behaviour, because we know it will generate superior long-term value for our Group [see Sustainability, p. 102](#).

### Creating shareholder value

Sustainable revenue and operating profit growth are critical to our success. Creating value for our shareholders through significant cash flow generation drives our overall decision-making process. For each of our segments, we pursue the avenues for growth which we expect to be most value-enhancing, with particular emphasis on improving profitability. In addition, rigorously managing working capital and optimising our capital structure remain key priorities for us. As always, we are committed to increasing returns to shareholders with above-industry-average share price performance and dividends.

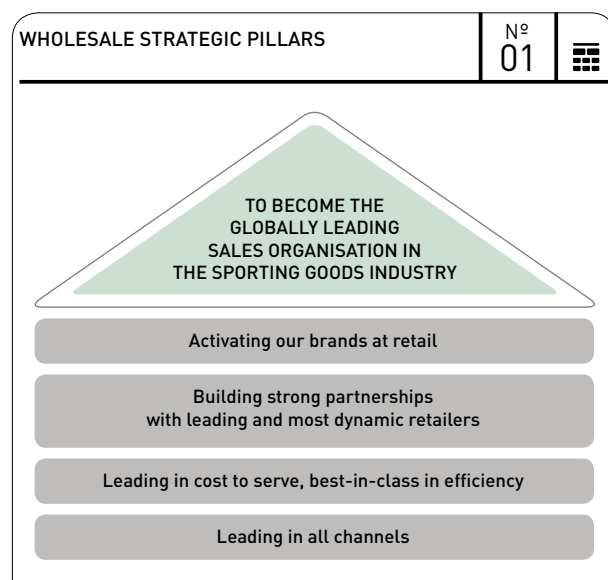
## SHARED VALUES

- Performance
- Passion
- Integrity
- Diversity

[see Corporate Mission Statement, p. 48](#).

## Global Sales Strategy

In 2009, the adidas Group established the Global Sales function, to promote and fully leverage the commercial activities of the adidas and Reebok brands. The function is organised into two distinctive channels – Wholesale and Retail. By catering more specifically to these two business models, the Group is in a better position to act on multiple customer and consumer needs, be more responsive to market developments and manage channel synergies by establishing best practices worldwide.



### Excellence in execution in all markets and channels

In 2009, the Global Sales function was formed to direct all local market organisations responsible for the distribution of the adidas and Reebok brands. A crucial element to achieving commercial success is the understanding that brand presentation must be competitive in an environment where consumers make their final purchase decisions based on availability, convenience and breadth of product offering. Therefore, the key priority of Global Sales is to design and implement state-of-the-art commercial strategies that ultimately engage consumers with interactive product and rewarding point-of-sale experiences.

To better achieve these goals, Global Sales is organised into two operating segments, Wholesale and Retail, recognising that different skill sets are required to manage these distinctive channels.

Wholesale is defined as every business where the consumer pays his purchase to a non-Group retailer, while Retail is defined as any business where the consumer pays his purchase directly to an entity of the adidas Group.

As part of their mandates, these segments are also primarily responsible for the delivery of the short-term operational targets and financial goals for the adidas and Reebok brands. As such, following the Group's reorganisation, Wholesale and Retail are the primary operating segments of the adidas Group.

### Wholesale: becoming the leading sales organisation

The main strategic objective of the Wholesale segment is to deliver profitable market share growth by becoming the most effective and efficient sales organisation in the sporting goods industry. To realise this, the Wholesale sales organisation takes the go-to-market strategies handed over by Global Brands, and commercialises them within a clearly defined framework across various distribution channels.

Our most important distribution 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. The principles to achieve this include:

- Differentiating and segmenting product offering to match channel strengths.
- Harmonising and standardising of selling models and processes to achieve efficiency and cost leverage and reduce working capital requirements.

### Customer and range segmentation to drive effectiveness

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. 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 Global Sales 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. This creates a mutually beneficial understanding of their needs that will help the Group become a more valuable and reliable business partner to our retailers, driving incremental business opportunities.

### Retail Space Management to drive efficiency

Retail Space Management (RSM) comprises all business models helping Global Sales to expand controlled space in retail.

The Wholesale function 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 improve the 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 three predominant models to drive the success of RSM for the adidas Group are Never-out-of-stock, FLASH collections and Franchising.

— **Never-out-of-stock (NOOS):** The NOOS programme comprises a core range of basic articles, mostly on an 18–24 months lifecycle, 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 as we re-produce following customer demand.

— **FLASH collections:** The FLASH programme consists of pre-defined collection packages that are delivered every 4–6 weeks to retailers' doors, including basic point-of-sale promotional materials to promote dedicated retail space provided by the retailer. All articles of the FLASH packages are exclusively developed for this programme with the intention to bring freshness to the retail space. With a short development lead time, we are able to reflect recent product and colour trends in the FLASH range. As no samples are available during sell-in, the customers buy into a business proposition rather than traditionally selecting individual articles. In return for this commitment, the retailers have the right to selectively return articles of every FLASH collection that have not sold out during the defined retail window. Overall, the FLASH programme helps to improve brand image while limiting inventory risk for the customers. The FLASH programme has been started in 2010, with full-scale rollout planned from 2012 onwards.

— **Franchising:** Mono-branded store franchising is one of the Group's prime growth opportunities, as it offers superior brand presentation. 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.

Further, we support our franchise partners with a comprehensive franchise concept, including range propositions, IT systems, 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.

### Harmonisation and standardisation of processes to exploit leverage

While understanding that market and consumer needs require differentiated distribution policies, the establishment of the Global Sales function is also an enabler to further leverage the size of our Group and reduce 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 applications. Similarly, and already started in Europe, we are rolling out a trade terms policy that rewards customer performance either by higher efficiency (e.g. in logistics) or better sell-out support (e.g. by point-of-sale activation). As part of this effort we will harmonise trade terms definitions, and we have established regular reporting, delivering meaningful benchmarks that allow us to tightly control our investments.



TO BECOME A  
TOP RETAILER BY DELIVERING  
HEALTHY, SUSTAINABLE GROWTH  
WITH OUTSTANDING RETURN ON INVESTMENT

Focus on consumers

Achieve operational excellence

Exploit portfolio of brands

Leverage global presence and scale

### Retail: becoming one of the top retailers in the world

Our strategic vision for Retail is to become one of the top retailers in the world by delivering healthy, sustainable growth with outstanding return on investment. Over the past five years, the adidas Group has evolved into a significant retailer, operating more than 2,200 stores for the adidas and Reebok brands worldwide. In light of the increase in importance of retail to the Group's performance, a new retail leadership team was established in 2009. This team is mandated to create global retail guidelines that enable higher efficiency and a common framework to drive long-term profitability for the adidas and Reebok retail operations around the globe.

To become a more successful retailer, Retail has defined four strategic pillars:

- focus on the consumer,
- achieve operational excellence,
- exploit Retail's portfolio of brands,
- leverage the Group's global presence and scale.

To execute on these pillars, Retail has set its strategic priorities around improving its delivery on the five P's of retail.

### People

The consumer and our employees are the primary reference points for Retail's business model. Retail constantly strives to interpret and adapt to consumer demand, targeting a mix of new and loyal consumers, whether it be sports-active, sports-inspired or casual consumers. A focus area for development in this respect is the creation of loyalty programmes that are attractive to the various consumer groups of our brands. To make sure that consumer needs are being met, Retail will set up organisational teams and recruit store staff that are passionate, knowledgeable and whose highest priority is to serve the consumer.

### Products

The key element of Retail's product strategy 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 needs to be price-competitive, simple to understand, easy to find and, most importantly, available at the right time and at the right place. To achieve this goal, Retail will leverage the product assortments, concepts and point-of-sale materials provided by Global Brands in an effort to match real-time consumer trends.

### 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. Another focus of the premises strategy is related to the real estate management process. To efficiently drive higher sales per square metre, Retail is setting up real estate teams who focus on two main elements. Firstly, store location and store size must fit to the local market. Secondly, retail location must follow a joint distribution roadmap aligning distribution policy between Wholesale and Retail. To this end, in 2009 we put a cross-functional team in place to analyse every country and every major city to avoid business cannibalisation.

### Processes

Streamlining and harmonising retail store operations and supply chain processes to gain the necessary speed to respond to consumer requests is a top priority for Retail in 2010. From a store perspective, a key initiative is to embed new retail standards that drive visual merchandising effectiveness and back-office consistency in all markets. In addition, Retail will also continue to work on adapting the supply chain and buying and demand planning processes. This is essential as we strive to increase our in-season flexibility, be more responsive to changing trends and to achieve economies of scale for the Group's retail activities.

### Profitability



To increase the commerciality and profitability of the Group's existing retail assets is the primary focus for all retail teams, whether they are working in logistics, store operations, marketing or any other retail function. Therefore, in the short term, we will limit new store openings and close down stores not reaching their potential, as well as implement new store review processes to ensure that current retail assets maximise profitability and return on investment.

### E-commerce: building a successful channel

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



## adidas Retail Formats

As we have evolved as a retailer, we have learnt that shopping should be an experience. That is why we put a lot of thought into the design and layout of our stores. We strive to create a shopping environment that visually brings brand identity and positioning to life and encourages consumer interaction. For example, our adidas Sport Performance stores emphasise our depth in sport  see photograph (top), whereas adidas Originals store formats such as "Atelier" engage their audience in authentic, creative and interactive ways  see photograph (bottom).

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09



## Global Brands Strategy

In 2009, as part of the adidas Group's reorganisation, responsibility for all marketing functions and the long-term development of the adidas and Reebok brands was brought under one leadership – Global Brands. Global Brands comprises three divisions: adidas Sport Performance, adidas Sport Style and Reebok. The primary objective of the new set-up is to ensure these three divisions seize market and category opportunities through well-defined and coordinated go-to-market strategies. Each division 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 with their target consumers.

### Global Brands to strengthen go-to-market strategies

We acknowledge that to be successful with today's consumer, 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 for doing sport, their goals for the season or the next race, or even the next party, can we create more meaningful products, services and experiences that build a lasting impression beyond product, price and promotion. In addition, as we operate under a multi-brand strategy, it is also essential that our brands act concertedly to fully exploit market opportunities. Therefore, in 2009, the Global Brands function was formed to guide and reinforce the go-to-market strategies for the adidas Sport Performance, adidas Sport Style and Reebok divisions with a particular focus on long-term brand development.

To achieve this, Global Brands defines a clear target audience and value proposition for each division, and subsequently coordinates the execution of go-to-market strategies to maximise the Group's impact in the market.

Each division is separately responsible for bringing its respective positioning to life, through the creation of products and communication tools 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:

- Product innovation to inspire the consumer.
- Activation and validation via a relevant set of promotion partnerships.
- Extend brand reach and appeal through strategic partnerships.
- Marketing and communication leadership.

### Product innovation to 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 and training, where a current priority is creating products that provide a material benefit to the consumer in terms of muscle toning and conditioning.

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.

### 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 each year. 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.

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, Liverpool 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 FIFA World Player of the Year Lionel Messi, football icon David Beckham, basketball stars Dwight Howard, Derrick Rose and Kevin Garnett, marathon legend Haile Gebrselassie, athletic stars Tyson Gay and Allyson Felix and tennis stars Justine Henin, Ana Ivanovic and Andy Murray.

To activate and validate its key concepts of ReeTone, ReeGym and ReeZig, Reebok is partnering with top women’s and men’s sport athletes. 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 Sport, some of the world’s most recognisable athletes support Reebok, including Peyton Manning, Thierry Henry as well as Lewis Hamilton. In addition, the brand holds exclusive, long-term licensing agreements with the National Football League and National Lacrosse League in North America, giving Reebok the exclusive rights to manufacture and market both authentic and replica uniform jerseys and sideline apparel.

### Extending brand reach and appeal through strategic partnerships

As the boundary between the sporting goods industry and the world of lifestyle and fashion continues to blur, adidas and Reebok have both successfully pursued design and co-branding strategies with complementary partners. For example, adidas has partnered with Stella McCartney and Porsche Design Sport, both designing high-end functional performance ranges. adidas Originals continues to engage in unique collaborations with well-known brands such as Diesel, Vespa and STAR WARS™, that ensure adidas is kept relevant to the style-conscious streetwear consumer.

In Women’s Fitness, Reebok and Cirque du Soleil entered into a strategic partnership, which has given rise to inspiring new workout experiences and product collections. In addition, as part of its Affili’Art collections, Reebok partners with artists to re-interpret the brand’s most iconic footwear models. Examples include collections inspired by the work of artists Jean-Michel Basquiat, Roland Berry and John Maeda, as well as famous make-up artist Feride Uslu. Taking this a step further, in January 2010, Reebok announced a global alliance with Giorgio Armani S.p.A. to create a special collection of footwear and apparel combining active style with sport and technology. The global style credentials of the EA7 and Emporio Armani labels combined with Reebok’s fitness and training heritage and technologies fit together to provide a new perspective and concept in the global sports style marketplace.

### 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 communication techniques to 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, adidas will use the “EVERY TEAM NEEDS ...” platform to transcend its entire football offering ahead of the 2010 FIFA World Cup™. Reebok will launch its new global campaign which will use the motto “Ree” as a guiding theme for the brand’s communication with consumers. The key message of the campaign is simple. Reebok wants to “ReeDefine” sport and style, bringing fun and joy back into consumers’ lives.

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. Through investment in digital marketing and technologies, both adidas and Reebok are empowering and encouraging consumers to interact in personal dialogues with the brands. Whether through in-store or online customisation platforms, digital social networks or digital broadcast mediums, these methods are providing a new scope of consumer experiences in a real-time and cost-effective way.

## adidas Strategy

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: divisional overview

No other brand has a more distinguished history or stronger connection with sport than adidas; not only where the best meet the very best, like at the FIFA World Cup™ or the NBA All-Star Weekend, but everywhere around the globe where sports are played, watched, enjoyed and celebrated. Everything at adidas reflects the spirit of its founder Adi Dassler. That means adidas intends to inspire, support and equip all athletes in the best possible way to help them achieve their optimal performance.

A perfect example of adidas' commitment to innovation and getting closer to the consumer is adidas' miCoach, which combines state-of-the-art training knowledge with a personalised web service and real-time audio coaching via a media player, helping consumers achieve their "impossible" by encouragement and tailoring the training to their personal goals.



### PREDATOR®\_X



Developed together with Zinedine Zidane, the new PREDATOR®\_X combines three technologies for power, swerve and control. The PowerSpine technology increases shooting power and reduces the risk of injury in the metatarsal area. PREDATOR® elements ensure high and absolutely constant swerve performance in wet and dry weather conditions. For powerful, technical players like Michael Ballack, Steven Gerrard and Robin van Persie.







## Every Team Needs a Shirt with a Story

adidas sponsored national football teams unveiled their new federation home kits for the 2010 FIFA World Cup™ in November 2009. All the jerseys have design stories and myths that unite the specific country. Also, for the first time, the players are able to choose between jerseys based on FORMOTION™ and TECHFIT™ technologies which will help them to perform even better in all weather conditions. Visuals with players like Lionel Messi, Michael Ballack and David Villa were spread through all advertising channels worldwide.

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Although the adidas Sport Performance division offers products in almost every sports category, the key priorities are:

- Football
- Running
- Training
- Basketball
- Outdoor

### Football: expanding market leadership

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 football boot and ball technologies. Building on its success around major sporting events such as the FIFA World Cup™ and the European Football Championship, the brand strives to increase its leadership 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), national federations (e.g. Germany, Spain, Russia, South Africa, Greece, Argentina, Mexico, Japan), leagues (e.g. Major League Soccer in the USA), clubs (e.g. Real Madrid, AC Milan, Chelsea FC, Liverpool FC, FC Bayern Munich, River Plate Buenos Aires) and individual players (e.g. Lionel Messi, Kaká, David Beckham, Michael Ballack).



THERMALLY BONDED 3-D PANELS AND "GRIP'N'GROOVE" PROFILE

## JABULANI

The Official Match Ball of the 2010 FIFA World Cup South Africa™ features a South African inspired design and radically new technology. Comprising only eight, completely new, thermally bonded 3-D panels, which for the first time are spherically moulded, the JABULANI is perfectly round and the most accurate ball yet. The newly developed "Grip'n'Groove" profile provides players with a ball allowing an exceptionally stable flight and perfect grip under all conditions.

P  
02



In 2010, Football will concentrate on leveraging its strong product pipeline with the goal of achieving new record sales of above € 1.3 billion in the category. The 2010 FIFA World Cup™ will serve as a focal point for showcasing the brand's key initiatives. These includes major updates to all three primary football footwear product lines (PREDATOR®, F50, adiPURE™), the introduction of new federation jerseys now ranging in two different forms (classical jersey and body-fitting jersey featuring TECHFIT™), and the official match ball JABULANI. From a marketing perspective, the brand will continue to build on the "EVERY TEAM NEEDS ..." campaign established in 2009.

### Running: building credibility with high-performance athletes

Running continues to be one of adidas' highest category priorities and is critical to the brand's success moving forward.

The brand's philosophy is to inspire and enable runners on all levels, with the aim to be the most trusted and desired runners' brand in the world. First and foremost, adidas focuses on building credibility with the high-performance athlete and high-frequency health and fitness runners. This credibility provides a strong foundation to leverage the broader opportunity in the Running category, the casual runner and the young everyday runner where adidas has significant market share opportunities.

To achieve growth and market share increases in this category, in 2010 Running will put in place a three-year product and campaign plan revolving around how adidas can "Make Me Better". This means helping runners to be faster and stronger by creating innovative solutions that offer individualised motion, climate management and interactivity.

adiSTAR® and Supernova™ offerings will be the lead franchises for core runners with an increased emphasis on building share at specialty and sporting goods stores. In addition, adidas Running will continue its drive to be a key player in the personalised running market with further advances to its miCoach platform which will be included in the key marketing campaign for 2010, "Run Yourself Better".

### Training: creating new consumer experiences

At adidas, Training is the biggest category for both men and women. Training supports the preparation needs of serious athletes across all sports disciplines and is the industry's largest apparel category. Its positioning is driven by adidas' desire to support athletes to be "fit to win". To achieve this goal, Training develops proprietary technologies and commercialises innovations for sport-specific categories to meet the needs of the everyday athlete. For example, in 2009, Training continued to expand athlete usage of its industry-leading TECHFIT™ PowerWEB™ concept, expanding the offering into new sports categories (e.g. basketball), and widening its commercially expanding executions at lower price points.



## Run Yourself Better – miCoach

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adidas is setting the stage for miCoach – its latest groundbreaking innovation. miCoach is a training system providing a personal coach. With a few simple steps, adidas helps athletes to train better and more efficiently: Through an online platform, runners define their personal goal. Based on their goal, a small device called the Pacer is their digital trainer telling them exactly what to do and when. The global campaign promoting miCoach launched in January 2010 and will be presented in all major advertising channels.



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. Throughout 2009, Training intensified its activity with athletes and the world's leading authorities on athlete performance, to bring the benefits of innovation into its concepts and products.

As a result, in 2010, Training will launch its first true 360° concept – adidas Core Performance. This is a total training range designed to help athletes make the most of their workouts. It includes both tips for training and special training collections. Through a digital training website, adidas Core Performance interacts with consumers, providing exercise guidelines and advice on four key training pillars: mindset, nutrition, movement and recovery.

The four pillars are the centrepiece of Core Performance training principles and help encourage the everyday performer to prepare, fuel, train and rest for success regardless of their training goals. adidas Core Performance will be brought to life at retail through in-store support, print media and activated at grass roots level.

In addition, the site showcases a full range of adidas products which have been created to follow the body in all 360° movements while keeping athletes dry and comfortable.

In addition to this, in 2010 Training will continue to put focus on its performance essentials range through fully integrated business models such as Never-out-of-stock and other managed space initiatives  see Global Sales Strategy, p. 54.

Further focus will also be put on improving quality, increasing colour offerings and strengthening in-store marketing support for the range with well-known athletes such as David Beckham and Maria Kirilenko.

Also Women's Training, spearheaded by the "adidas by Stella McCartney" concept, which fuses performance and style for the active women's market, remains a strategic priority.

In 2010, new adidas by Stella McCartney collections redefining traditional sports silhouettes such as triathlon and cycling will be launched. In addition, Women's Training will continue to build on the success of the "Me, Myself" campaign, which features real women alongside adidas athletes, such as tennis player Ana Ivanovic or basketball star Candace Parker. This will be used to support product lines such as adilibria, Clima and Yatra.

## Supernova™ Glide 2

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adidas Running presents the latest version of its renowned Supernova™ Glide running shoe which offers gender-specific fit and features. FORMOTION™ technology continues to be the technology highlight. Two sliding plates under the heel adapt to a runner's individual footstrike, reducing impact forces. The custom GEOFIT™ heel design and NoSeam engineered-mesh upper for a more comfortable fit, together with adiPRENE®+ in the forefoot for cushioning and propulsion, make the shoe a runner's first choice.



FORMOTION™



adiPRENE®+



**Basketball: increasing global footprint**  
 adidas is committed to strengthening its position in basketball by expanding its footprint in the critical North American market and capitalising on the growing popularity of the sport in the emerging markets. To achieve this, adidas strives to build brand equity by leveraging its status as the official NBA outfitter, capitalising on relationships with some of the most promising future stars of the NBA, as well as reinforcing its position as a performance brand.

In 2009, adidas Basketball took further steps in these areas. For example, the brand strengthened its highly valued NBA partnership by becoming the official compression brand of the NBA. This exclusivity will serve to garner further global exposure for adidas in the very competitive compression apparel market. In addition, adidas also expanded its on-court NBA partnership rights to new territories that now include Europe, Africa and the Middle East. With the league's increasing visibility and growing popularity outside of North America, this is a critical vehicle to drive the adidas business forward in emerging basketball markets.

To leverage these partnerships to their full potential, adidas continues to refine and expand its brand marketing initiatives. Celebrating basketball as a brotherhood remains the key theme in its communication for the sport.

In addition, Basketball is also exploiting the latest in digital media technologies, which is taking product messaging and consumer experience to new levels. For example during the adidas Double-Double Tour to China, a market where basketball has overtaken football as the most popular sport, star player Dwight Howard posted personally shot videos, delivered SMS text messages and photos all from his own mobile phone, and the content was aggregated live at [www.adidas.com/cn](http://www.adidas.com/cn) and syndicated out to the most popular social spaces across China. This allowed his millions of fans the chance to experience this event at a level never seen before.

Through expanded global rights from the brand's NBA partnership, the star power of players such as Dwight Howard and Derrick Rose, adidas is well positioned to grow its share of the basketball market worldwide.



## It's On Me For My Brotherhood.

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Celebrating basketball as a brotherhood has been widely successful for adidas. adidas Basketball continues on this theme for the 2009/2010 NBA season. The campaign "It's On Me For My Brotherhood" brings together NBA stars such as Kevin Garnett, Dwight Howard and Derrick Rose. It focuses on the Team Signature collection and TECHFIT™ compression apparel, which made its debut this season as the official compression apparel of the NBA. With a focus on digital media, the campaign is brought to life by a TV spot, print and retail advertisements.





## adidas Outdoor Campaign 2010

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adidas Outdoor intends to build on its growing momentum to achieve new heights in 2010. In a new print campaign, two of the world's best climbers attest adidas Outdoor expertise: Thomas and Alexander Huber. Both relied on adidas products during their latest expeditions. Breathtaking images brought back from their extreme rock climbing experience bring authentic reality to campaign visuals, proving that the adidas TERREX product range has all the functionality needed to challenge the outdoors.



### Outdoor: the athletic brand in the outdoors

adidas has a long history in outdoor, going back as far as 1978, when adidas and Reinhold Messner developed a new generation of boots which he used to reach the basecamp on his way to become the first man to climb Mount Everest without the help of oxygen equipment. With this heritage and the growth in the outdoor sports sector, adidas has invested in building an authentic and performance-orientated outdoor market position, through such products collections as TERREX and SUPER TREKKING. Given the progress made and the attractive future growth potential, adidas now recognises outdoor as one of its key categories.

A key strategic priority for the category is creating a technology platform with unique features that make the brand stand out from the competition. adidas Outdoor's key concept is the TERREX product range, which targets athletic-minded outdoor consumers who want to challenge themselves mentally and physically. TERREX stands for lightweight, highly functional outdoor products which allow the consumer to move fast and comfortably through the outdoors. As well as footwear, adidas also offers a holistic product range from head to toe comprising apparel, backpacks and eye-wear including latest adidas technologies and renowned partner technologies such as GORE-TEX®, WINDSTOPPER® and Nano-Tex®.

As in other categories, creating mind share, credibility and visibility through partnerships and icons is an important tool to drive market share growth. adidas Outdoor ambassadors and athletes include Thomas and Alexander Huber (also known as the Huber Brothers) – two of the world's best climbers, Beat Kammerlander (climbing), Bernd Zangerl (bouldering) and other top athletes from various outdoor sports such as kayaking, slack lining, hang gliding and speed flying.

In 2010, adidas will continue to build on its growing momentum in particular with the TERREX product range, which will include highlight products such as the TERREX Lite Softshell jacket as well as the TERREX Fast X FM outdoor boots. These products, as well as the brand's authenticity, will be promoted by a fully integrated marketing campaign featuring expedition images of the Huber Brothers showcasing the authenticity of the brand and its products, as well as cooperation activities with key retailers in the sporting goods and specialty outdoor channels.

### adidas Sport Style: divisional overview

The market for streetwear and lifestyle 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. What started as a niche business has developed into a significant contributor to the Group's top-line development. To best tap the potential of the sports lifestyle market, adidas created a dedicated Sport Style division primarily focused on its Originals and Fashion businesses (e.g. Y-3, Porsche Design Sport).

### adidas Originals: from niche to fashion mainstream

The cornerstone of the Sport Style division is adidas Originals: the original lifestyle brand, born in sport heritage but living in contemporary lifestyles. adidas Originals with its Trefoil logo has become a relevant part of many people's lives, whether they be skaters, rockers, artists, musicians, sneakerheads, sports fans, etc.

With a holistic offering in products and communications, adidas Originals speaks to and engages the youth audience in authentic, creative and new ways with the "Celebrate Originality" philosophy.

To address the needs of its diverse consumer groups and maximise business opportunities, adidas Originals takes a two-tier strategy to brand and product marketing: Statement and Core. Statement product concepts aim to generate buzz and to keep the brand fresh and relevant. Core product concepts aim to generate sales volumes by presenting a constant collection that is uniquely adidas.

In 2009 and looking ahead to 2010, the brand marketing efforts continue to be aimed at winning over that Core consumer. The message of "Celebrate Originality" remains consistent, but as a backdrop the campaign for 2010 takes a close look at the "Street Where Originality Lives". Once again including musicians, skaters, athletes and even STAR WARS™ characters, this campaign is a clear evolution of the 2008/2009 House Party with a strong focus on not only recognisable celebrities in the crowd, but also on highlighting current Originals products.



### adidas Originals STAR WARS™ collection

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adidas Originals is proud to present a unique collaboration with one of the world's best-known out-of-this-world brands: STAR WARS™. Inspired by the galactic saga, the STAR WARS™ collection consists of limited edition as well as mass distribution footwear, apparel and accessories. Classic adidas Originals track tops and sneaker styles are represented with characters and scenes from the epic saga in re-interpreted versions.



In addition, adidas Originals will continue to build a connection with teenage consumers and is now using a constant stream of digital content to keep them interested 365 days per year (for example on Facebook, adidas Originals already has over 2 million fans). This is an exciting area for the brand's consumers and an area where adidas Originals is currently a leader.

**The Fashion Group: adidas is fashion**

In 2002, adidas entered high-end fashion, collaborating for the first time with one of the most innovative and highly regarded global designers: Yohji Yamamoto. Creating the Y-3 brand, adidas combined the worlds of fashion and sports, making adidas a true pioneer in the field of sport-inspired, high-end, premium fashion.

adidas is now actively looking to leverage its fashion credibility to grow its sports lifestyle business in new price points and distribution channels. With collaborations such as Y-3 and Porsche Design Sport already at the top of the fashion pyramid, in 2009 adidas introduced adidas SLVR to expand its presence among mid-price-point consumers, while at the same time further expanding adidas Style Essentials to capture a younger, more price-conscious consumer.

adidas identified that there is a market need for sophisticated, classic, yet fresh and confident sportswear that lasts longer than one season. adidas SLVR will fulfil this need. Since launching adidas SLVR in February 2009, adidas has opened stand-alone retail locations in New York, Paris and Bangkok. adidas SLVR is also carried in all major adidas brand centres in Berlin, Beijing, Paris as well as in adidas online stores in the USA and Europe. In 2009, adidas SLVR was also introduced to wholesale partners in Japan. In 2010, adidas SLVR's distribution base will be widened, including its introduction to wholesale partners in the United States.

Incorporating footwear, apparel and accessories, adidas Style Essentials focuses on young, style-adopting consumers that shop at volume distribution channels and at more accessible price points. It capitalises on existing trends and brings them to market more rapidly than traditional sporting goods timelines.

**Y-3 Spring/Summer 2010 Collection**

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In celebration of the upcoming 2010 FIFA World Cup™, the Y-3 spring/summer 2010 collection takes a global tour of modern sport style. The collection includes limited-edition trainers in the classic Field style, updated with an exaggerated removable tongue and bold, graphic colourways inspired by the national flags of adidas sponsored teams. The pictured Kazuhiri is one of the highlight products of the collection, featuring a premium leather upper, a contrasting white sole and an elasticated tongue.





adidas Style Essentials is primarily distributed through mono-branded stores in Asia and through key account partners in North America, most European countries and Japan.

All these labels have allowed adidas to address all consumer and distribution options in the sportswear arena. Y-3, adidas SLVR and adidas Style Essentials all bear the same logo, making it easier for the consumer to recognise that this is the brand's fashion offering from adidas.



### Porsche Design Sport Spray Light Top

Engineered in cooperation with three-time Olympic gold medallist and two-time America's Cup winner Jochen Schümann, the pictured GORE-TEX® Paclite® Shell has a 28,000 mm water column rating for wind- and waterproof protection without compromising breathability, weight or pack volume. The spring/summer 2010 collection is the seventh joint collection presented by Porsche Design Sport and adidas. The collection is comprised of apparel and footwear as well as accessories in the five categories of Driving, Golf, Running/Fitness, Tennis and Water/Snow.

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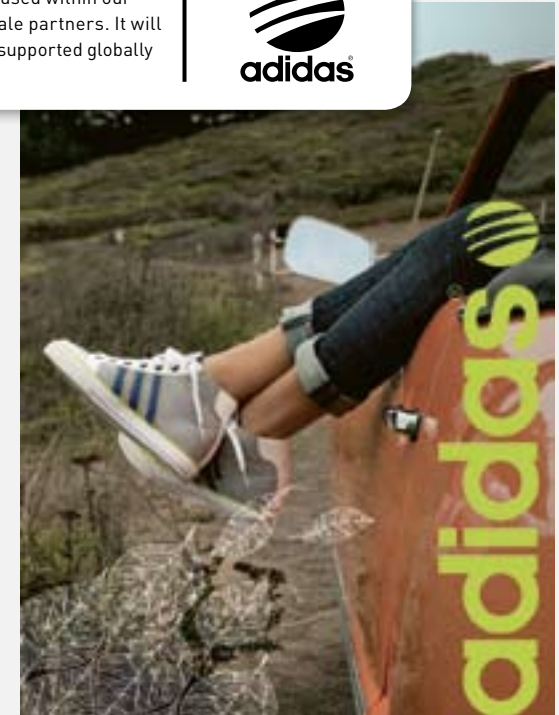


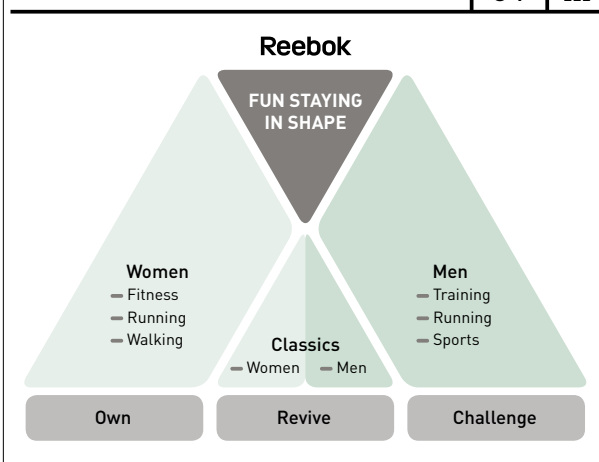
### adidas Style Essentials Campaign 2010

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The adidas Style Essentials creative platform for spring/summer 2010 is about a state of mind and following our consumer on their journey. The campaign tags along with a group of young people on their way through open roads, city streets, crashing coastlines and carefree travels. The campaign is mainly used within our own stores as well as in stores of our wholesale partners. It will experience a big presence in Asia and will be supported globally through digital media.





## Reebok Strategy

In 2009, the Reebok brand has continued to execute its strategy, positioning itself as a premium sports and lifestyle brand focused on fitness and training. Based on its roots and heritage in fitness/training, consumer insights and positioning within the adidas Group, Reebok developed a clear roadmap for its key businesses going forward: Own Women's Fitness, Challenge in Men's Training/Sport and Revive Classics. Central to Reebok's brand heritage is the courage to challenge convention. Unlike many other brands, Reebok is committed to make fitness fun again – challenging men and women to fulfil their potential in sport and in life by providing them with the opportunity, the products and the inspiration to have fun staying in shape.

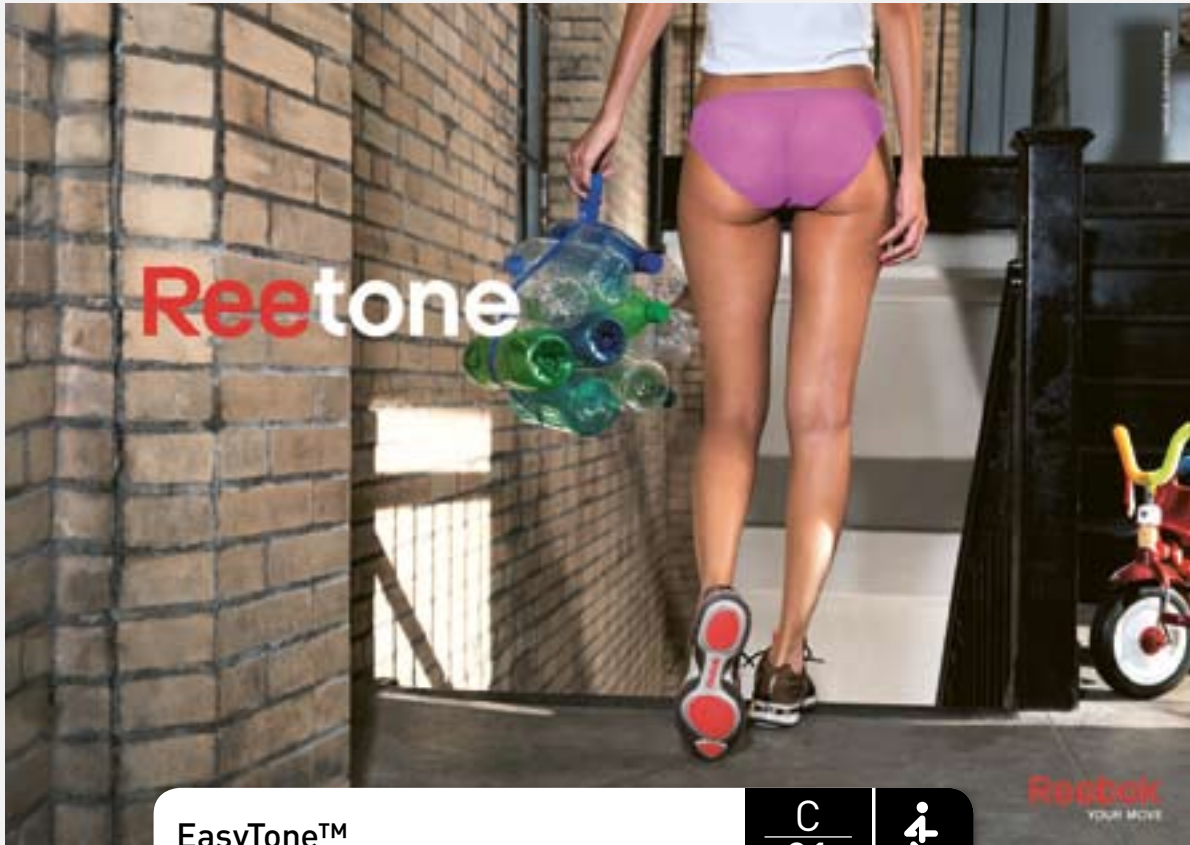
### Own women's fitness

Reebok is on a mission to make fitness fun again for women. The brand's commitment to women's fitness is long-standing. It introduced Step Reebok in 1989 and was at the forefront of the aerobics movement of the 1980s. This heritage and credibility has connected women to Reebok in a powerful way, and serves as the cornerstone for the brand's business expansion. In 2009, the brand has accelerated its women's programmes, introducing new partnerships and products and once again reaffirming its support of women's health and fitness – whether it's out of the gym, in the gym or for a cause.

— **ReeTone:** Women are busy and don't always find the time to fit in their daily workout. Based on this relevant consumer need, in 2009, Reebok launched the EasyTone™ footwear collection that allows consumers to "take the gym with them". EasyTone™ is based on Reebok's proprietary "moving air" technology. It involves two balance pods under the heel and forefoot of the shoes that create natural instability with every step, forcing the muscles to adapt and develop tone. Building on the huge success of EasyTone™ in 2009, Reebok will launch an integrated marketing campaign around the world in 2010 under the motto of "ReeTone". Reebok is also expanding its footwear offering into the running and training category, launching RunTone™ and TrainTone™ in 2010.

— **ReeGym:** Through Reebok's partnership with Cirque du Soleil, the brand will continue to develop new inspiring workout experiences and product collections to strengthen its position in the gym. The overriding aim of this collaboration is not just to create physically demanding workout routines, but to create exercises that are fun, unique and enjoyable.

In spring 2009, Reebok and Cirque du Soleil launched JUKARI Fit to Fly™, taking inspiration from the theatrical and physically demanding artistry of Cirque du Soleil. Building on this, in 2010 Reebok and Cirque du Soleil are launching JUKARI Fit to Flex™ – a workout that enhances flexibility and muscle tone with the help of a specifically designed JUKARI band. The JUKARI training experience is accompanied by a fully integrated women's fitness range, the Reebok Cirque du Soleil collection, which combines the performance demands of the workout with the creativity of Cirque du Soleil. In addition, Reebok launched the On The Move collection of apparel and footwear, created for the needs of a woman's busy lifestyle. The collection is versatile and able to be mixed and matched in or out of the gym.



## EasyTone™

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EasyTone™ has been a huge success for Reebok in 2009 and has taken a leading position in the emerging toning shoe market. Air-filled pods under the heel and forefoot create slight instability with each step, forcing the leg muscles to work harder. This tones the butt and strengthens calf and thigh muscles. With stylish, new designs in its spring/summer 2010 collection, Reebok's EasyTone™ can be worn anywhere – be it at work, school, out shopping or walking. In 2010, EasyTone™ will be promoted through a global marketing campaign: "ReeTone".

**Reebok**





### JUKARI Fit to Flex™

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Following the introduction of the revolutionary workout JUKARI Fit to Fly™, in 2010 Reebok and Cirque du Soleil will present the next exciting fun workout for women – JUKARI Fit to Flex™. This workout uses the flowing movements of Cirque du Soleil to bring fitness to life. Women can enhance their flexibility, muscle tone and coordination with the help of the specially designed JUKARI band. JUKARI Fit to Flex™ was launched across the globe in February 2010.

**Reebok**

### RunTone™

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RunTone™ is a line extension of Reebok's hot-selling EasyTone™ concept. The idea behind RunTone™ is to help tone and strengthen key leg muscles while you run. While EasyTone™ uses two large balance pods, RunTone™ uses six smaller pods spread across the bottom of the shoe for enhanced stability. The soft pods absorb a runner's energy, forcing key leg muscles to work a little harder while delivering a plush, smooth ride. RunTone™ helps runners get more out of their run.

**Reebok**



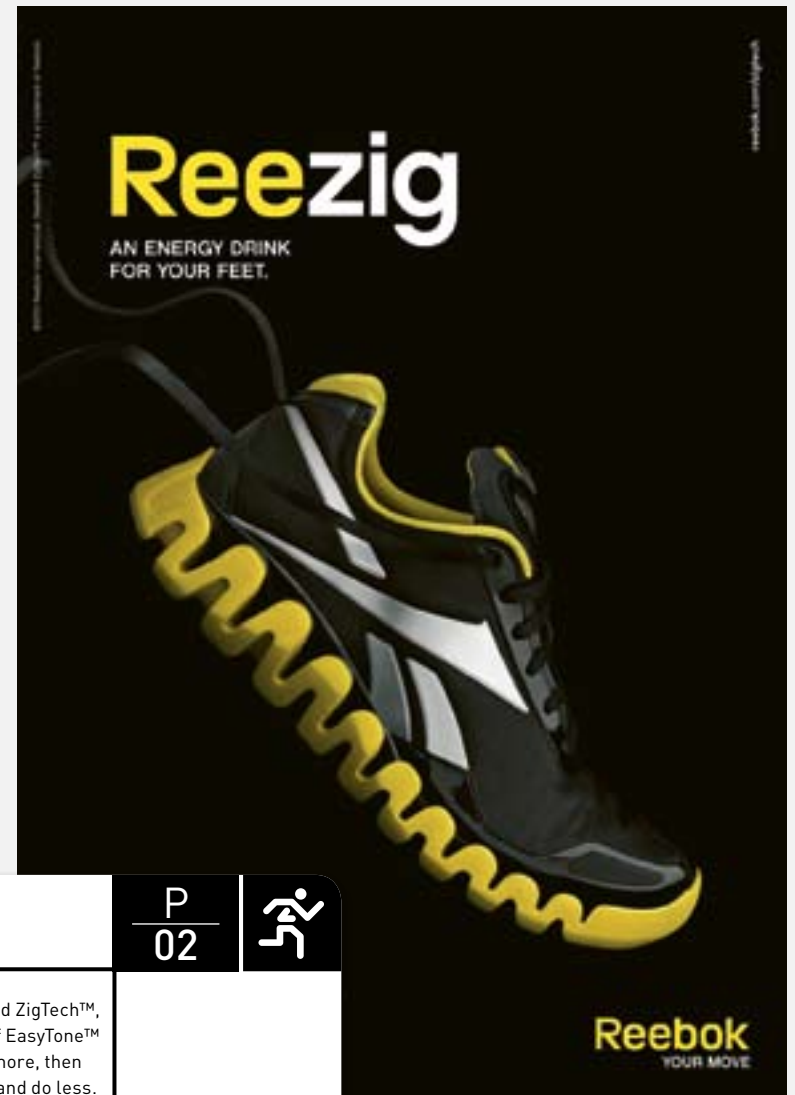
### Challenge in men's sport

Reebok is also a well-recognised men's sports and training brand, a result of its innovative products and its long-standing partnerships with several of the world's top athletes, professional leagues and teams. Given Reebok's close collaboration with athletes, the brand has a clear understanding of athletes' training needs. The primary focus is on creating versatile products that help athletes prepare for their sport irrespective of the discipline. For 2010, the brand is accelerating its men's training efforts, introducing two key initiatives.

— **ReeZig:** In spring 2010, Reebok will introduce ZigTech™, a completely new training shoe for endurance sports like running and agility sports. In product testing, a host of enthusiastic athletes and consumers confirm that ZigTech™ is not only visually striking, but more importantly it addresses an unmet need of fitness runners and athletes. This need is to get more out of their workout and reduce wear and tear – thus allowing them to enhance their lifetime as an athlete. By maximising energy transfer through its zigzag geometry back to the actual running stride, this shoe allows the wearer to train longer, faster and healthier.

This is achieved as the unique energy and cushioning system reduces stress on muscles by up to 20%, therefore reducing wear and tear on the runner's body. The introduction of ZigTech™ will be supported by an integrated global marketing campaign "ReeZig" – featuring key athletes from Reebok's roster – with major launches planned to coincide with global event milestones such as the Super Bowl.

— **ReeTrain:** In 2010, Reebok will introduce a complete range of strength training products for men based on its muscle toning platform of "moving air". Air-filled pods under the heel and forefoot of the shoes create a natural instability with every step, forcing the muscles to adapt and work harder. This allows the consumer to "get more out of their workout". The offering includes EasyTone™ for walking and casual wear, TrainTone™ for training exercises and the gym, RunTone™ for running and JumpTone™, helping to strengthen key leg muscles and thus allowing athletes to improve their vertical leap.



### ZigTech™

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Building on its experience in toning, Reebok developed ZigTech™, a completely new running and training shoe concept. If EasyTone™ was designed to force muscles to work harder and do more, then ZigTech™ is designed to make muscles more efficient and do less. This unique zig-zag shape absorbs the impact of heel strike and sends a wave of energy along the length of the shoe to help propel the athlete forward with each step. ZigTech™ causes up to 20% less wear and tear on key leg muscles.

Reebok

## ReeTrain Campaign

Reebok launches its "ReeTrain" campaign in 2010 which will be promoted through multiple communication channels. The primary theme of ReeTrain is to deliver a message that athletes and sports fans need to "rethink" how they follow sports and focus on what's fun. The campaign visuals exaggerate the athletes' training routines with a sense of fun. The executions show driving ace Lewis Hamilton dodging tennis balls and Peyton Manning developing his skills in a non-traditional way.

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Reebok



The introduction of these products is supported by an integrated global marketing campaign, "ReeTrain". Key Reebok athletes such as Lewis Hamilton will again bear testimony to Reebok's training products. On the apparel side, Reebok will launch a versatile collection of apparel called "Training Day". Designed for the athletes' training needs, fusing sport and style influences, this collection is able to be worn on and off the pitch.

In addition, Reebok's global men's focus on training and running will be complemented by a select set of regional category priorities, for example American football, baseball and lacrosse in North America, or cricket in India. To drive future growth in these categories, Reebok continues to develop a product and innovation strategy concentrating on fit. In 2010, Reebok is expanding its portfolio of fit technologies with the introduction of U-Form.

Adapted from a Reebok-CCM Hockey skate technology, U-Form is a heat-activated customised fit system. The athlete heats the shoes (either in-store or at home) at around 200°F/90°C for 3.5 minutes. He then laces the shoe tight and relaxes for about 8 minutes as the shoe forms to the exact shape of his foot.

By contouring the shoe to the shape of the foot, potential skin irritation is eliminated and, because of its proper fit, the performance of the underfoot technologies are optimised. U-Form will be available in select American football, basketball, baseball and running shoes starting in May 2010.

### Revive Classics

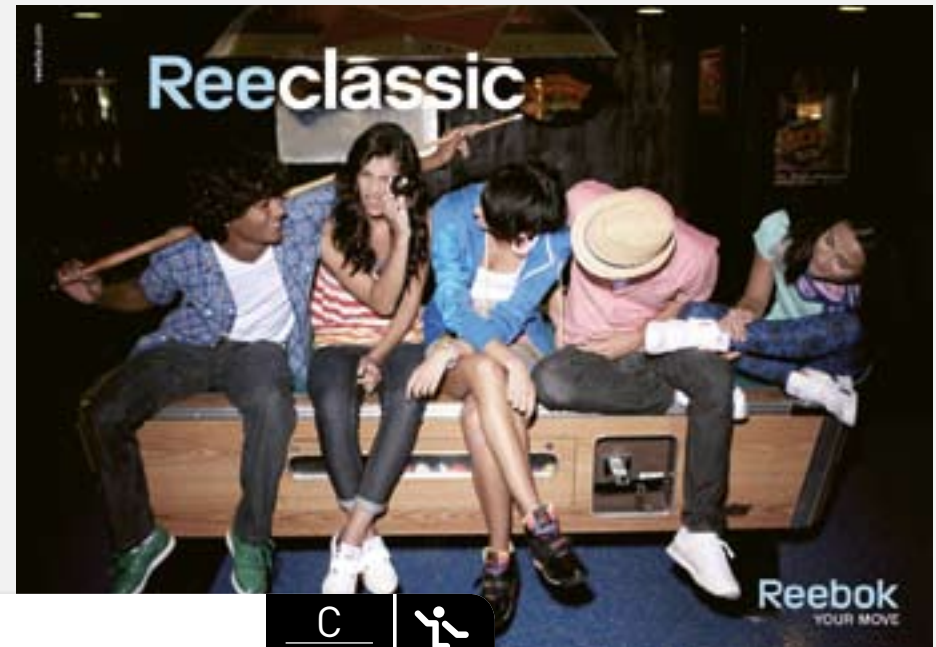
Although Reebok Classics was born from sport in the early 80s, today it represents the intersection where sport meets style, offering lifestyle footwear, apparel and accessories. In rebuilding the Classics business, a key tenet of the strategy is to control distribution by segmenting the product offering available for retailers, as well as keeping a tight rein on supply. In 2009, Reebok has continued to tightly manage its directional sport and generalist retail channels particularly in the United States and in Europe, with the primary aim to clean up old inventory and reduce the brand's exposure to low price points. In addition, Reebok has launched new product initiatives in a controlled and disciplined way. At the same time, the brand has begun to strengthen its position in the select and trend channels with limited editions and special projects. An example of this is "Pump20" which was kicked off in November 2009 to celebrate the 20th anniversary of The Pump™. Through a partnership with 20 select retailers around the world, custom collaborations of The Pump™ were developed and exclusively launched in select stores.

To leverage its iconic sports heritage, Reebok revives its Classics business by focusing its product range with two priority pillars that define the Classics product architecture: Always Classic and New Classic.

— **Always Classic:** Always Classic products harken back to the brand's roots and merge iconic models from the 80s and 90s with new midsole/outsole technologies.

— **New Classic:** The New Classic segment represents the modern interpretation of Reebok's roots. Inspired by the past, New Classic collections merge sport and style to re-energise the category. The launch of the Women's Fly Generation collection represents this new direction with products like the Top Down and Courtee Mid.

The marketing communication will use the brand platform of "Ree" as the guiding principle for Classics – with the new messaging of "ReeClassic". The main message behind "ReeClassic" will be the idea of reinterpreting Reebok's roots and will be showcased primarily through retail and digital.



### Classics Campaign

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2009 and 2010 mark the kick-off for Reebok's various initiatives to redefine the brand's image. "Ree" will be a guiding principle in the communication with consumers going forward. The key message of all 2010 campaign layouts is simple: Reebok wants to "Redefine" sport and style to bring back fun and joy to consumers' lives. Pictured is a theme of the "ReeClassic" campaign. For Classics, the campaign visuals will primarily be used for in-store communication within Reebok's own stores as well as other retail outlets and digital throughout spring/summer 2010.

Reebok

## TaylorMade-adidas Golf Strategy

TaylorMade-adidas Golf's aim is to be the leading performance golf company in the world in terms of sales and profitability. It combines three of golf's most well-known and respected brands: TaylorMade, adidas Golf and Ashworth. The segment's primary strategic pillars are to continuously develop and commercialise innovative, technologically advanced products while at the same time maintaining credibility through high visibility on 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 strong market positions of three 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, is among the leaders in irons, and is steadily evolving as a challenger in golf balls. adidas Golf develops high-performance footwear and apparel for athletes who want to maximise their physical potential in order to play the game at the highest level. Ashworth is an authentic golf-inspired lifestyle brand complementing adidas Golf's position, increasing the segment's presence in the golf apparel market. Combining adidas Golf and Ashworth, TaylorMade-adidas Golf is a global leader in golf apparel and number two in footwear.

### Innovation and technology focus

TaylorMade-adidas Golf's core objective is to create the best performance golf products in the marketplace, and that starts with a clear commitment to innovation and technology.

The segment therefore strives to extend its leadership position with a continued focus on innovation and cutting-edge design while introducing at least one major product innovation or evolution every 12 to 18 months. In 2009, for example, TaylorMade introduced its new R9™ drivers incorporating Flight Control Technology, which for the first time gave players the ability to easily change the club's face angle, loft and lie angle by adjusting a screw in the sole. Prior to this, Tour professionals had their drivers altered to suit their swing by having equipment technicians bend the club-head. This type of innovation helped the R9™ achieve the position as number one driver model on the PGA Tour and best-selling driver model in the United States.

### Tour validation as important 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 and European Tours from event to event, each with a fully staffed, state-of-the-art workshop for building and servicing drivers, fairway woods, hybrids, irons, wedges and putters on the spot. Today, the TaylorMade-adidas Golf Tour Staff includes high-profile names like Sergio Garcia, Sean O'Hair, Yong-Eun Yang, Dustin Johnson, Fred Funk, Justin Rose, Paula Creamer, Retief Goosen, Greg Norman, Nick Faldo, Mike Weir, Andres Romero, Darren Clarke and Natalie Gulbis, as well as Martin Kaymer, one of the European Tour's stars and the top-ranked golfer in Germany, who joined the TaylorMade Tour Staff in 2009.

### Marketing excellence as a key success factor

Well-coordinated and consumer-relevant marketing is paramount to attaining sustainable market leadership. To achieve that, TaylorMade-adidas Golf has combined product marketing, brand communication and retail marketing into one fully integrated global marketing team. This team uses a variety of strong marketing tools to achieve its objectives. Product launches are supported by substantial PR and marketing campaigns, involving key assets and best-in-class customer support to drive new product sell-through. In addition to traditional marketing techniques, TaylorMade-adidas Golf is also dedicated to exploring and executing new and innovative ways to promote products using social media (Facebook and Twitter), online initiatives like [www.Projectburner.com](http://www.Projectburner.com) and product seeding initiatives like last year's free Burner® 6-iron giveaway and the Penta TP free-sleeve programme in 2010. Another prime example of TaylorMade-adidas Golf's efforts to create unique promotional events is the "Wear in the World" golf adventure, which involves testing performance apparel in some of the world's most extreme weather conditions.





## The New #1 Selling Iron. Proof The Set Is Dead.

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Renowned as the world leader in metalwood sales, TaylorMade became the No. 1 iron brand in the USA in August 2009. To keep the momentum going in 2010, the brand is launching an extensive sales and marketing campaign called "Project Burner", which urges golfers to join the more than 170,000 others who now play TaylorMade's eight individually engineered Burner® irons, and instructs them to "stop playing obsolete irons".



Destinations included golf courses in Death Valley, California, the high altitudes of Bolivia and Argentina and Walker Bay in South Africa. The programme, which illustrates how technologies such as CLIMACOOL®, CLIMALITE® and CLIMAPROOF® can help provide a competitive advantage in the most extreme golf conditions, attracted widespread attention from consumers and the media.

### Intelligent retail marketing and distribution

TaylorMade-adidas Golf works with retail partners that possess the skills to effectively showcase the performance advantages and modern design credentials of TaylorMade, adidas Golf and Ashworth products. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments. Focusing on strategic accounts, TaylorMade-adidas Golf strives to create and make available state-of-the-art floor displays that show off products and communicate key messages as clearly as possible, allowing it to position its clubs, balls, footwear and apparel among the top-selling golf products in these retail channels. Close working relationships with key accounts will continue in 2010, as will efforts to build additional brand presence at smaller retailers and on-course golf shops. In emerging markets throughout the world, the company employs established adidas Group infrastructures to distribute products, promote awareness and drive growth.

## Burner® SuperFast Driver

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Three years after the launch of Burner® 07, the most successful driver in TaylorMade history, the brand introduced the third generation of this legendary metalwood line: Burner® SuperFast. Weighing just 284 grams, the Burner® SuperFast driver is engineered to promote faster swing speed for superior distance. The 460cc clubhead, sleeker and more aerodynamic than past Burner® metalwoods, boasts exceptionally high MOI for tremendous forgiveness and the largest clubface of any TaylorMade driver.



SuperFast TECHNOLOGY

### Pricing strategy reflects brand positioning

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 products in the mid- and premium-price categories. Market share expansion, particularly in golf, is driven mainly by the ability to deliver best-in-class lines of products at multiple price points. In 2009, an example of TaylorMade-adidas Golf's success in implementing this strategy is the TOUR360 Limited (high-price) footwear and FitRx (medium-priced) footwear.

### TaylorMade: extending leadership in metalwoods and irons

TaylorMade category priorities include strengthening its position as the number one metalwood brand in the world, building on its growing global market share in irons and increasing its presence in wedges, putters and balls.

— **Metalwoods:** Today, TaylorMade is the clear market leader in metalwoods (drivers, fairway woods and hybrids). The brand is particularly strong in the USA, where it has forged a 30% share of the market and a large lead over its closest competitor. The brand's primary focus going forward is to remain the innovation leader and expand its metalwood business outside the USA. This will in part be driven by strengthening its promotion partnerships in other regions. From a product perspective, the brand will build on the success of the R9™ franchise forged in 2009 with the launch of the R9™ SuperTri, the first club to unify all of TaylorMade's major driver technologies:

## Burner® SuperFast Fairway Woods

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The 17-4 steel Burner® SuperFast fairway woods share the driver's aerodynamic head shape and are lighter in weight, longer in club-length, larger in size and deeper of face compared to Burner® 08 fairways. Together, these elements promote increased distance and make Burner® SuperFast fairways remarkably easy to launch. At 301 grams, they're the lightest TaylorMade fairways ever, and they also incorporate the largest clubhead size that TaylorMade has ever offered in a steel fairway, with the 3-wood measuring 200cc.



Movable Weight Technology®, Flight Control Technology, Inverted Cone Technology and Ultra-Thin Wall Technology, as well as the extension of the Burner® family of metalwoods with the introduction of the Burner® SuperFast, which, at 284 grams, is the lightest driver TaylorMade has produced to date. Together, the R9™ SuperTri and the new Burner® SuperFast driver will be promoted with an extensive television, online and print campaign called “TaylorMade vs. TaylorMade”.

— **Irons:** In 2009, the new Burner® irons have provided TaylorMade with a strong foundation for future growth in the category. As opposed to previous TaylorMade irons, the Burner® long-irons, middle-irons and short-irons were developed separately rather than in conjunction with each other. Their immediate popularity made Burner® the first TaylorMade iron model to reach number one in sales in the United States, which in turn helped TaylorMade reach number one in iron market share in the United States for the first time in the brand’s history, a position it has now held since August 2009. In 2010, TaylorMade will leverage this success with various product updates and geographic expansion.

— **Wedges:** Leveraging TaylorMade’s success in metalwoods and irons to other categories such as wedges continues to be a strategic priority. Innovation again is critical in this respect and, in 2009, TaylorMade debuted Exchangeable Face Technology (xFT) in the category. xFT permits players to easily replace a worn clubface with a new one, making it possible to maintain a fresh, spin-inducing clubface without replacing the clubhead. For the consumer, this is more cost-effective than buying a new wedge.

In light of the USGA and R&A’s recent ruling dictating that iron-groove design must be less aggressive to promote less backspin, xFT offers a distinct advantage which should allow TaylorMade to grow its market share significantly in 2010.


— **Putters:** TaylorMade’s Rossa® Monza® Spider high-MOI putters continued to be in high demand by golfers everywhere, and were used to win multiple tour events around the world. A 2009 addition to the line, the Monza® Spider Balero, is extremely popular in Asia and helped make TaylorMade the number two putter brand in Japan. Plans in 2010 call for a new addition to the Monza® Spider line that incorporates the input and suggestions of a variety of Tour pros.

— **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 2009, TaylorMade’s status as a maker of premium golf balls was enhanced when Tour professional Yong-Eun Yang captured the PGA Championship using a TP Red, the first time a major championship was won with a TaylorMade ball. In 2010, TaylorMade will continue to build on its momentum in golf balls, driven by the Penta TP ball. This is the first five-layer golf ball, designed to promote

optimum performance on the five critical golf shots – driver, long-iron, middle-iron, short-iron and partial wedges. TaylorMade intends to enhance marketplace acceptance and sales in the golf ball category by extending TaylorMade branded offerings, and increasing the number of Tour professionals using TaylorMade balls.

### Penta TP Tour Ball

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Penta TP is the first tour ball to incorporate five solid layers – cover, outer mantle, middle mantle, inner mantle and core – each engineered to optimise performance in five key shot categories – driver, long-irons, middle-irons, short-irons and partial wedges. TaylorMade’s advertising calls Penta TP “the most complete ball in golf” while telling its five-layer story. It is well represented on the world’s tours with Sergio Garcia, Dustin Johnson, Martin Kaymer, Retief Goosen, Justin Rose and Jason Day all playing it.



## Brand Campaign 2010

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adidas Golf's 2010 brand platform is firmly focused on giving athletes technological breakthroughs that reshape what's athletically possible on the golf course. Breakthroughs include COOLMAX® ENERGY in apparel, which promotes more endurance via scientifically designed fibres that increase airflow to the skin. In footwear, the advanced THiNTech technology which lowers the golfer closer to the ground for better balance and stability is now available in every adidas Golf shoe.



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

adidas Golf makes high-performance golf footwear and apparel for athletes who want to maximise their physical potential in order to play the game at their highest level. Therefore, the brand's array of products embodies its popular maxim – Equipment For Your Body™.

In footwear, leveraging proprietary technologies from various other adidas categories such as adiPRENE®+ with golf-specific technologies offers a significant competitive advantage over pure play golf footwear brands. In 2009, adidas Golf was able to bring significant new innovation to market including the ultra-stable TOUR360 4.0 with revolutionary THiNTech technology, and TOUR360 Sport with "50/50 protect", as well as the ultra-comfortable FitRx and FitRx Sport.

In apparel, adidas Golf positions itself as the most innovative performance brand in the game by utilising adidas technologies such as FORMOTION™, CLIMACOOL® and CLIMAPROOF® technologies in adidas Golf apparel products. adidas Golf was the first major brand to incorporate technologies like these into golf apparel.

In 2010, a variety of exciting new launches such as a new premium offering called adiPURE™ (footwear and apparel) will continue adidas Golf's authentic union of design, technology and function.

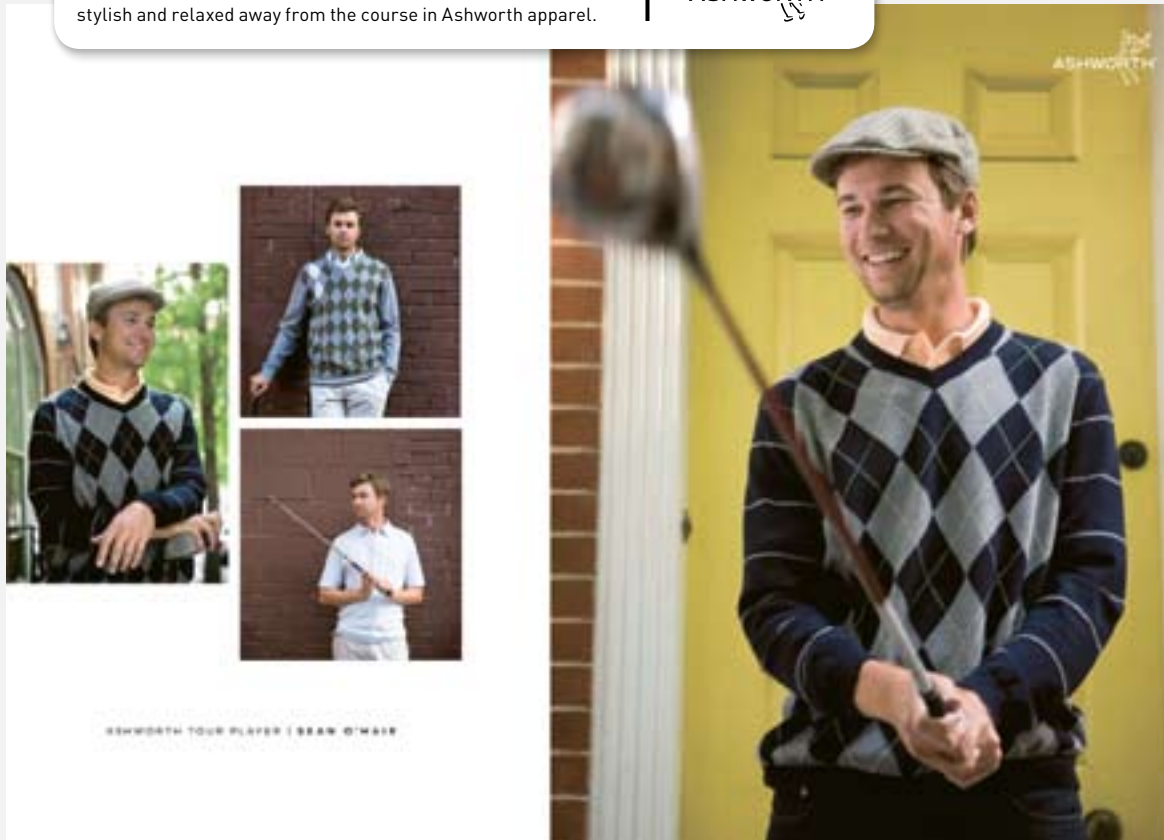
In addition, the brand will begin to leverage its partnership portfolio further. New signature lines planned with Natalie Gulbis and Paula Creamer designed for and with input from these two highly popular and visible LPGA stars will help adidas Golf expand its line of women-specific golf products. Also planned is the TOUR360 4.0 Sport, which offers a new approach to combining breathability with protection, and a new range of CLIMACOOL® tops and bottoms with soft-touch COOLMAX® fabric.

## Wear Your Passion

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"Wear Your Passion" is Ashworth's new mantra, a direct allusion to the effortless way in which the brand's traditionally styled line-up of tops, bottoms, outerwear and headwear can be worn on the course and on infinite occasions off the course. The supporting print campaign illustrates that point with striking photos of Ashworth Tour Staff pros like Sean O'Hair and Fred Couples looking stylish and relaxed away from the course in Ashworth apparel.



### Ashworth: brand re-launch in 2010

Ashworth, which was acquired in 2008, provides TaylorMade-adidas Golf with a unique opportunity to establish a golf lifestyle business. Founded in 1987, Ashworth's roots in golf and authenticity as a golf brand provide a key differentiator from other golf lifestyle brands. In 2009, Ashworth's efforts focused on creating a platform for future profitable growth. Steps taken consist of a branding facelift including modernising its iconic Golfman logo, definition of product range architecture, cleaning up of distribution and revamping its partnership portfolio. In addition, all Ashworth operating and go-to-market functions were fully integrated with adidas Golf to take advantage of operational and fixed-cost synergies.

In 2010, the brand will be re-launched with a focus on reconnecting with all golfers (professionals and non-professionals alike) as the authentic golf brand, building on its reputation for relaxed, lifestyle-orientated apparel that appeals to golf enthusiasts of all ages, both on and off the course. Products will incorporate proprietary EZ-Tech fabrics which deliver easy care and superior wear, and performance fabrics for warm-climate, on-course use. Like the other brands in the TaylorMade-adidas Golf segment, Ashworth will seek to build Tour visibility and credibility utilising partners such as Tour professionals Fred Couples, Sean O'Hair, Ryan Palmer and Charles Howell III.

## Rockport Strategy

Rockport is a US-based manufacturer of leather footwear. Founded in 1971, the brand has a long history of selling walking and comfort leather shoes for men and women. Rockport's mission is to become a leading leather footwear brand in the world through the innovative 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.

### 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 one of the strongest brand heritages in the leather footwear industry and has strong brand recognition, 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.

### Global brand positioning relevant to Rockport's target consumer

Rockport's brand positioning is "Comfortably stylish, contemporary, and always innovative". This positioning builds on Rockport's existing brand equity in comfort and technological innovation while also focusing on developing a stylish and contemporary brand through Rockport's world-class, international design resources, broad category and consumer end use coverage, and the utilisation of three product range fashion expressions to appeal to a large consumer base.

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

### Focus on consistent execution of brand direction

Rockport's brand vision is to enable people to do more, be more, and live more. This vision is achieved through the brand's shoemaking philosophy, "Walkability", which is applied to the brand's products spanning across the dress, dress casual, relaxed casual and active casual leather footwear categories.

### Globalise brand, product and distribution

Rockport has a globally relevant brand and product offering with regional distribution in the United States, the Americas, Europe, the Middle East and Asia. Its key global priorities include: strengthen its position in the USA, establish a regional organisation to build a foundation for the brand and drive growth in Europe, and exploit growth opportunities in Asia, particularly in China, India and Korea.

In 2009, Rockport continued to expand its international distribution. The brand now does business in more than 55 markets worldwide. Sales outside of the United States now account for close to half of Rockport's total business and double-digit percentage growth is planned in the near term.

### Build a dual gender business

In 2009, Rockport further strengthened its investments in its women's product and design teams. This investment is expected to translate into solid growth in the women's business in 2010, with the introduction of balanced, holistic, branded women's lines that provide the female consumer with a value proposition that incorporates both fashion and comfort, thereby freeing her of the need to compromise either of these elements in her decision to purchase leather footwear.

### Roll out a profitable mono-brand retail concept

Rockport will drive the global rollout of its newly created mono-brand retail concept, whose prototypes are currently being piloted in select markets. Based on encouraging results to date, Rockport is accelerating the expansion of its new mono-brand retail concept in the USA and piloting stores in additional markets in 2010. Full-price own-retail stores are expected to comprise more than a fifth of total sales by 2014 and are planned to be the main driver of growth within the brand over that period.

### Build effective organisational processes

2009 saw increased focus on a number of operational areas including forecasting and order processing accuracy, lead-time reduction, product range segmentation and productivity and supply chain complexity reduction. In 2010, Rockport will continue its focus to improve these and additional operational areas that are critical to the continued success of the business.

## Spring/Summer 2010 Campaign

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Rockport's spring/summer 2010 campaign underscores the brand's commitment to its vision of creating contemporary styles engineered for maximum comfort. In the campaign visuals, Rockport shoes demonstrate the freedom to roll from day to night, from the office to dinner with friends, from an early breakfast in town to a day hike in the foothills. Simply put, Rockport's design innovations allow their consumers to do more, be more, live more. The global campaign will be executed in all markets, through in-store visuals, media outreach and advertising initiatives.



**ROCKPORT**

Our philosophy is simple. Walkability.

Combining style and comfort, Rockport shoes are designed to help you do more, be more, live more.



**ROCKPORT**

Our philosophy is simple. Walkability.

Combining style and comfort, Rockport shoes are designed to help you do more, be more, live more.

In addition, Rockport plans to further leverage the Group's infrastructure (e.g. in emerging markets) as a core element in supporting its global growth strategy.

### Key strategic product initiatives and innovation

The Rockport brand continues its commitment to incorporate innovative concepts and advanced technologies into its products. Following on the highly successful 2009 re-launch of its DresSport® 2 collection, which marries athletic innovation and contemporary style to make it one of the most comfortable, stylish and lightweight men's dress shoe collections on the market, in 2010 Rockport will debut its innovative new TruWALK product architecture. TruWALK was developed as a result of decades of biomechanical and physiological research and provides the wearer with a soft strike and smooth roll that mimics the foot's natural walking motion. Rockport will also continue to leverage Group-wide resources with the continued incorporation of industry-leading technologies such as adidas adiPRENE® and adiPRENE+® footbed technology into its products.

## Reebok-CCM Hockey Strategy

Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of hockey equipment and related apparel under two of the most recognised hockey brand names: Reebok Hockey and CCM Hockey. Reebok-CCM Hockey equips more professional hockey players than any other company, including NHL superstars such as Sidney Crosby and Alexander Ovechkin. Reebok-CCM Hockey is also the official outfitter of high-profile leagues such as the National Hockey League 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.

### Focus on high-end performance

Reebok-CCM Hockey has a dual brand portfolio consisting of Reebok Hockey and CCM Hockey. Reebok Hockey is a global brand that celebrates individuality in sport and in life. Its products are designed with emphasis on innovative visible technologies that speak to a more expressive, image-conscious consumer. CCM Hockey is hockey's most authentic brand, being in existence since 1899. CCM Hockey embraces the physical side of the game and is all about guts and glory. The brand speaks to a consumer seeking performance and quality.

Reebok-CCM Hockey's primary focus is to lead in the high-end performance segment of the hockey market. Continued success in the hockey market will be driven through a concerted focus on product innovation, supported by professional player validation achieved by having the best athletes in the world play with Reebok-CCM Hockey products.

Differentiated marketing and brand campaigns are targeted towards the intended consumer segment, for example players or fans. In-arena and partnership-based marketing programmes, consumer campaigns and web-based initiatives are designed to create brand exposure, creating demand for Reebok-CCM Hockey products.

### Product innovation matches brand positioning

The key priority for Reebok-CCM Hockey's innovation team is to design, develop and industrialise products that are targeted to be visibly different and demonstrably better than that of the competition, with a dedication to providing elite athletes with high-performance products. With its emphasis on continued product innovation, products incorporate proprietary patented technological advances under both brands within the Reebok-CCM Hockey portfolio. Reebok Hockey's Pump Skates, O-Sticks and the Edge Uniform exemplify the brand's breakthrough technologies. CCM Hockey's product innovation story is led by its U+™ Skate, the only truly customisable skate in the market, and the U+™ Stick, the lightest performance stick in the world.

### Professional player validation

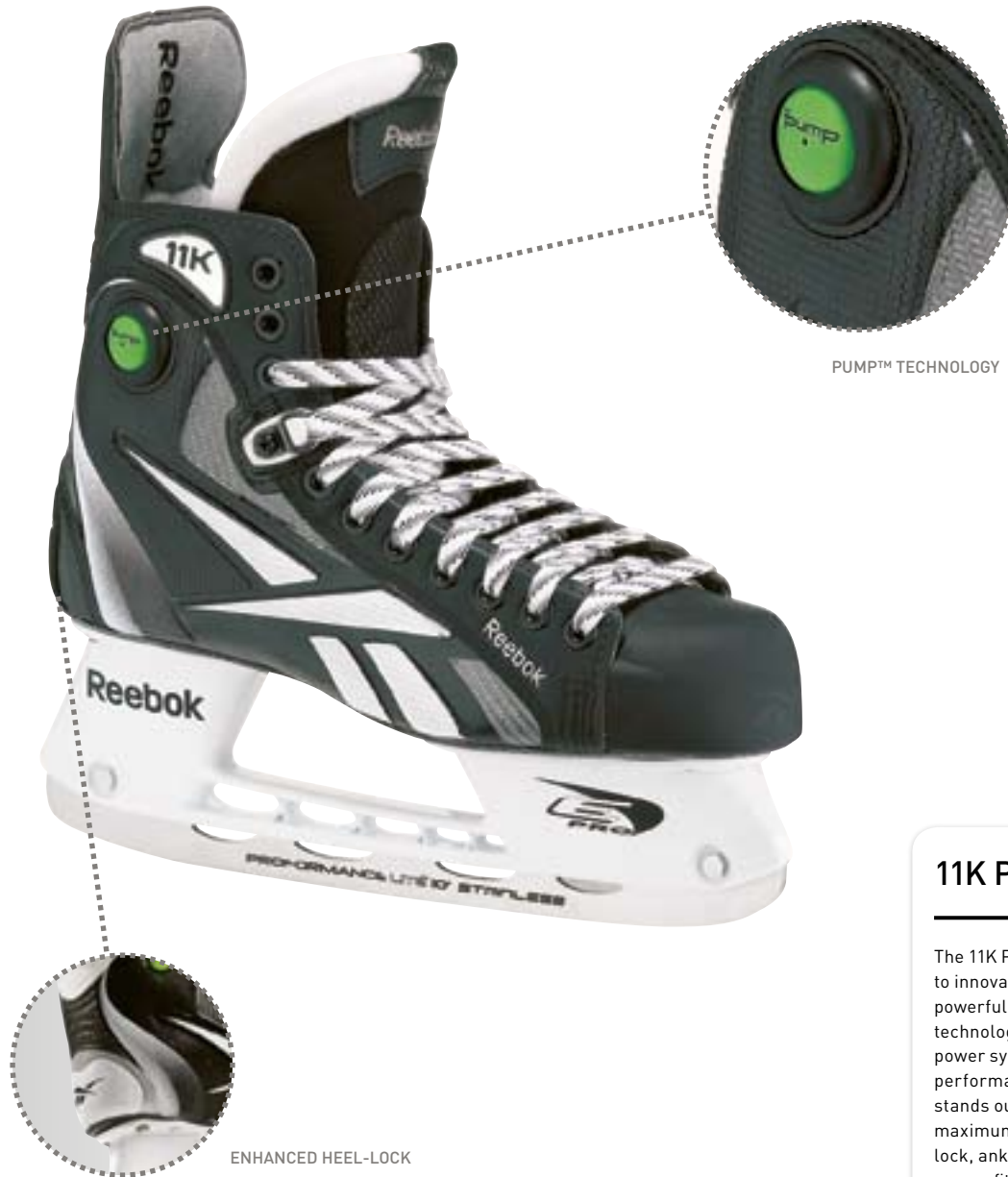
Reebok-CCM Hockey recognises that success with the consumer is heavily influenced by exposure generated at the Pro League level. Product usage by the best players in the game validates Reebok-CCM Hockey's product performance credentials, and both brands are highly visible among professional hockey leagues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

#### — The strongest league partnerships:

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 ECHL, the Canadian Hockey League (CHL) and many of the European National (5) and Elite League (33) teams. 99% of all NHL players wear at least one piece of Reebok or CCM Hockey equipment. Reebok-CCM Hockey is also the official equipment supplier of the AHL, the CHL and the ECHL.

— **Impressive roster of Pro Player endorsees:** Reebok-CCM Hockey has formed endorsement partnerships with many of the best athletes in the world. With manufacturing 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. The Reebok Hockey brand is currently endorsed by NHL players such as Sidney Crosby, Pavel Datsyuk, Roberto Luongo and Marc-Andre Fleury. CCM Hockey's roster of player endorsees includes Alexander Ovechkin, Joe Thornton and Vincent Lecavalier. In 2009, Reebok-CCM Hockey made an unprecedented move in the hockey world by signing the three top overall NHL Draft picks – John Tavares (CCM Hockey), Matt Duchene (Reebok Hockey) and Victor Hedman (Reebok Hockey).





**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. However, the segment will maintain manufacturing activities in areas where it is a distinct competitive advantage to do so, such as is the case for performance products destined for pro level athletes.

**Product education programmes to support retail partners**

Reebok-CCM Hockey provides its strategic retail partners with product education programmes, in-store merchandising programmes and on-the-floor staff support. Reebok-CCM Hockey develops retail segmentation programmes that help create differentiated packages for its key accounts. Core distribution channels include hockey specialty shops, sporting goods retailers and in-arena concessions.

**11K Pump**

The 11K Pump is a good example of Reebok Hockey's commitment to innovation leadership. The 11K Pump is lighter and more powerful than any Reebok skate to date. The embedded composite technology solidifies the skate and controls flexion, while the power system gives the skate an intuitive feel with a more agile performance. Coupled with PUMP™ technology, the skate stands out in terms of comfort and adaptability and offers the maximum in personal customisation. The skate enhances heel-lock, ankle support and advanced forward flex, resulting in a secure fit.

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<b>Reebok</b>	



**Pricing strategy mirrors product positioning**

Reebok-CCM Hockey's pricing strategy is consistent with its positioning as a high-performance company. 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.

**Key strategic categories to drive growth**

Reebok-CCM Hockey intends to accomplish growth through a continuous

stream of product launches in its three key category priorities: skates, sticks and apparel.

— **Skates:** The focus in the skate category is to drive market share increases through the creation of products that continue to address critical aspects such as fit, weight and durability. For example, in 2010, a new line of Reebok Hockey branded skates, 11K Pump, is being launched, featuring an advanced fit element. This new skate line was also designed with a clear focus to incorporate lightweight and durable materials. In 2011, CCM Hockey plans to launch

the next generation of its U+™ platform which features a fully thermo-formable skate. In addition to the aforementioned launches, projects within the advanced product development group will continue to drive innovation in subsequent years.

— **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. The Reebok 8.0.8 "O-Stick" features proprietary, highly visible O-Port technology, providing players with a more powerful and accurate shot.

**U+™ CL Stick**

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CCM Hockey is proud to present the lightest stick in the hockey market. The U+™ CL stick is built from the inside out. There is no blade insertion into the shaft. Instead, the blade is moulded over both sides of the shaft, making a true one-piece stick. Multiple layers of high-grade carbon placed at different angles in the blade result in a lighter blade with the same durability. At the same time, the stick features a 360° extreme inter-laced carbon woven wrap outside layer, providing players with optimal durability in a super-light stick.



MULTIPLE CARBON LAYERS



BETTER ENERGY TRANSFER. ANOTHER REASON FOR OPPONENTS TO FEAR YOU.

The new Reebok 11K skate is designed to literally lock your feet in place, maximizing the energy transfer from foot to blade with every stride. So you can go from dead stop to breakaway in a split second. Just like Matt Duchene.



YOUR MOVE

Reebok

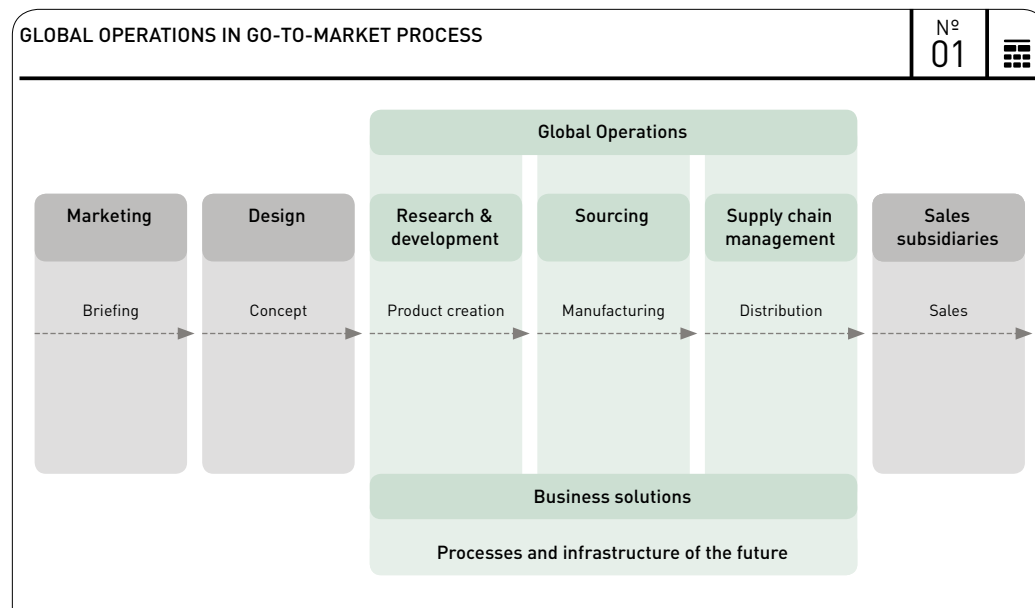
reebokhockey.com

The CCM U+™ CL stick is the lightest performance stick in the marketplace and provides players with an optimised balance and feel.

— **Apparel:** Reebok-CCM Hockey will strive to further leverage its league partnerships and exclusive uniform status to drive growth. The Reebok Edge NHL Jersey features a four-way Stretch Mesh to provide players with maximum ventilation and range of motion. In addition to official uniforms, Reebok-CCM Hockey also has opportunities to grow due to 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. NHL locker room performance apparel relates to the apparel that pro athletes wear under their jerseys during a game, or to work out and train in the gym. A key product initiative in this area is Reebok Speedwick apparel. Designed to feel like cotton, fabrics used in this apparel are breathable, utilising Play Dry® technology to manage moisture and antimicrobial yarns to permanently inhibit the growth of bacteria.

## Global Operations

The adidas Group's Global Operations function coordinates 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 as well as to ensure the highest standards in product quality and delivery performance for our customers at competitive costs.



### Enforced vision: closest to every consumer

The vision of the Global Operations function is to be closest to every consumer. This means enhancing the adidas Group's top- and bottom-line growth by meeting consumer demand in both wholesale and retail channels with the right product – in terms of quality, size, colour, style and material – in the right place, at the right time. In order to realise its vision, the Global Operations function continues to focus on five strategic initiatives:

- **Replenishment:** Providing high availability as well as fast and timely delivery of product to wholesale and retail customers while minimising inventory of finished goods.
- **End-to-End Profitability:** Identifying key cost and profitability drivers and their interrelationships to optimise decision-making in order to mitigate financial risks and ensure the long-term profitability of the Group and its supply base.
- **Adaptive Supply Network:** Enhancing the flexibility and responsiveness of both the Global Operations Sourcing and Supply Chain Management organisations to satisfy quick-changing market needs.
- **End-to-End Planning:** Optimising the Group-wide demand and supply planning system landscape to improve efficiency, transparency and cross-functionality of processes across the Wholesale and Retail segments as well as Other Businesses.

- **Accelerated Creation to Shelf:** Building capabilities, processes and technology that drive faster, smarter and more efficient product creation to enhance the Group's top- and bottom-line growth.

In 2009, the Global Operations function made further progress and successfully implemented processes, systems and infrastructure measures deriving from the five key initiatives:

### Processes and systems tailored for expansion of Retail segment

The Replenishment initiative is particularly essential to support the growth of our Retail segment and Group-controlled retail space. In 2009, we established a dedicated retail transformation team within Global Operations that supports the retail sales team by implementing the right processes and systems to cater for the unique demands of Retail [see Global Sales Strategy, p. 54](#). Throughout the year, Global Operations also increased its efforts in strengthening and enhancing its portfolio of fulfilment models that allow sales subsidiaries to buy product closer to market and replenish stores more frequently and strategically. Improved capacity and material planning processes allowed over 1,300 articles to be produced and delivered with short lead times of 22 to 30 days.

### Further advancements in costing transparency and predictability

In light of the decline of global economic output, our End-to-End Profitability efforts gained further significance in 2009. We set up a dedicated Profitability Management department to monitor macroeconomic trends, forecast the impact on product and supplier costs, and devise our supply chain profitability strategy. In addition, our development teams also contribute significantly to this initiative by engineering our product with a stronger focus on cost. Throughout 2009, we also engaged our suppliers with the aim to increase transparency and predictability in costing. For example, we closely tracked raw material costs and leveraged this information to consolidate volumes. This allowed us to negotiate more effectively and offset cost increases. In addition, our Sourcing teams improved our product allocation process to better utilise suppliers' capabilities and take into account total supply chain costs (e.g. time to market, trade restrictions). Moreover, by leveraging consolidated volumes, our Transport and Customs team successfully negotiated reduced transportation costs and optimised shipment routes with our service providers.

### Infrastructure optimisation continued

As part of our Adaptive Supply Network initiative, we continued to optimise our supply chain infrastructure in 2009. We further consolidated our network of distribution centres, upgraded our existing facilities and invested in new sites. Apart from warehousing consolidation and warehouse processes optimisation in the UK, Spain, the Netherlands, Greece and South Africa, our most remarkable improvement was the finalisation of the adidas Group's second multi-brand distribution centre in Spartanburg/South Carolina, USA. These new facilities are designed to support both the future growth of our brands and future demands from our retail channels. In addition, the planning phase for a new distribution centre in Russia was completed. However, execution of the project has been deferred until market conditions require that the project be re-started to support our business models in the area.

In 2009, we also continued building and enhancing our process and systems infrastructure, bringing increased flexibility and responsiveness to our supply chain. We made significant enhancements to our SAP-based purchase order management system – Global Procurement System (GPS) – based on user feedback. We also started preparation work for its rollout to the Reebok brand in 2010. GPS harmonises and simplifies the ordering process and enables us to better react to market changes.

It is the largest SAP implementation undertaken by the adidas Group to date, and will ultimately replace ten legacy systems across the Group. We have also started preparations for the expansion of our trading platform in Amsterdam to the USA and Japan. The improved visibility, control and risk management capabilities this platform generates will benefit each of our supply chain functions across all brands.

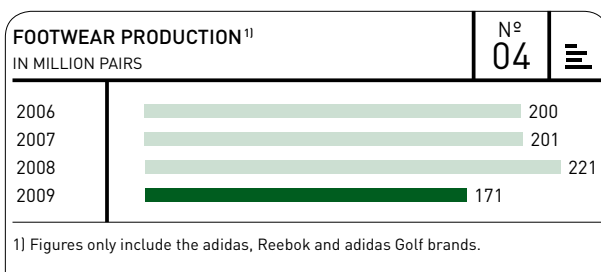
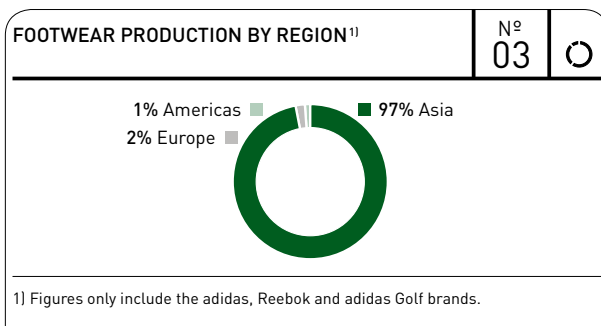
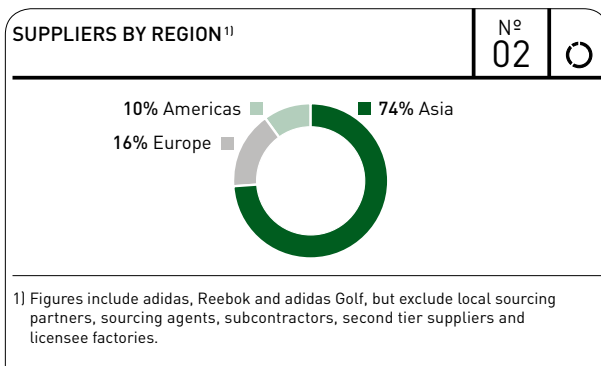
### Standardisation and automation of planning processes

As part of our End-to-End Planning initiative we have been focusing on implementing an optimised demand planning process and system to more than 20 countries in Europe. We standardised and partially automated certain planning functions to increase forecast accuracy. Following the first wave of implementations in 2008, we continued the roll-out to the remaining European countries throughout 2009. The final go-live will be completed by the end of the second quarter of 2010 when both brands adidas and Reebok will share a joint platform in Europe. Hereafter, we expect to continue the roll-out to other key adidas Group markets such as Japan.

The demand planning programme is complemented by a supply planning programme aimed at consolidating several legacy planning systems and processes within the Group into a single International Logistics Planning System (ILS) for all brands and product segments (Footwear, Apparel and Accessories). In 2009, ILS was successfully launched for brand adidas. It will be rolled out for brand Reebok in 2010.

### Product creation process streamlined and simplified

The Accelerated Creation to Shelf initiative gained important momentum in 2009 with progress being made in three areas. February saw the start of our "Fast and Lean Creation" programme for the adidas and Reebok brands. It is aimed at making our product creation process faster, smarter and more efficient through process streamlining and simplification, improved communication between our development teams and suppliers, and the reduction of administrative work along the creation process. An additional objective is the harmonisation of processes and systems across our brands. This programme will accelerate the expansion of creation calendars of 12 months or less to a larger share of our products. The programme roll-out will continue until 2011. In 2009, we also increased the use of virtual technologies at our creation centres around the world to further reduce the cost of product prototypes and sales samples.



### Majority of production through independent suppliers

To minimise production costs, we outsource over 95% 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 accessories. The latest list of our suppliers can be found on our website [www.adidas-Group.com/en/sustainability/suppliers\\_and\\_workers](http://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 (5), China (1) and Japan (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. 102](#).

### Continued consolidation of manufacturing partners

In 2009, Global Operations worked with 270 independent manufacturing partners, representing a 10% reduction compared to the prior year. This is a result of further rationalisation of our supplier base as well as the overall decline of sourcing volumes. Of our independent manufacturing partners, 74% were located in Asia, 16% were located in Europe and 10% in the Americas. 32% of all suppliers were located in China [see 02](#).

Our Global Operations function manages product development, commercialisation and distribution, and also supervises sourcing for our Wholesale and Retail segments as well as for adidas Golf [see 01](#). 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.

### China share of footwear production decreases

97% of our total 2009 footwear volume for adidas, Reebok and adidas Golf was produced in Asia (2008: 97%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2008: 3%) [see 03](#). China represents our largest sourcing country with approximately 41% of the total volume, followed by Vietnam with 31% and Indonesia with 17%. As part of our strategy to increase the regional diversity of our supplier base to meet the ongoing needs of our business, the overall representation of China in our sourcing mix declined 2 percentage points. At the same time, the share of footwear volume sourced from India increased almost 2 percentage points from a low comparison base. In 2009, our footwear suppliers produced approximately 171 million pairs of shoes (2008: approx. 221 million pairs) [see 04](#). The year-over-year decrease was attributable to a lower sourcing volume at both the adidas and Reebok brands due to excess inventories in the first half of 2009. Our largest footwear factory produced approximately 11% of the footwear sourcing volume (2008: 11%). Rockport purchased approximately 6 million pairs of footwear in 2009, which represents a decline of 27% versus the prior year. Products were primarily sourced from factories in China (64%), Vietnam (24%) and Indonesia (10%). The largest factory accounted for 28% of the total sourcing volume of the Rockport brand.

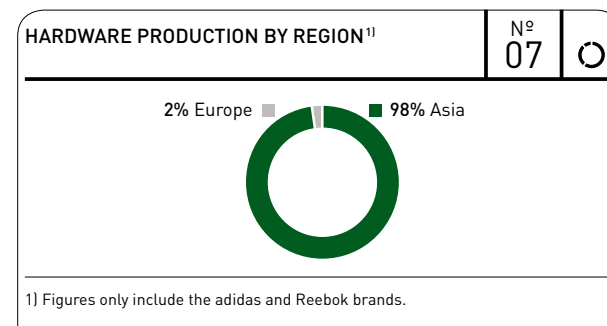
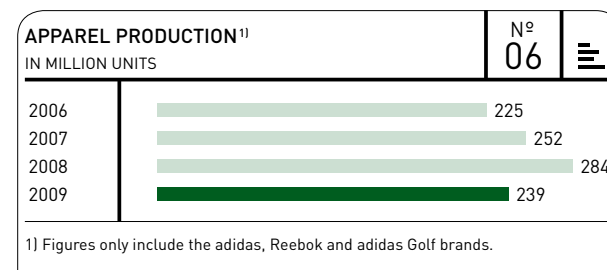
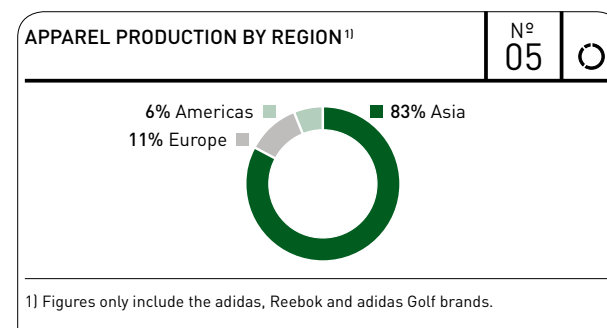
### Volume of apparel production declines

In 2009, we sourced 83% of the total apparel volume for adidas, Reebok and adidas Golf from Asia (2008: 83%). Europe remained the second largest apparel sourcing region, representing 11% of the volume (2008: 12%). The Americas accounted for 6% of the volume (2008: 5%) [see](#) [05](#). China was the largest source country, representing 37% of the produced volume, followed by Thailand with 14% and Indonesia with 11%. In total, our suppliers produced approximately 239 million units of apparel in 2009 (2008: approx. 284 million units) [see](#) [06](#). The largest apparel factory produced approximately 11% of this apparel volume in 2009 (2008: 10%). In addition, Reebok-CCM Hockey sourced around 2 million units of apparel in 2009. 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 20 million units of apparel and 14 million units of headwear (2008: 22 million and 17 million, respectively). The majority of purchased apparel products was sourced as unfinished goods from Latin America (62%) and Asia (8%), and was subsequently finished in our own screen-printing facilities in the USA. The majority of headwear sourced was finished products manufactured predominately in Asia (96%) and the USA (4%).

### Approximately 67% of adidas and Reebok branded hardware produced in China

In 2009, the bulk (i.e. 98%) of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2008: 98%). China remained our largest source country, accounting for 67% of the sourced volume, followed by Vietnam with 22% and Pakistan with 8%. The remaining 3% was sourced via other Asian and European countries [see](#) [07](#). The total 2009 hardware sourcing volume was approximately 34 million units (2008: approximately 42 million units) with the largest factory accounting for 28% of production.

TaylorMade and Reebok-CCM Hockey sourced 92% and 88% of their hardware volumes from Asia, respectively (2008: 93% and 75%). In addition, both brands sourced a small portion of hardware products in the Americas. At TaylorMade, the majority of golf club components were manufactured by suppliers in China and assembled by TaylorMade in the USA, China and Japan.



## Research and Development


Product innovation is a prerequisite to strengthening our market position in the sporting goods industry. Innovational strength drives brand perception among consumers and has a direct impact on the value attributable to our products. As a result, research and development (R&D) is a cornerstone for the continued success of our business. We invest considerable resources into developing and commercialising new technologies as well as fresh design ideas, in order to best unite our brands' values with the unique needs of our consumers. The research and development process is driven by teams of employees with diverse professional backgrounds. In 2010, our R&D priorities will focus on the development of such technologies that bring to life our different brands' value propositions.

### R&D an integral part of the product creation process

R&D within the adidas Group follows a decentralised approach. Fundamental and biomechanical research, however, is shared across the Group. In line with its distinctive positioning, each brand runs its own research, design and development activities. The teams generally have either a category or a technology focus. R&D is not a separate organisational entity, but is closely integrated with the sourcing, design and product marketing functions. As a result, all R&D activities are focused on producing results directly applicable to a specific product. At the beginning of the product creation process, marketing defines a development priority. 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 scope of idea generation.

These are presented to product marketing at an early stage to assess commerciality. Once conceptualised, new technologies are engineered using state-of-the-art CAD and Finite Element Analysis (FEA) systems. Sourcing specialists are consulted to integrate cost and production process aspects into the development phase. As soon as a new technology is deemed viable, it is produced as a physical sample. Samples are then tested extensively by members of our innovation team as well as by top athletes and teams. Only when these tests have been successful are technologies handed over to product marketing which commercialises the technology to a final product.

### Initiatives to further streamline product creation process

We constantly strive to utilise our R&D processes to fulfil our mission to develop products that give our athletes and consumers a tangible advantage over the competition. In 2009, we introduced our "Fast and Lean Creation" programme  also see *Global Operations*, p. 88. This initiative aims at further streamlining the product creation process. With respect to our R&D activities specifically, we aim at improving our ability to adapt to changing consumer preferences more quickly, flexibly and efficiently. In order to do so, we foster close cooperation between our development teams and relevant stakeholders. This means we have strengthened our connection with suppliers to facilitate direct interaction and involvement in quality control, product testing and commercialisation. Also, in 2009 further progress was made to integrate marketing and design teams into the product creation process at an earlier stage. This measure supports the minimisation of costly product changes in the later stages of the development process.

### adidas Innovation Team drives brand's R&D initiatives

R&D activities at brand adidas focus on the development of innovative footwear, apparel and hardware technologies for performance sport. To solidify adidas' position as a leader in technology and innovation, the adidas Innovation Team (ait) is responsible for the ongoing development of new technologies and concepts in all key product categories. The team is divided into groups that focus on individual product categories like basketball, football or cross-category project areas such as intelligent products or energy management systems (cushioning technologies). The majority of these groups are located in Herzogenaurach, Germany and Portland/Oregon, USA. Dedicated innovation development centres in Asia focus on the design of products specifically targeting the Asian market as well as the production of prototypes to support the product creation process.



### R&D activities at Reebok focus on comfort and fit

R&D teams at Reebok create footwear, apparel and hardware with the primary focus on developing products that provide maximum performance, comfort and fit for the consumer. Teams are structured along the brand's product category focus in addition to certain cross-category groups such as the Reebok Advanced Concepts (RAC) team. Activities are primarily located in Canton/Massachusetts, USA to facilitate close collaboration with the respective product marketing teams. In order to include production considerations early in the process, a new development centre was opened in Vietnam close to the brand's sourcing base in the middle of 2009.

### Industry-leading R&D at 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 and is located in Carlsbad/California, USA.

### Vertically integrated R&D activities at Rockport

Rockport's R&D function located in Canton/Massachusetts, USA, is a vertically integrated organisation that covers all aspects of strategy, research, design, engineering and testing, while incorporating the Group's advanced proprietary athletic footwear technologies into casual and dress shoes.

### Reebok-CCM Hockey R&D located in Canada

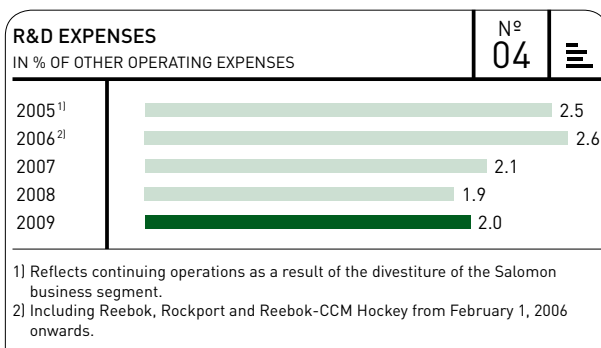
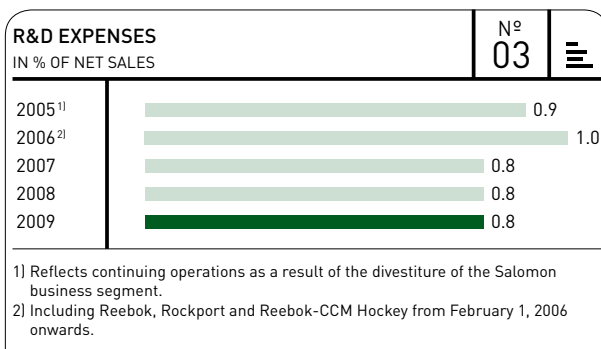
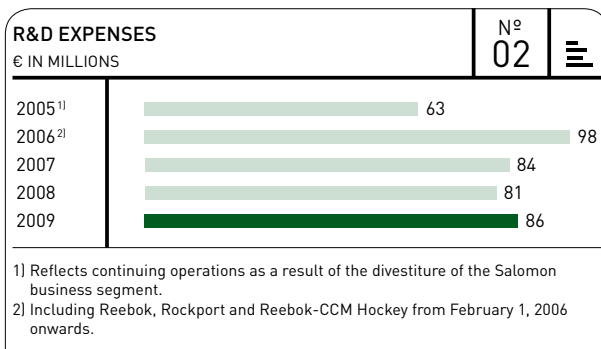
The R&D teams at Reebok-CCM Hockey, located at two different locations in Canada, are dedicated to continuously creating state-of-the-art hockey equipment for both professional and recreational players. Teams are organised by category under the two brands Reebok and CCM.

### 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. We enter into external collaborations to gain access to highly specialised knowledge in certain areas of expertise we have decided not to fill internally.

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 Erlangen-Nürnberg, RWTH Aachen University and the University of Freiburg, Germany. In 2009, the development of the JABULANI football, for example, was based on comprehensive aerodynamic research conducted by Loughborough University. Reebok partners with the University of Delaware in various categories, in particular in developing toning products. Using electromyographic tests, the benefits of increased muscle activity are verified for new product developments in this category. TaylorMade-adidas Golf cooperates with the University of Calgary. In 2009, a joint study of swing dynamics was conducted to help improve the brand's club and ball fitting logic.

MAJOR R&D LOCATIONS AND ACTIVITIES		Nº 01	☰
	Main activities	Location	
adidas	Global Development Center (ait)	Herzogenaurach, Germany	
	Global Development Center (ait)	Portland/Oregon, USA	
	Global Research and Testing Center (ait)	Scheinfeld, Germany	
	Product Creation Center	Shanghai, China	
	Product Creation Center	Tokyo, Japan	
Reebok	Global Development and Testing Center	Canton/Massachusetts, USA	
	Development and Testing Center	Ho Chi Minh, Vietnam	
TaylorMade-adidas Golf	Global Development and Testing Center	Carlsbad/California, USA	
Rockport	Global Development and Testing Center	Canton/Massachusetts, USA	
Reebok-CCM Hockey	Development and Testing Center	Montreal/Quebec, Canada	
	Development and Testing Center	Saint-Jean-sur-Richelieu/Quebec, Canada	



### Active trademark and patent protection policy

To capitalise on the Group's R&D achievements, we seek patent protection for all our footwear, apparel and hardware innovations. It is an important business policy for our Group to secure the best available patent protection for our innovations in major markets. 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. 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 [see Risk and Opportunity Report, p. 140.](#)

### R&D expenses increase 6%

In 2009, as in prior years, all R&D costs were expensed as incurred. adidas Group R&D expenses increased by 6% to €86 million (2008: €81 million) as a result of increases at brand adidas from initiatives relating to the development of intelligent products.

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. Personnel expenses represent the largest portion of R&D expenses, accounting for more than 50% of total R&D expenses in 2009. In 2009, R&D expenses represented 2.0% of total operating expenses versus 1.9% in the prior year. R&D expenses as a percentage of sales remained stable at 0.8% (2008: 0.8%) [see Note 2, p. 171.](#)

### Highly skilled technical personnel

For all our brands, the success of our R&D efforts depends on bringing together a multi-faceted and highly skilled workforce. At December 31, 2009, 999 people were employed in the Group's R&D activities compared to 1,152 employees in 2008 (-13%). This represents 3% of total Group employees, unchanged compared to the prior year (2008: 3%). The R&D departments for each brand comprise experienced teams from different areas of expertise. Employees with a background in mechanical and technical engineering as well as biomechanics specialise primarily in the development of performance footwear with a special focus on reducing stress on knees and other joints. Experts in material engineering concentrate on the development of apparel and footwear with an emphasis on increasing durability and flexibility as well as enhancing temperature and moisture management.

Other professional backgrounds include industrial and graphic design, Finite Element Analysis, advanced CAD design and kinesiology. In 2010, we expect the number of R&D employees to remain largely unchanged.

### Successful commercialisation of technological innovations

Developing industry-leading technologies is only one aspect of being an innovation leader. Even more important is the successful commercialisation of those technological innovations. Also in 2009, the majority of adidas Group sales were generated with products newly introduced in the course of the year. New products tend to have a higher gross margin compared to products which are in the market for more than one season. As a result, newly launched products contributed over-proportionately to the Group's net income in 2009. We expect this development to continue in 2010 as our launch schedule highlights a full pipeline of innovative products [see Subsequent Events and Outlook, p. 156.](#)

### Successful product launches across all major adidas categories

As in previous years, the majority of adidas sales in 2009 were generated with new products. Products launched during the year accounted for 80% of brand sales (2008: 78%). Only 3% of total sales were generated with products introduced three or more years ago (2008: 5%). In running, adidas launched the adiSTAR® Salvation featuring a new balanced forefoot and the new pro-moderator technology. With this extremely lightweight protective support on the shoe's inner midsole, the runner's foot is prevented from rolling too much to the inside upon landing. Also, the newly launched Supernova™ Glide was constructed 20% lighter compared to its predecessor. Highlight product launches in the football category included the F50i, the first football boot with a single-layer upper called SprintSkin, allowing for perfect contact with the ball. adidas also further improved miCoach, an interactive training system which collects and turns personal data into individual training plans based on the user's fitness level and specific goals. The system is operated with a device called miCoach Pacer that measures heart rate, distance, pace, stride rate and calories burned in real time. All data synchronises with the miCoach website [www.adidas.com/miCoach](http://www.adidas.com/miCoach) where users can track their progress, see a detailed analysis of their run and receive online coaching feedback.

adidas also extended its TECHFIT™ range with the introduction of TECHFIT™ Tuned Compression. Using Seamless Melted Yarn Technology to focus the highest level of flexible compression on large muscle groups, TECHFIT™ Tuned Compression increases the expulsion of waste (lactate acid) to accelerate muscle recovery.

### Reebok launches EasyTone™ to establish whole new toning category

In 2009, Reebok launched several new product initiatives which had an important influence on the brand's sales development, in particular in the Women's Fitness category. At brand Reebok, 64% of ordered footwear was launched in 2009 (2008: 66%). Only 14% of ordered footwear products were related to products introduced three or more years ago (2008: 14%). In 2009, Reebok launched the EasyTone™ shoe featuring "moving air" technology. Balance pods located in the sole of the shoe create natural instability with each step. The proprietary technology was worked into the shoe without compromising the look. The need to constantly rebalance weight tones the wearer's butt and leg muscles with every step. Going forward, Reebok will build on the success of the EasyTone™ and further expand its offering in this emerging category [see Reebok Strategy, p. 70](#). As a result, we expect to sell several million pairs of toning products in 2010.

Also, in 2009 Reebok launched JUKARI Fit to Fly™, a new gym workout developed in cooperation with Cirque du Soleil. It uses a specially designed trapeze-shaped piece of equipment called JUKARI FlySet™ for an effective total body workout through cardio, strength, balance and core training.

### Innovation a key success factor for TaylorMade-adidas Golf

In the TaylorMade-adidas Golf segment, current products (i.e. products launched in the last 18 months, which is the typical product lifecycle in golf) represented 69% of total hardware sales in 2009 (2008: 92%). The decline versus the prior year is a result of higher clearance sales to reduce excess inventory. Products that had been brought to market three or more years ago accounted for 15% (2008: 1%). Among the highlight product launches in 2009 was the R9™ driver combining Movable Weight Technology™ with the new Flight Control Technology. This technology allows the club user to adjust the face angle and loft of his driver by selecting the shaft position from eight different options. The R9™ product family of drivers accounted for approximately 50% of TaylorMade metalwoods sales in 2009. TaylorMade also launched the Burner® family of irons designed to maximise forgiveness, speed and distance. Inverted Cone Technology, visible on the back of the clubface, promotes faster ball speed and more distance on off-centre hits.

MAJOR 2009 PRODUCT LAUNCHES		N° 05	☰
Product	Brand		
adiPURE™ football boot	adidas		
Style Essentials footwear	adidas		
adidas Originals Vespa collection	adidas		
TERREX outdoor footwear and apparel	adidas		
adidas SLVR footwear and apparel	adidas		
UEFA Champions League Finale ball	adidas		
F50i football boot	adidas		
adiSTAR® Salvation running shoe	adidas		
Supernova™ Glide running shoe	adidas		
Supernova™ Sequence 2 running shoe	adidas		
adidas TECHFIT™ Tuned Compression	adidas		
UEFA Champions League 09/10 season ball	adidas		
2010 FIFA World Cup™ federation jerseys	adidas		
2010 FIFA World Cup™ match ball	adidas		
EasyTone™ training shoe	Reebok		
SelectRide™ running and training shoe	Reebok		
Reebok Cirque du Soleil collection	Reebok		
Premier Trinity KFS IV running shoe	Reebok		
Premier Verona KFS II running shoe	Reebok		
R9™ and R9™ TP drivers and irons	TaylorMade		
R9™ fairway woods	TaylorMade		
Rescue® 09 and Rescue® TP 09 hybrids	TaylorMade		
Burner® irons	TaylorMade		
xFT wedge	TaylorMade		
Penta TP ball	TaylorMade		
Women's & Men's FORMOTION™ and CLIMACOOL® apparel	adidas Golf		
Women's & Men's CLIMAPROOF® Storm Softshell jackets	adidas Golf		
Women's & Men's EZ-Tech apparel	Ashworth		
Women's & Men's Hi-Gauge apparel	Ashworth		
Women's & Men's Dewsweeper apparel	Ashworth		
DresSport® 2	Rockport		
10K Sickick™ II stick	Reebok Hockey		
8.0.8 "O-Stick"	Reebok Hockey		
Octo Gun stick line	CCM Hockey		
U+™ Pro Skate	CCM Hockey		

**AWARDS 2009**

 Nº  
**06**

Product	Award	Category	Brand/Segment
TERREX Mid Fast FM	Editor's Choice Award / "Outdoor Magazin"	Innovation	adidas
F50i	Plus X Award / Technology contest	High Quality and Functionality	adidas
adiZero™ Aegis	Running Network / Magazine	Best Performance Running Shoe	adidas
EasyTone™ Go Outside	Plus X Award / Technology contest	Innovation and Functionality	Reebok
adidas TOUR360 4.0	Golf Europe / International Trade Fair	Technology	TaylorMade-adidas Golf
Burner® irons	International Network of Golf / Association	Product Ingenuity	TaylorMade-adidas Golf

Burner® irons became the number one selling irons in the USA soon after their launch and helped TaylorMade-adidas Golf take market leadership in this category in the USA. In addition, TaylorMade also launched the Penta, the industry's first five-layer ball. The ball targets maximum performance for five different kinds of shots. Other highlight launches included the xFT wedge with Exchangeable Face Technology, allowing the user to exchange just the club face instead of purchasing a completely new club.




**Rockport defines truWALK architecture**

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 2009 accounted for 55% of sales (2008: 57%). 19% of sales were generated with products introduced three or more years ago (2008: 12%). In 2009, R&D efforts concentrated on engineered comfort and style for the metropolitan professional. Rockport developed a proprietary architecture – called truWALK – that 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 that helps delay fatigue.

**Reebok-CCM Hockey innovates in sticks and skates**

At Reebok-CCM Hockey, products launched in 2009 accounted for 59% of sales in North America (2008: 31%). Only 10% of sales in this region were generated with products introduced three or more years ago (2008: 16%). In 2009, Reebok-CCM Hockey launched the U+™ Crazy Light Stick made of extremely light carbon fibre in the shaft which reduces its weight to 405 grams. The stick offers more feel, better balance, quicker reaction time and faster shots. Also, the U+™ Pro Reloaded Skate was brought to market. The skate features U FOAM™, which moulds perfectly to each individual foot after being heated. This technology makes the skate the only product within its industry to offer true fit customisation.

**Ambitious 2010 R&D targets**

R&D is crucial for our Group's success as we continuously strive to meet and exceed the expectations of our consumers and customers with respect to technology and design. The awards we attained in 2009 are further proof of our technology leadership within the sporting goods industry  see  06. Our Group remains committed to bringing at least one new revolutionary technology or groundbreaking evolution to the market each year  see Group Strategy, p. 52. In 2010, intelligent product technologies will be at the forefront of adidas R&D activities as we aim to position the brand as the technology leader in this rapidly growing category. Reebok will expand on the success of the toning category, transferring its expertise to other categories beyond Women's Fitness. TaylorMade-adidas Golf's development efforts will continue to reinforce industry leadership in enhancing performance through new adjustability features. Rockport will focus on developing premium materials tailored to the lifestyle of the brand's metropolitan professional consumer, in addition to further refinement of the truWALK architecture which will be launched in fall 2010. Reebok-CCM Hockey will concentrate on bringing new technologies in sticks and skates to market that improve performance and durability at reduced weight.

## Employees

We know that our people are crucial to our success. Becoming the global leader in the sporting goods industry depends on the performance, potential, enthusiasm and dedication of our employees. We strive to create a working environment that stimulates team engagement, spirit, passion and achievement. We promote a performance culture based on strong leadership and therefore link employee compensation to both Group and individual achievements. We aim to continuously develop our employees with opportunities for career progression, while upholding a culture that celebrates diversity and encourages global mobility.

### Engagement drives performance

At the adidas Group, we believe that employee satisfaction drives commitment, commitment drives engagement, and engagement drives performance. Therefore, 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 regularly carry out engagement surveys. This frequent dialogue enables management to evaluate our progress as an employer while also providing a framework for external benchmarking. Our 2008 and 2009 surveys identified areas such as career opportunities, leadership and recognition where employees feel our Group could do better. In 2009, we invested heavily in the follow-up work after our surveys around the world. Based on the feedback received in the survey process, we created "Result-to-Action teams" in each business unit, encouraging our employees to develop targets and projects in order to enhance the Group's performance in the respective areas.

This bottom-up approach should result in appropriate actions by senior management to improve perceived discrepancies in the future. Additionally, we committed our department heads to assume responsibility for their engagement score, with the goal of increasing it in future surveys. To continue momentum in this area, we will launch our first truly global engagement survey in 2010.

### Internal communication crucial for employee engagement

We believe that two-way internal communication is crucial for fostering open collaboration between management and employees. In 2009, we further developed, aligned and consolidated internal communication tools across our business units. In particular, throughout 2009, we worked on reshaping our Group intranet platform, basing it on Web 2.0 technologies with two-way communication channels. The new intranet encourages our employees to exchange ideas, share their knowledge, collaborate as well as discuss current topics. We established an adidas Group Wiki, where every employee can actively participate by creating new articles and editing all other articles.

In parallel, we switched all major pages to internal blogs, for a faster, more efficient and participatory conversation with our employees. The blogs enable every employee to comment on the communicated topics.

We also offer our employees the opportunity to exchange ideas directly with senior management and raise questions – also anonymously – via our intranet through our "Ask the Management" application.

In 2010, we will also introduce an ideas forum for the adidas Group, where employees receive recognition for top ideas, and are involved in the implementation process.

Complementing our web-based communication tools, we regularly hold all-employee meetings at our major locations around the world where staff have the opportunity to openly share their views with senior management including the Executive Board and gain an overview of current and future business developments.



## 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 on three pillars:

- Creating a working environment that stimulates team spirit, passion, engagement and achievement
  - ➔ see "Engagement drives performance", p. 97
  - ➔ see "Internal communication crucial for employee engagement", p. 97
- Expanding our performance culture based upon strong leadership
  - ➔ see "Fit for today and tomorrow", p. 98
  - ➔ see "Performance-driven remuneration system", p. 98
- Being an "Employer of Choice"
  - ➔ see "Creating an attractive and diverse work environment", p. 99

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

### Fit for today and tomorrow

To reach their personal best, our Group's employees are offered training to build on their strengths, improve their technique and overcome their own challenges. In this process, joining individual aspirations to our organisational needs is the highest priority. Our "Competency Model" defines a set of competencies to ensure consistent and transparent performance, talent and succession management. We focus our efforts on three key success drivers  see  01.

**Performance Management:** Our global PEP (Performance Evaluation and Planning) tool enables us to measure all our employees against the required competencies of their job level and their performance, but also to set individual business targets and plan appropriate training and development activities as necessary. PEP is used in business units of the adidas Group and the online PEP has a coverage of 56%. The target for 2010 is to reach an online coverage of 70% Group-wide. Furthermore, we offer targeted training under our "Fit for Today" programme (behavioural and managerial training) for individuals on all levels of the organisation and we support other team performance-enhancing activities.

**Talent Management:** With specifically designed talent management tools and processes, we identify employees at all levels of our Group who have the potential to become future leaders in our organisation. Actively managing our internal talent pool contributes to our competitive position and ensures that we are "fit for tomorrow". In order to prepare employees for new and more complex future roles, they participate in targeted development programmes for various levels within the organisation  see  02:

- Executive Development Programme (EDP): A centrally managed cross-brand and cross-functional programme for employees Group-wide who show potential for the Executive Level.
- Management Development Programme (MDP): Run decentrally by our local market organisations, this programme is tailored for employees from different functional areas and brands who show potential for the management level.
- Business Management Programme (BMP): A 24-month international cross-functional and cross-brand programme aiming at attracting professionals with MBA degrees and three to five years' work experience to prepare them for future management positions within our Group. At year-end 2009, five employees were participating in the BMP globally (2008: 7).

- Functional Trainee Programme (FTP): A 12- to 18-month programme giving graduates with international backgrounds and excellent educational credentials the opportunity to start a functional career with the adidas Group. The programme comprises six three-month assignments in varying departments. At least one of these assignments takes place abroad. At year-end 2009, we employed 39 participants in our global FTP (2008: 29).

**Succession Management:** We have a Group-wide succession management system in place that helps us identify, manage and develop internal talents and successors for management and executive positions. The succession management process is supported by a system solution called "Horizon". This database hosts position and employee data related to performance, potential, career aspirations, mobility, etc. Senior management regularly discusses the current succession situation of their respective departments and identifies key players and talents that are designated or potential successors for all positions from Director level. Our system solution is applied in 53% of the adidas Group business units. The target for 2010 is to reach an online coverage of 70% Group-wide.

Our "Fit For Tomorrow" programmes are complemented by apprenticeship and internship programmes. The adidas Group apprenticeship offers young people who want to join our Group straight 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 2009, we employed 58 apprentices in Germany (2008: 54). Our global internship programme gives students three to six months' work experience within the adidas Group. For "best-of-class" interns, we successfully continued our "ReBound" programme to remain in close contact with them after their internship and foster potential future employment. At the end of 2009, we employed 331 interns in Germany (2008: 396).

### Performance-driven remuneration system

We are committed to rewarding our employees with effective 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 (GSMS). It is used as a basis to set the value of employees' positions and salaries in a clear, market-driven and performance-oriented way.

GSMS provides the global framework for managing base compensation in the adidas Group and for making performance-related base salary adjustments. In addition to a fixed base salary, we also 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 the achievement of their targets, the adidas Group has implemented a global bonus programme called "Pay for Performance". This bonus programme combines individual performance (measured in the PEP process) and corporate performance (actual financial results measured against Group, brand, division and/or business unit targets).

**Profit sharing:** For employees at our Group headquarters and our other locations in Germany who do not participate in the "Pay for Performance" programme, we have introduced a "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 2009, 1,896 employees (2008: 1,712) participated in the latter, which represents an increase of 11% compared to the previous year.

Other Group subsidiaries also grant a variety of additional benefits to employees depending on locally defined practices and country-specific norms.

### Creating an attractive and diverse work environment

As a truly global company, diversity is one of our Group's core values. We believe that the diversity of our workforce helps us to sustain a competitive advantage. As part of our training and development programme, for example, we offer specific modules on diversity management. This helps us to ensure our company's success and stability. The high degree of diversity is also reflected in our workforce. At our corporate headquarters, for example, we have employees from more than 50 countries.

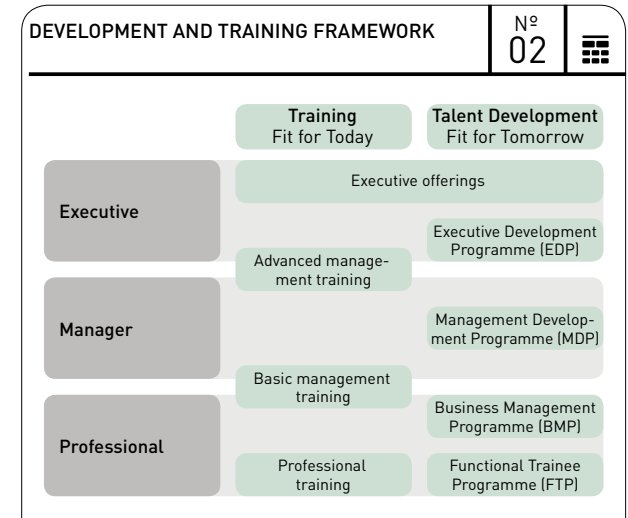
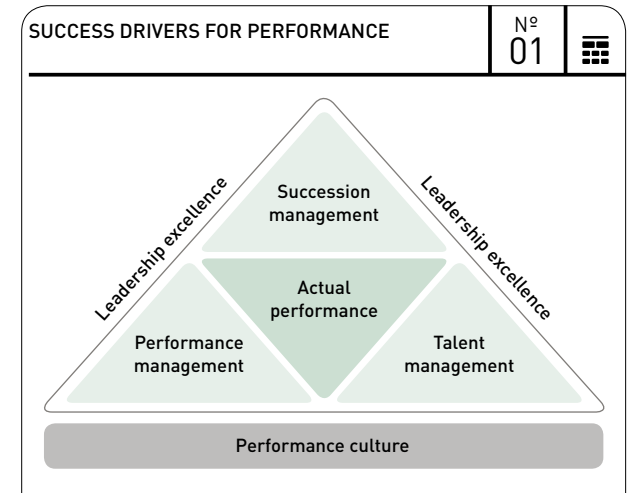
We also aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees. Our work-life balance programme includes family-oriented services, flexible work time and place, people development and leadership competence related to work-life balance.

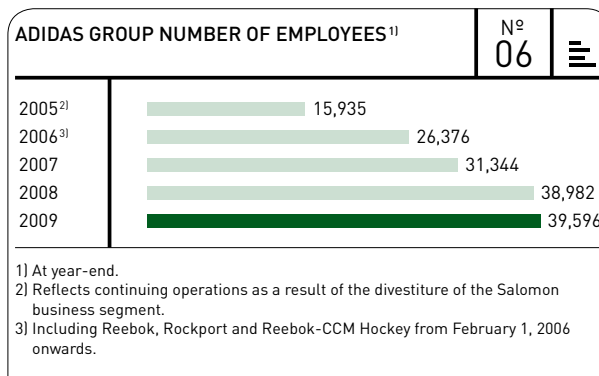
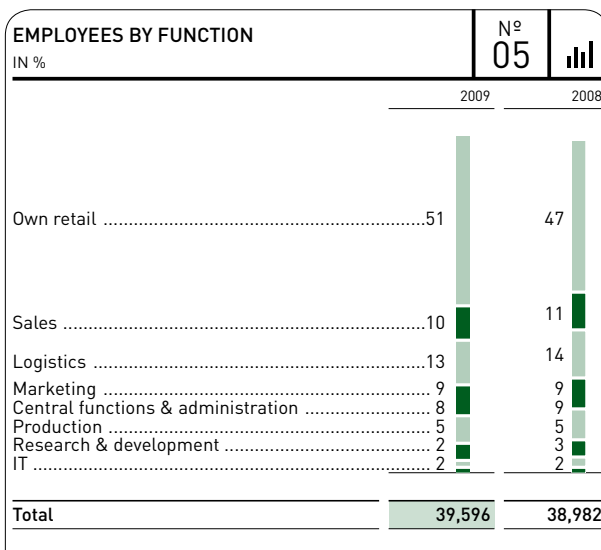
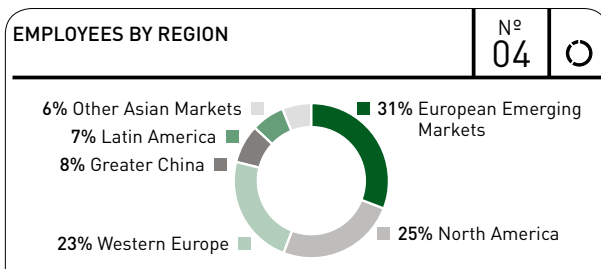
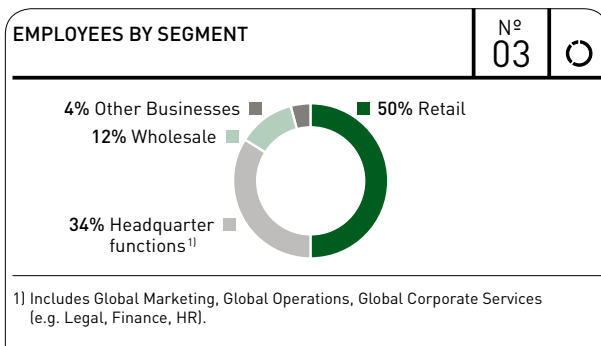
In addition, we offer our employees a wide range of sports activities at our major sites. Employees in Herzogenaurach, Portland and Canton and at other subsidiaries have access to a company gym.

Our Company Sports department in Herzogenaurach also organises various sports activities such as mountain biking, kayaking 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. In 2009, the Company Sports department in Germany offered about 160 courses and more than 20 events which were attended by more than 3,000 participants (2008: 2,800).

### Challenges in human resources management

The current economic market environment also put pressure on our Group as an employer. We launched an "Invest-Divest Programme" in 2009, proactively tackling the current challenges. We streamlined our business processes, reviewed organisational efficiency and maintained a function-related hiring and salary freeze. Vacancies through attrition were mainly replaced by internal applicants, in particular in the HQ functions and the Wholesale segment of our global business. We will continue to "run a tight ship" with regard to hiring, compensation and travel throughout 2010, but will keep investing in our quest to become the employer of choice. To this end, we will further build our internal and external talent and succession management platforms.





### NUMBER OF EMPLOYEES<sup>1)</sup>

Nº 07

	2009		2008	
	Employees <sup>3)</sup>	Full-time equivalents <sup>4)</sup>	Employees <sup>3)</sup>	Full-time equivalents <sup>4)</sup>
Wholesale	4,881	4,662	5,303	5,133
Retail	19,599	15,252	17,614	15,168
Other Businesses	1,569	1,502	1,694	1,679
Headquarter functions <sup>2)</sup>	13,547	13,022	14,370	13,996
<b>Total</b>	<b>39,596</b>	<b>34,437</b>	<b>38,982</b>	<b>35,977</b>

1) At year-end.  
 2) Includes Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR).  
 3) Number of employees on a headcount basis.  
 4) 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. Rounding differences may arise in totals.

With regard to people management, we kept on and will keep on investing in our employer branding, talent management and trainee programmes in order to continue to build the future talent pipeline. Although we benefit from our excellent reputation, a key tenet of our strategy is to continuously refine our branding as an employer of choice. Recent employer branding rankings showed 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 2009. By partnering with select universities around the globe, we strive to foster our strong employer image through direct contact with top graduates. We continued to build upon our "key university strategy roll-out" in 2009, where members of the Executive Board and other senior executives of the Group shared their business insights at 13 top universities worldwide. When it comes to highly qualified personnel, the adidas Group faces increasing competition in the international labour market. We will continue to tackle this challenge with innovative programmes.



### Global employee base continues to grow

On December 31, 2009, the Group had 39,596 employees, which represents an increase of 2% versus 38,982 in the previous year. This development is primarily related to new employees in the Retail segment, mainly on a part-time basis. On a full-time equivalent basis, our Group had 34,437 employees on December 31, 2009 (2008: 35,977). 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 [see](#) [07](#).

Personnel expenses increased 5% to € 1.352 billion in 2009 from € 1.283 billion in 2008 [see](#) [Note 31, p. 201](#), representing 31% of the Group's total operating expenses (2008: 30%) and 13% of Group sales (2008: 12%).

### Emerging markets and own retail drive employee growth

The number of employees working in the Wholesale segment decreased 8% to 4,881 at the end of 2009 (2008: 5,303), mainly due to the effects of reorganisation initiatives and the implementation of a hiring freeze for all non-retail-related functions. Staff in our Retail segment increased 11% due to the expansion of own-retail activities in emerging markets. Hence, the Retail segment comprised 19,599 employees at year-end (2008: 17,614). In Other Businesses, the number of employees decreased by 7% to 1,569 (2008: 1,694), primarily due to the effects of reorganisation initiatives as well as the implementation of a hiring freeze for all non-retail-related functions. The number of employees working in our headquarter functions decreased by 6% to 13,547 (2008: 14,370). This development reflects the implementation of a hiring freeze for all non-retail-related functions in 2009.

At the end of 2009, 23% of our Group's staff were employed in Western Europe (2008: 24%), 31% in European Emerging Markets (2008: 28%), 25% in North America (2008: 28%), 8% in Greater China (2008: 9%), 6% in Other Asian Markets (2008: 6%) and 7% in Latin America (2008: 6%). 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.

KEY EMPLOYEE STATISTICS 2009		N° 08	☰
Total number of employees		39,596	
Total employees (in %)			
Male		50%	
Female		50%	
Management positions (in %)			
Male		69%	
Female		31%	
Average age of employees (in years) <sup>1)</sup>		31	
Average length of service (in years)		4	
Annual training hours by employee (in hours)		7	
1) At year-end.			

# Sustainability

The adidas Group is accountable and responsible 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 our Group. We believe that acting as good corporate citizens will improve our corporate reputation and hence our economic value.

## MORE INFORMATION ONLINE



Read more about:

- Sustainability targets and progress
  - Stakeholder engagement
  - The “Better Place” programme
  - Performance data
- in our 2009 Social and Environmental Online Report and on our website at [www.adidas-Group.com/sustainability](http://www.adidas-Group.com/sustainability).

### Engaging our stakeholders

At the adidas Group, we pursue a policy of open dialogue with numerous stakeholders, involving them in key social and environmental decisions that shape day-to-day operations. Through in-depth engagement with, for example, the Better Cotton Initiative 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. Comprehensive information on the Group’s sustainability programme is provided in our 2009 Social and Environmental Online Report on our website [www.adidas-Group.com/sustainability](http://www.adidas-Group.com/sustainability).

### Workplace Standards set rules in the supply chain

Covering health and safety, labour rights and environmental protection at our own sites and our suppliers’ factories is of highest importance to us. Therefore, we have defined rules or standards by our own corporate values as well as by what society expects of global businesses. 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. To illustrate how suppliers should implement the Standards, we have created a set of 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. They are based on International Labour Organization (ILO) and UN conventions relating to human rights and employment practices, and they follow the WFSGI model code of conduct.

Our Workplace Standards contain clear rules of conduct regarding:

- Environmentally sound, safe and healthy working conditions.
- Fair wages and benefits.
- Freedom of association.
- Prohibition of excessive overtime, forced and child labour.
- Protection against harassment and discrimination.

### Careful supplier selection

To improve working conditions throughout our supply chain, our Group SEA team works closely with the Global Operations function 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

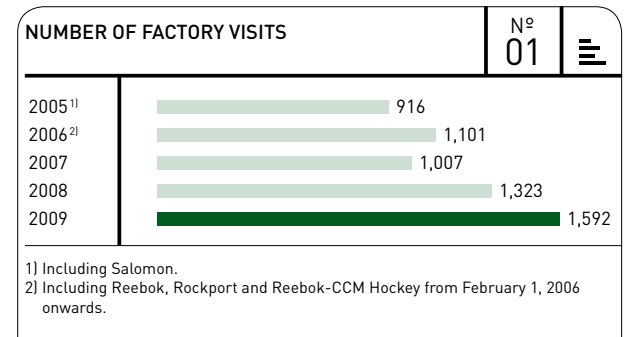
Good management systems help factories improve their day-to-day operations and support the process of internalisation and self-governance. Therefore, we support our core business partners in establishing management systems with internationally recognised standards such as ISO 14001 for environmental management. 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. Further, 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. In 2009, our Group's supply base included 19 athletic footwear suppliers' factories, which were OHSAS 18000 and/or ISO 14001 certified. These factories produced around 82% of our footwear sourcing volume. The remaining 18% 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 regarding environment and workplace health and safety.

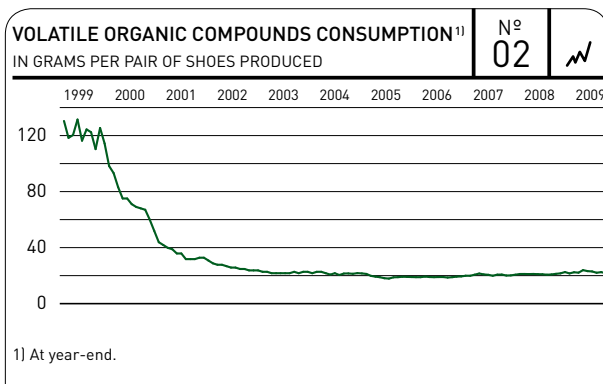
### Training to achieve sustainable compliance

To achieve long-term sustainable compliance in the supply chain, we consider training even more important than monitoring and policing factories. 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, detailed training on effective health, safety and environmental practices as well as training in the correct application of rating and compliance planning tools and supplier self-assessment methods. Further, we promote the establishment of sustainable structures that actively involve workers and management of our suppliers as well as local employee associations and non-governmental organisations (NGOs). The team also organises workshops for licensees, agents and adidas Group business entities in order to build personnel capacities throughout our company. In this way, acceptable working conditions become a routine part of business activities. In 2009, the SEA team conducted 216 training sessions and workshops (2008: 251).

### 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 2009, we conducted 1,592 factory visits (2008: 1,323 visits) involving management and worker interviews, document review, facility inspections and training sessions at different levels in our supply chain  see  01. In addition to our own monitoring activities, we value independent 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 for a period of two years. 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. Since joining the FLA, more than 240 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers.





### Warning-letter system to enforce compliance

We strongly believe in a partnership approach. 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 will usually result in a recommendation to terminate. We see termination of business relationships as a last resort. Whenever possible, we prefer to stay in partnership and work from the inside to help encourage factory improvements. In 2009, we terminated our business relationship with 9 suppliers for compliance reasons (2008: 2).

### System-based approach to managing environmental impacts

With a system-based approach, we strive to manage environmental impacts in our own production facilities and throughout our supply chain. Activities focus on helping suppliers establish sound environmental management systems to best reduce their negative environmental impacts. We develop guidelines and training programmes for our suppliers, using the environmental performance of our own production sites as examples of best practice.

We have mandated the implementation of environmental management systems at our core suppliers to ensure continuous monitoring and improvements. The major part of the environmental footprint from our products is predetermined through decisions made in the product creation, design and development stages. In our product creation process, we focus on improving materials in our products and on tackling pollution in factories. Our goal is to eliminate polluting materials and processes and to increasingly utilise sustainable materials instead.

### Control and monitoring of restricted substances

Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our suppliers are required to avoid using restricted substances. We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety in the Group's policy for monitoring and control of hazardous substances. 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, Tox Proof 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 cause breathing difficulties and other health problems for production workers. Therefore, we are committed to reducing VOC emissions in our suppliers' footwear factories to an average VOC emission of 20 grams per pair of shoes. Our efforts reflect the technical synergies of sharing information, data and sources on production questions such as water-based cement systems. At our core athletic footwear suppliers we measure exposure to such emissions, and the records taken provide evidence that workers are not being exposed to dangerous levels of VOCs. Our athletic footwear suppliers in Asia and Europe have reduced VOC emissions from 130 grams per pair in 1999 to 22.6 grams per pair in 2009 [see № 02](#).

### Tackling climate change

Tackling climate change poses a number of challenges for our company and our manufacturing partners. We have analysed the environmental footprint of our business operations and have focused our efforts on three primary areas: our products, our supply chain and our own sites. A range of activities have been implemented to reduce our own carbon footprint. Examples of this 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. With regard to energy use, we are implementing environmental management systems at our major sites. Furthermore, we have continued with providing energy workshops for our manufacturing suppliers and are now extending our engagement to support our suppliers to ensure that they achieve measurable results for energy savings.

In addition, at the end of 2008, we started the "Green Company" initiative to further expand our environmental initiatives throughout all of our operations. The initiative aims at providing the supporting framework, guidance and communication platform in order to help all Group entities improve their environmental footprint by:

- Embedding environmental best practice in all business operations.
- Maximising environmental efficiency gains.
- Supporting and utilising our employees' passion for a greener planet.

In 2009, following a comprehensive assessment of major sites, "Green Company" targets were set for the years 2010–2015. They encompass targets related to savings in energy use, carbon emissions, water usage and paper. Further targets have been specified for waste, purchasing practices and mobility management.

### Environmentally optimised product concepts

Through the efficient use of resources in the design and selection of materials, we strive to minimise the environmental impact of our products without compromising function and quality. In this respect, our adidas Sport Performance division has initiated a programme called "Better Place", a horizontal concept featuring selected performance products with environmentally optimised materials from all categories. adidas "Better Place" products were first introduced globally in spring/summer 2009. The products feature environmental design, construction, material composition and packaging that distinguish them as environmentally sustainable products. All materials that are used for "Better Place" have to pass an in-depth assessment. For example, one of the fibres adidas already accepts is recycled polyester. Using recycled polyester helps to protect the environment as it saves energy and also uses waste that would otherwise have been burned or buried in a landfill.

More information regarding other fibres adidas includes under the "Better Place" programme – such as Tencel, organic cotton, recycled fibres – can be found on the programme's website [www.adidas.com/better-place](http://www.adidas.com/better-place).

The quantity of "Better Place" products sold in 2009 has significantly exceeded expectations, albeit from a small level, and has provided a strong base to continue growing our sustainable business initiatives. With all sports categories participating in the programme we will move forward with more ambitious plans in the build-up to the 2012 Olympic Games in London.

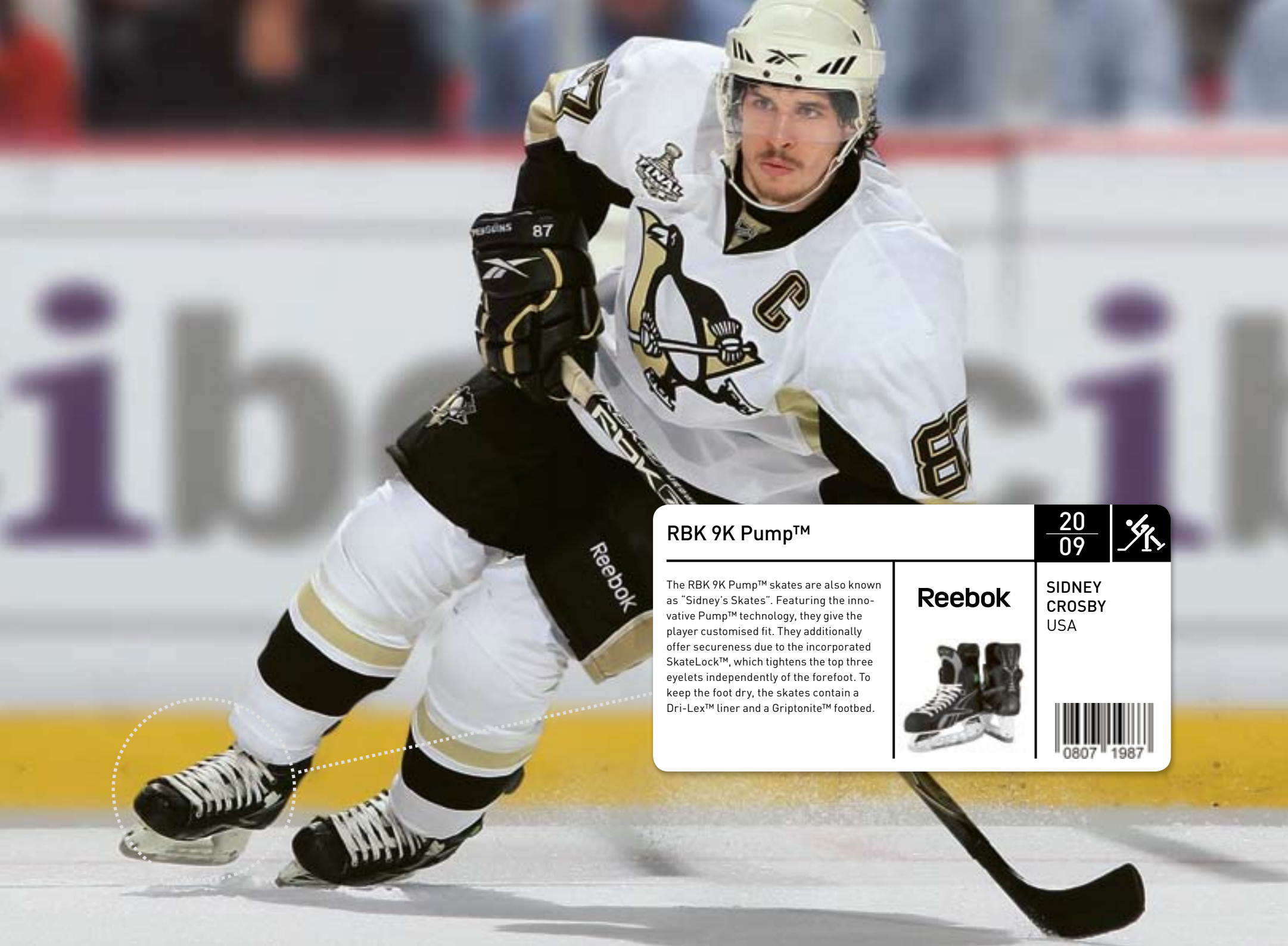
### Strong sustainability track record reflected in index memberships

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 various comprehensive enquiries from socially responsible investors, fund managers and financial analysts. They evaluate our efforts through in-depth analysis of our social and environmental 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 [see i](#) "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 Index Excellence Europe
  - ECPI Ethibel Index EMU
- [see Our Share](#), p. 42.



## RBK 9K Pump™

20  
09



The RBK 9K Pump™ skates are also known as "Sidney's Skates". Featuring the innovative Pump™ technology, they give the player customised fit. They additionally offer secureness due to the incorporated SkateLock™, which tightens the top three eyelets independently of the forefoot. To keep the foot dry, the skates contain a Dri-Lex™ liner and a Griptonite™ footbed.

**Reebok**



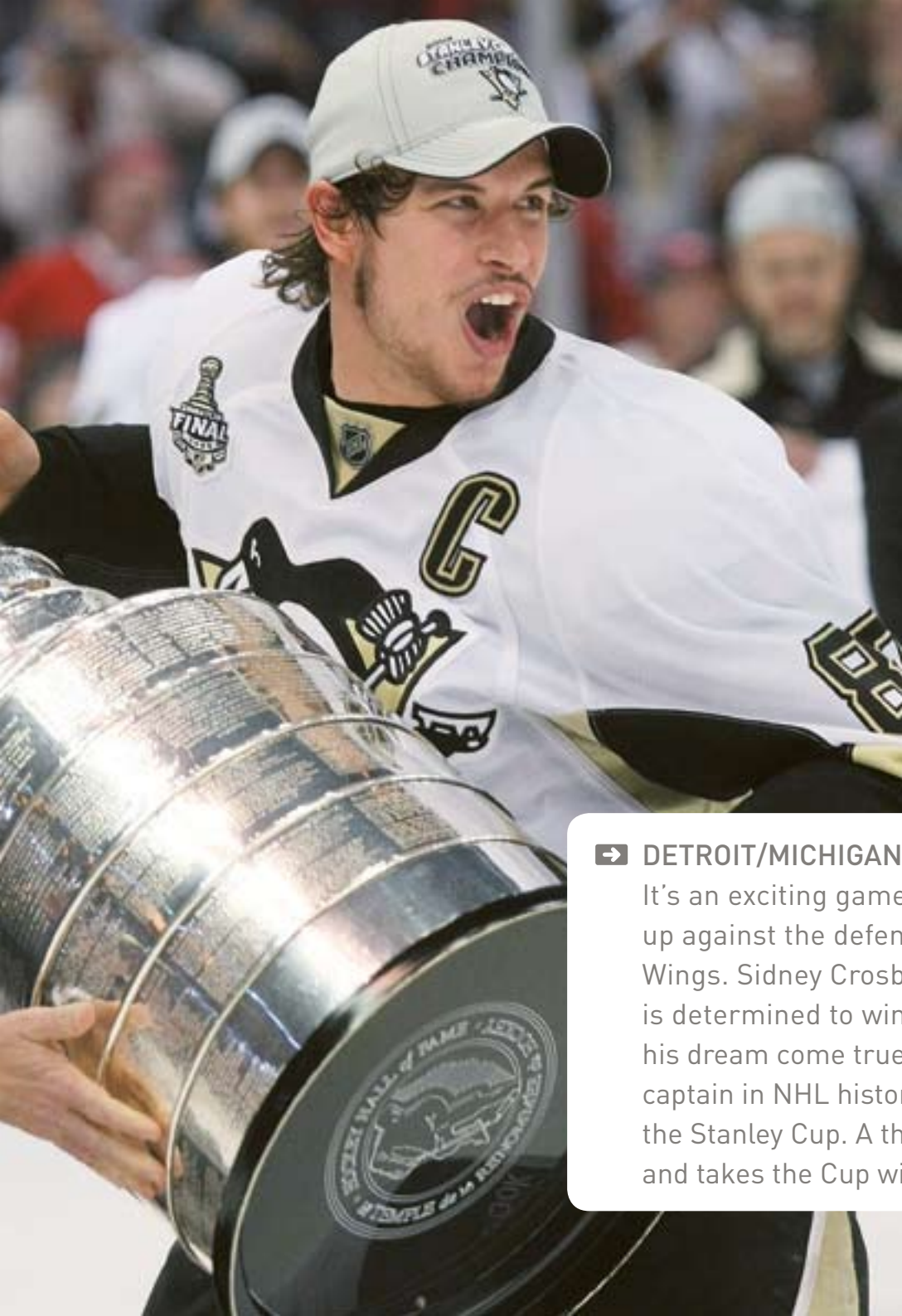
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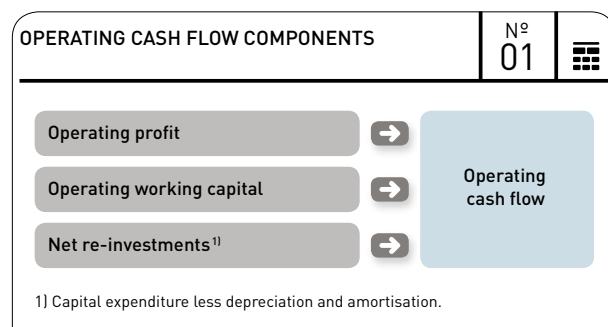


➔ DETROIT/MICHIGAN, USA – JUNE 12, 2009

It's an exciting game. The Pittsburgh Penguins are up against the defending champion Detroit Red Wings. Sidney Crosby is the Penguins' captain. He is determined to win. He fights and finally makes his dream come true – 2-1. Crosby is the youngest captain in NHL history to lead his team to victory in the Stanley Cup. A thrilled Crosby just cannot let go, and takes the Cup with him to bed.

## 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

The cornerstone of our Group's Internal Management System is our focus on operating cash flow, which we believe is the most important driver to increase shareholder value. Operating cash flow is comprised of operating profit, change in operating working capital and net re-investments (capital expenditure less depreciation and amortisation) see 01. To maximise operating cash flow generation across our organisation, management of our operating segments and management at market level have direct 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, a portion of the responsible managers' total compensation is variable and linked to Group specific targets, as well as relevant KPIs related to the respective performance of their operating unit. These include targets related to items such as net sales, gross margin, marketing working budget, operating profit, operating working capital and net debt development.

### Operating margin as key performance indicator 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 – as well as supply chain efficiency initiatives, and the minimisation of clearance activities.

- 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. 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 constantly 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.



We strive to maximise revenues and minimise costs by detailed target setting, and we constantly monitor deviations in rolling forecasts on a monthly basis. If necessary, action plans are implemented to optimise the development of the Group's operating performance.

#### Optimisation of non-operating components

Our Group also puts a high priority on the optimisation of non-operating components such as financial expenses 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. 128](#). 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 continuous 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 in relation to our Group's business. 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 the Group's operating cash flow. Our capital expenditure is controlled 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. Risk is accounted for, adding a risk premium to the cost of capital and decreasing future revenue 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.

KEY FINANCIAL METRICS		Nº	
		02	
Gross margin	=	$\frac{\text{Gross profit}}{\text{Net sales}} \times 100$	
Operating margin	=	$\frac{\text{Operating profit}}{\text{Net sales}} \times 100$	
Average operating working capital	=	$\frac{\text{Sum of operating working capital at quarter-end}}{4}$	
Operating working capital in % of net sales	=	$\frac{\text{Average operating working capital}}{\text{Net sales}} \times 100$	
Capital expenditure <sup>1)</sup>	=	Additions of property, plant and equipment plus intangible assets	
1) Excluding acquisitions and finance leases.			

**ADIDAS GROUP TARGETS VERSUS ACTUAL KEY METRICS**

 Nº  
**03**

	2008 Actual	2009 Initial outlook <sup>1)</sup>	2009 Actual	2010 Targets
Sales (year-over-year change, currency-neutral)	9%	low- to mid-single-digit decline	(6%)	low- to mid-single-digit increase
Gross margin	48.7%	decline	45.4%	46 – 47%
Other operating expenses (in % of sales)	40.5%	increase	42.3%	moderate decline
Operating margin	9.9%	decline	4.9%	around 6.5%
(Diluted) earnings per share (in €)	3.07	decline	1.22	1.90 to 2.15
Average operating working capital (in % of net sales)	24.5%	further reduction	24.3%	further reduction
Capital expenditure (€ in millions) <sup>2)</sup>	380	300 – 400	240	300 – 400
Net debt (€ in millions)	2,189	reduction	917	further reduction

1) As stated in the 2008 Annual Report, published on March 4, 2009. The outlook was updated over the course of the year.

2) Excluding acquisitions and finance leases.

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

We see the majority of our Group's future growth opportunities in our organic business. However, as part of our commitment to ensuring sustainable profitable development we regularly review merger and acquisition options that may provide additional commercial and operational opportunities. Acquisitive growth focus is primarily related to improving our 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 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 contribution 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. Our Group calculates 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. Cost of debt is calculated using the risk-free rate, credit spread and average tax rate.

### Structured performance measurement system

Our Group has 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 on a monthly basis. Focus is on operating cash flow, sales, operating margin, operating working capital and net debt development. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. We also benchmark our 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 distribution 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 quarterly basis.

In this respect, backlogs comprising orders received up to nine months in advance of the actual sale are 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. As a result of the growing share of at-once business, qualitative feedback from our retail partners on the success of our collections at the point of sale is becoming even more important. As an early indicator for future performance, we also conduct market research to measure brand appeal, brand awareness and resulting purchase intent.

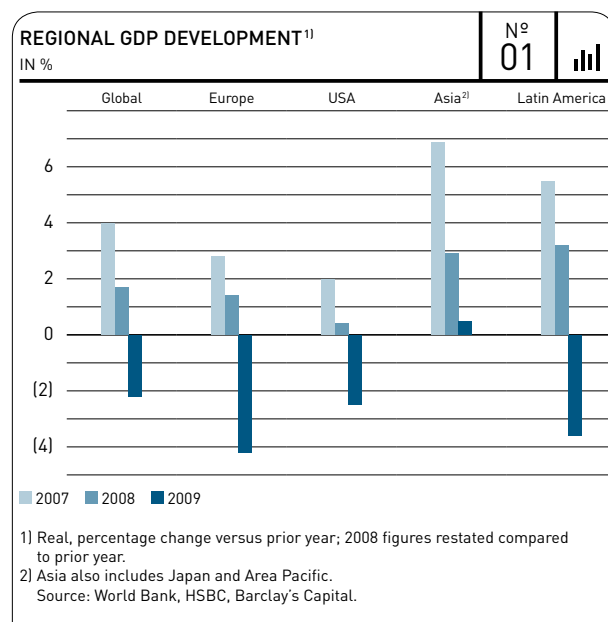
### Management appraisal of performance and targets

We communicate our Group's financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2009, Group sales and net income declined as forecasted at the beginning of the year. While Group and adidas sales declined at a mid-single-digit rate as projected, sales at Reebok and TaylorMade-adidas Golf did not meet our expectations.

Group sales development underperformed macroeconomic and global industry growth [▶ see Economic and Sector Development, p. 112](#), as we experienced challenges in markets such as North America and Greater China. Profitability declined as anticipated as a result of lower gross margins and higher operating expenses as a percentage of sales. Due to our strong focus on operating working capital and cash management, we achieved all of our goals related to balance sheet improvements. Our expectations for the Group's business performance in 2010 are based on the assumption of an improvement in the global economy. However, we expect that consumer spending increases will lag behind overall economic growth rates. This, as well as an improved balance sheet and positive effects from actions to reduce costs taken in 2009, should lead to increases in both sales and profitability in 2010. In 2011, assuming further improvements in the global economy, we are confident to increase sales and earnings per share compared to 2010. We believe our outlook is realistic within the scope of the current trading environment. No material event between the end of 2009 and the publication of this report has altered our view [▶ see Subsequent Events and Outlook, p. 156](#).

## Group Business Performance

In 2009, the adidas Group results were negatively impacted by a significant slowdown in consumer spending and high levels of promotional activity due to the adverse macroeconomic climate. Currency-neutral Group sales decreased 6% as a result of declines in the Wholesale and Other Businesses segments. In euro terms, adidas Group revenues decreased 4% to € 10.381 billion from € 10.799 billion in 2008. The Group's gross margin declined 3.3 percentage points to 45.4% (2008: 48.7%), mainly impacted by higher input costs, currency devaluation effects as well as higher clearance sales and promotional activity. Consequently, the Group's gross profit declined 10% to € 4.712 billion in 2009 versus € 5.256 billion in 2008. The Group's operating margin decreased 5.0 percentage points to 4.9% from 9.9% in 2008 due to the lower gross margin as well as higher other operating expenses as a percentage of sales. The Group's operating profit declined 53% to € 508 million in 2009 versus € 1.070 billion in 2008. The Group's net income attributable to shareholders decreased 62% to € 245 million from € 642 million in 2008. Diluted earnings per share decreased 60% to € 1.22 in 2009 versus € 3.07 in 2008.



### Economic and Sector Development

#### Global economy contracts

Following a sharp slowdown in economic growth in 2008, the global economy fell into recession in 2009. Global GDP decreased 2.2% compared to growth of 1.7% in the prior year. In the first half of 2009, lower industrial and manufacturing output was the main contributor to declining global GDP resulting in rising unemployment rates in many regions. Supported by extensive monetary and fiscal stimuli, the macroeconomic environment stabilised in the course of the second half of the year.

In Europe, full year GDP decreased by 4.2% (2008: growth of 1.4%). The economic contraction was a result of the significant downturn in both Western Europe and the region's emerging markets. In Western Europe, GDP declined 3.9% despite the support of record low interest rates. This was mainly a result of double-digit declines in exports and industrial production, as well as weak private consumption. European emerging markets declined at a rate similar to Western Europe, however export- and commodity-driven economies such as Russia suffered more extensively than others.

In the USA, the economy contracted by 2.5% in 2009 (2008: growth of 0.4%). Strong declines in manufacturing and industrial output in the first half of the year were the main contributors to this development.

Nevertheless, unprecedented monetary and fiscal policy intervention helped to stabilise consumer spending as well as housing and financial markets. As a result, GDP returned to growth in the third quarter. Nevertheless, unemployment rates rose to a 17-year high of 10.5% in December.

In Asia, economic activity remained most resilient against the recessionary pressures. Asia's GDP grew 0.5% in 2009 (2008: 2.9%). GDP growth in China decelerated slightly to 8.5%, while Japan's economy shrank 5.2%. While developed Asian countries suffered from the deterioration of exports and low levels of private consumption, developing Asian countries, in particular China, benefited from government stimulus in order to boost domestic demand.

In Latin America, full year GDP declined 3.6% (2008: growth of 3.2%). This development was mainly attributable to falling domestic and foreign demand as well as rising unemployment. However, as a result of increasing commodity prices and improving conditions in global financial markets, economic activity stabilised towards the end of the year in some of the region's economies.

### Global sporting goods industry affected by price-sensitive consumer spending

In 2009, growth of the sporting goods industry was burdened by the global economic downturn, which negatively affected consumer confidence and spending. However, the extent of the effect differed from region to region. After many years of significant growth, the sporting goods market in Asia softened considerably, while the USA and Western Europe were also challenging. In Latin America, the industry remained relatively robust, although growth rates were significantly lower compared to prior years.

### Weak performance of European sporting goods industry

In 2009, the European sporting goods industry was negatively impacted by cautious consumer spending and financial difficulties some key retailers experienced during the period. Many consumers traded off higher price point purchases for cheaper buys as a consequence of increasing unemployment. The non-recurrence of prior year sales related to the UEFA EURO 2008™ added to the general industry slowdown in Western Europe. After having been the growth driver in previous years, the region's emerging markets weakened considerably due to the overall macro-economic downturn.

QUARTERLY UNEMPLOYMENT RATE BY REGION						Nº 02
IN % OF TOTAL ACTIVE POPULATION						
	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	
USA <sup>1)</sup>	7.4	8.6	9.5	9.8	10.0	
Euro Zone <sup>2)</sup>	8.2	9.1	9.4	9.8	10.0	
Japan <sup>3)</sup>	4.3	4.8	5.4	5.3	5.1	

1) Source: US Bureau of Labour Statistics.  
2) Source: Eurostat.  
3) Source: Japan Ministry of Internal Affairs and Communications.

QUARTERLY DEVELOPMENT OF CONSUMER PRICE INDEX <sup>1) 2)</sup> BY REGION						Nº 03
	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	
USA	0.1	(0.4)	(1.4)	(1.3)	2.7	
Euro Zone	1.6	0.6	(0.1)	(0.3)	0.9	
Japan	0.4	(0.3)	(1.8)	(2.2)	(1.7)	

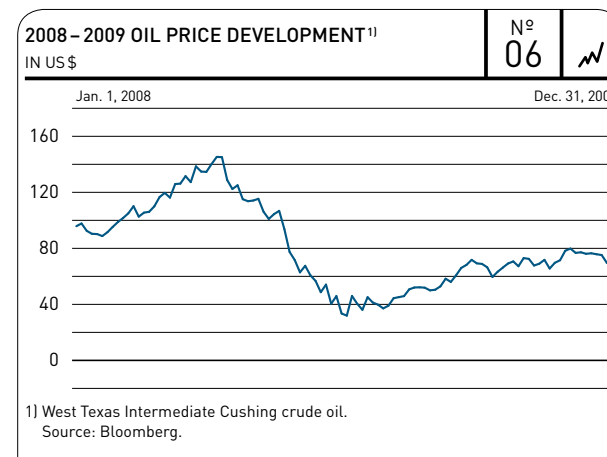
1) Source: Bloomberg.  
2) Quarter-end figures.

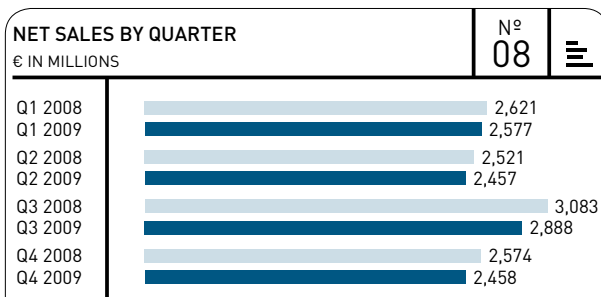
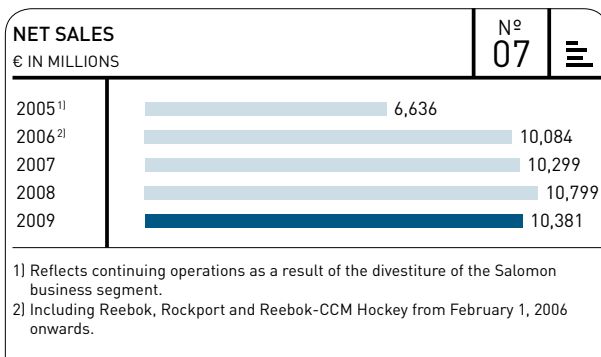
QUARTERLY CONSUMER CONFIDENCE DEVELOPMENT BY REGION						Nº 04
	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	
USA <sup>1)</sup>	38.6	26.9	49.3	53.4	53.6	
Euro Zone <sup>2)</sup>	[31]	[34]	[25]	[16]	[19]	
Japan <sup>3)</sup>	26.7	29.6	38.1	40.7	37.9	

1) Source: Conference Board.  
2) Source: European Commission.  
3) Source: Economic and Social Research Institute, Government of Japan.

EXCHANGE RATE DEVELOPMENT <sup>1)</sup>							Nº 05
€ 1 EQUALS							
	Average rate 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Average rate 2009	
USD	1.4702	1.3308	1.4134	1.4643	1.4406	1.3932	
GBP	0.7956	0.9308	0.8521	0.9093	0.8881	0.8912	
JPY	152.39	131.17	135.51	131.07	133.16	130.23	

1) Spot rates at quarter-end.





Sales in both the footwear and apparel segments declined in Europe, albeit to a different extent. We estimate that footwear sales decreased at a low-single-digit rate, whereas apparel sales were probably down at a mid-single digit rate. While selling volumes are expected to be only slightly below prior year levels, average selling prices declined considerably. On a category basis, the European market was positively impacted by growth in the outdoor category, which, however, could not offset lower sales in most other categories.

#### North American sporting goods industry suffers from tough retail market

In the USA, sporting goods sales declined due to the challenging retail environment as retailers focused on keeping inventory levels low amid lacklustre consumer demand as well as store rationalisation. While sales decreased in both footwear and apparel, footwear sales were less affected and are expected to have declined at a low-single-digit rate. The relative strength of this category was mainly attributable to increasing average selling prices, which partly offset lower volumes. One of the contributors to higher average selling prices was the emerging toning category, which grew at a strong double-digit rate during 2009.

According to our estimates, apparel sales were down at a mid-single-digit rate, as increasing demand for special functional apparel such as compression wear partly offset weakness in established categories such as basketball and lifestyle. Hardware sales, in particular high price point equipment products such as golf clubs, were negatively affected by cautious consumer spending. Declining average selling prices due to the highly promotional retail environment added to negative effects of lower volumes in this category.

#### Growth of Asian sporting goods industry slumps

The growth of the Asian sporting goods industry decelerated compared to 2008, primarily driven by considerably slower expansion in emerging markets as well as weak consumer spending in Japan. In particular, sporting goods sales in Greater China were negatively impacted by the clearance of high excess inventories accumulated in the aftermath of the Olympic Games held in Beijing in 2008 and subdued consumer demand at the beginning of the year. We assume that sporting goods retail sales in China grew at a mid-teens rate, which represents a significant deceleration compared to the prior year.

In Japan, industry sales were influenced by the country's steep economic recession and its spillover effects on consumer spending, especially in the first half of the year. Weak private consumption caused the overall industry to decrease at a high-single-digit rate with similar declines in footwear and apparel sales.

#### Latin American sporting goods market resilient against macroeconomic trend


In Latin America, according to our estimates, the sporting goods industry developed better than the general economy. Even though growth momentum slowed compared to the prior year, sporting goods sales remained more resilient against the downward trend in the macroeconomic environment, with growth in both footwear and apparel.

#### adidas Group and competitors suffer from weak economic environment

adidas Group revenues as well as those of many competitors and retailers decreased in 2009. However, in some regions sales of our Group and other major sporting goods companies declined more significantly than GDP. Increasing unemployment rates and subdued consumer spending contributed to this development.


## Income Statement

### Changes in segmental reporting following reorganisation initiatives

In the fourth quarter of 2009, the adidas Group changed its organisational structure to increase its responsiveness to consumer needs and to support sustainable long-term growth  see Group Strategy, p. 52. As a consequence of the subsequent changes in internal reporting and in accordance with the new IFRS 8, the adidas Group has now divided its operating activities into six segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other centrally managed brands. The results of the adidas and Reebok brands are now combined under Wholesale and Retail. For clarity of presentation, the financial results of TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey (the latter two were formerly part of the Reebok segment) as well as Other centrally managed brands (formerly part of the adidas segment) are aggregated under Other Businesses.

Following the elimination of regional headquarters, the Group now distinguishes seventeen markets which are aggregated into six geographies: Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.

### Changes in accounting policy

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS as adopted by the EU). In 2009, there were relevant changes in IFRS which were reflected in the Group's consolidation and accounting principles  see Note 1, p. 170. However, the impact on the Group's consolidated financial statements from any such changes was not material in the reporting period.

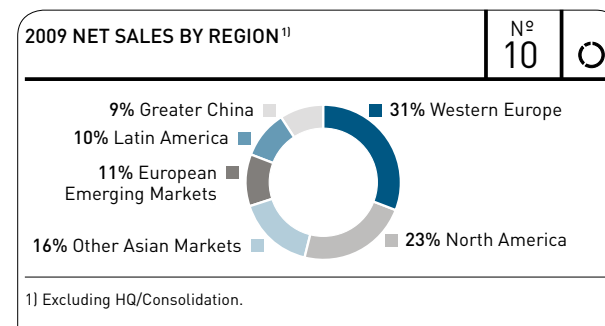
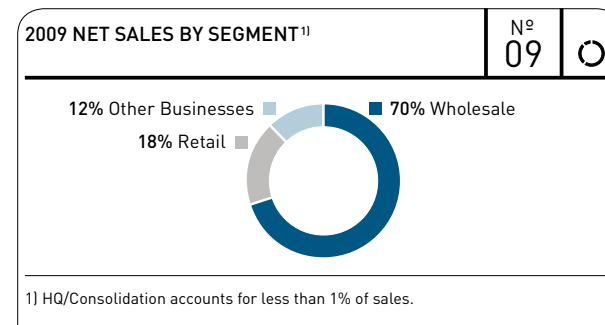
### Consolidation of new businesses impacts results of Wholesale and Other Businesses segments

The consolidation of new companies in Latin America and of Ashworth, Inc. in 2008 impacted the comparability of adidas Group results in the Wholesale and TaylorMade-adidas Golf segments in the reporting period.

Effective April 1, 2008, the adidas Group acquired 99.99% of the shares of Reebok Productos Esportivos Brazil Ltda. (formerly Comercial Vulcabras Ltda.), the distribution company for Reebok products in Brazil and Paraguay. Effective June 2, 2008, the Group also founded a new company in Argentina for the distribution of Reebok products, in which the adidas Group holds 99.99% of the shares. Ashworth Inc., a leader in cotton casual golf apparel, has been consolidated within the adidas Group since November 20, 2008.

### adidas Group currency-neutral sales decrease 6% in 2009

In 2009, Group revenues decreased 6% on a currency-neutral basis, as a result of lower Wholesale and Other Businesses sales, which more than offset an increase in Retail revenues. This development was in line with initial Management expectations of a low- to mid-single-digit Group sales decline. Currency translation effects positively impacted sales in euro terms. Group revenues declined 4% to € 10.381 billion in 2009 from € 10.799 billion in 2008.



2009 NET SALES GROWTH (CURRENCY-NEUTRAL) <sup>1)</sup> BY SEGMENT AND REGION IN %				Nº 11
	Wholesale	Retail	Other Businesses	Total
Western Europe	(8)	8	10	(5)
European Emerging Markets	(13)	(1)	(2)	(7)
North America	(16)	0	(5)	(10)
Greater China	(20)	57	(9)	(16)
Other Asian Markets	(5)	11	(8)	(3)
Latin America	16	51	3	19
<b>Total</b>	<b>(9)</b>	<b>7</b>	<b>(4)</b>	<b>(6)</b>

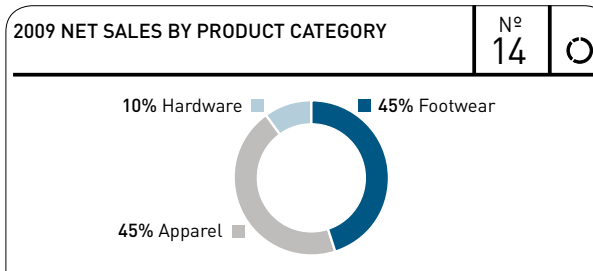
1) Versus the prior year.

2009 NET SALES GROWTH (IN €) <sup>1)</sup> BY SEGMENT AND REGION IN %				Nº 12
	Wholesale	Retail	Other Businesses	Total
Western Europe	(10)	5	3	(8)
European Emerging Markets	(13)	2	3	(5)
North America	(11)	5	(2)	(6)
Greater China	(14)	66	(3)	(10)
Other Asian Markets	1	19	1	4
Latin America	10	41	(1)	13
<b>Total</b>	<b>(8)</b>	<b>10</b>	<b>0</b>	<b>(4)</b>

1) Versus the prior year.

NET SALES BY REGION € IN MILLIONS			Nº 13
	2009	2008	
Western Europe	3,262	3,527	
European Emerging Markets	1,122	1,179	
North America	2,360	2,520	
Greater China	967	1,077	
Other Asian Markets	1,647	1,585	
Latin America	1,006	893	
<b>Total<sup>1)</sup></b>	<b>10,381</b>	<b>10,799</b>	

1) Including HQ/Consolidation.



NET SALES BY PRODUCT CATEGORY € IN MILLIONS					Nº 15
	Footwear	Apparel	Hardware	Total <sup>1)</sup>	
2005 <sup>2)</sup>	2,978	2,798	860	6,636	
2006 <sup>3)</sup>	4,733	4,105	1,246	10,084	
2007	4,751	4,426	1,121	10,299	
2008	4,919	4,775	1,105	10,799	
<b>2009</b>	<b>4,642</b>	<b>4,663</b>	<b>1,076</b>	<b>10,381</b>	

1) Rounding differences may arise in totals.  
2) Reflects continuing operations as a result of the divestiture of the Salomon business segment.  
3) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

### Group sales decline due to decreases in Wholesale and Other Businesses

The adidas Group's sales development differed significantly by segment in 2009. Currency-neutral Wholesale revenues decreased 9% during the period, impacted by declines in both adidas and Reebok sales. Currency-neutral Retail sales increased 7% versus the prior year as a result of higher adidas and Reebok sales. Revenues in Other Businesses declined 4% on a currency-neutral basis, primarily impacted by lower TaylorMade-adidas Golf and Rockport sales [see](#) [see](#) [see](#) 11.

Currency translation effects positively impacted segmental sales in euro terms. Wholesale revenues decreased 8% to € 7.174 billion in 2009 from € 7.758 billion in 2008. Retail sales increased 10% to € 1.906 billion versus € 1.738 billion in the prior year. Sales in Other Businesses remained almost stable at € 1.283 billion in 2009 (2008: € 1.285 billion) [see](#) [see](#) [see](#) 12.

### Currency-neutral sales decrease in nearly all regions

Currency-neutral adidas Group sales declined in all regions except Latin America in 2009. Revenues in Western Europe declined 5% primarily as a result of lower sales in France and Iberia.



In European Emerging Markets, Group sales decreased 7% on a currency-neutral basis, primarily due to declines in Russia as a result of the devaluation of the Russian rouble against the functional currency, the US dollar, which could not be offset by price increases. Sales for the adidas Group in North America decreased 10% on a currency-neutral basis due to declines in the USA and Canada. Sales in Greater China decreased 16% on a currency-neutral basis. Revenues in Other Asian Markets declined 3% primarily as a result of decreases in Japan. In Latin America, sales grew 19% on a currency-neutral basis, with double-digit increases in most of the region's major markets, also supported by the consolidation of new companies in the region [see](#) [11](#).

Currency translation effects had a mixed impact on regional sales in euro terms. Group revenues in Western Europe decreased 8% to € 3.262 billion in 2009 from € 3.527 billion in 2008. In European Emerging Markets, sales declined 5% to € 1.122 billion in 2009 from € 1.179 billion in 2008. Sales in North America decreased 6% to € 2.360 billion from € 2.520 billion in 2008. Revenues in Greater China decreased 10% to € 967 million in 2009 from € 1.077 billion in 2008. In Other Asian Markets, sales increased 4% to € 1.647 billion versus € 1.585 billion in the prior year. Revenues in Latin America grew 13% to € 1.006 billion from € 893 million in the prior year [see](#) [13](#).

### adidas Group revenues decline in all product categories

In 2009, currency-neutral Group sales declined in all product categories. Currency-neutral footwear sales decreased 7% during the period. This development was due to declines in Wholesale and Other Businesses which more than offset an increase in Retail. Apparel sales decreased 4% on a currency-neutral basis. While sales increased in Retail and Other Businesses, revenues declined in Wholesale. Currency-neutral hardware sales decreased 6% compared to the prior year due to declines in Wholesale, Retail and Other Businesses.

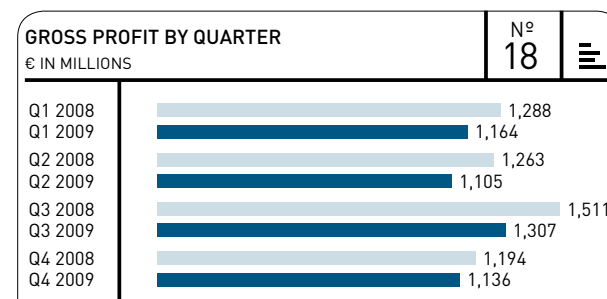
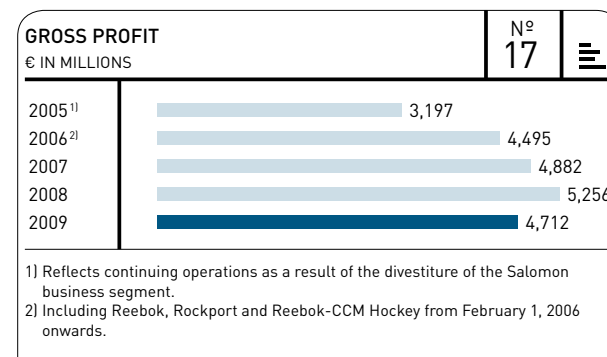
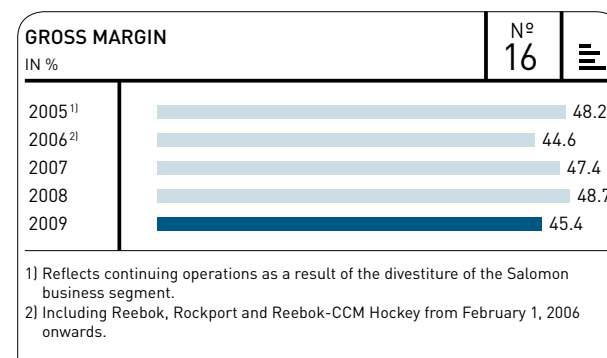
Currency translation effects positively impacted sales in all product categories in euro terms. Footwear sales in euro terms decreased 6% to € 4.642 billion in 2009 (2008: € 4.919 billion). Apparel sales decreased 2% to € 4.663 billion in 2009 from € 4.775 billion in the prior year. Hardware sales decreased 3% to € 1.076 billion in 2009 from € 1.105 billion in 2008 [see](#) [15](#).

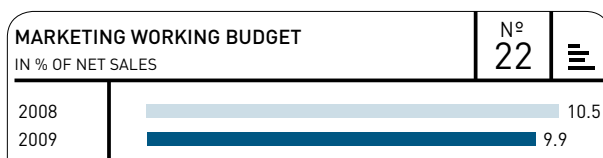
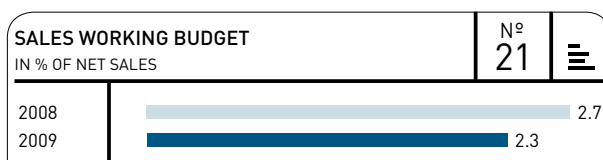
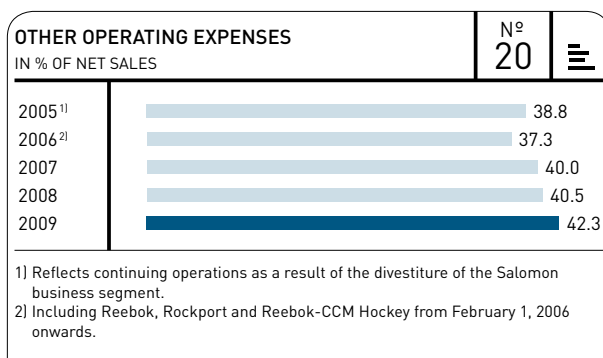
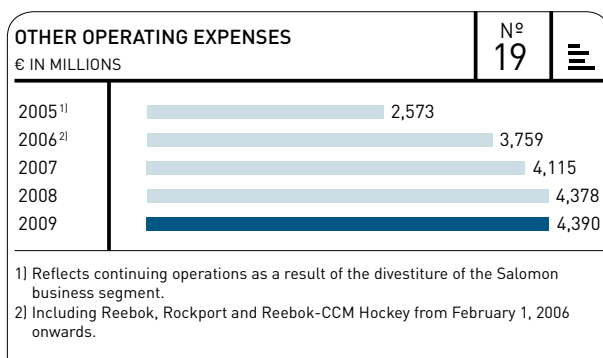
### Cost of sales increases

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 2009, cost of sales was € 5.669 billion, representing an increase of 2% compared to € 5.543 billion in 2008. This development was due to significant increases of raw material and labour costs which more than offset positive effects from the optimisation of sourcing processes and efficiency gains within our supply chain.

### Gross margin negatively impacted by higher input costs

The gross margin of the adidas Group decreased 3.3 percentage points to 45.4% in 2009 (2008: 48.7%) [see](#) [16](#). This development was mainly due to higher input costs, currency devaluation effects as well as higher clearance sales and promotional activity. Currency devaluation effects were mainly related to Russia. In this market, sales were negatively impacted by the devaluation of the Russian rouble against the functional currency, the US dollar, whereas cost of goods sold remained largely unaffected. The vast majority of these costs are denominated in US dollars. As a result, gross profit for the adidas Group declined 10% in 2009 to € 4.712 billion versus € 5.256 billion in the prior year [see](#) [17](#).





### Currency-neutral royalty and commission income declines

Royalty and commission income for the adidas Group decreased 4% to € 86 million in 2009 from € 89 million in the prior year. On a currency-neutral basis, royalty and commission income declined 7%, primarily due to the non-recurrence of Reebok royalties from distribution partners in Brazil/Paraguay and Argentina. The distribution partnerships in these countries were replaced by own companies whose sales were consolidated for the first time effective April and June 2008, respectively.

### Other operating income declines 3%

Other operating income includes items such as releases of accruals and provisions and gains from the disposal of fixed assets. Other operating income declined 3% to € 100 million in 2009 from € 103 million in 2008. This development was mainly due to the non-recurrence of one-time book gains realised in the prior year in connection with the acquisition of Ashworth and the divestiture of the Maxfli business. These effects more than offset higher income from the release of accruals for personnel costs [see Note 29, p. 201](#).

### Higher other operating expenses as a percentage of sales

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 increased 1.7 percentage points to 42.3% in 2009 from 40.5% in 2008, mainly as a result of higher expenses to support the Group's development in emerging markets [see Note 20](#). Costs related to the Group's reorganisation and the integration of the Ashworth business also contributed to this development. In absolute terms, other operating expenses remained almost unchanged at € 4.390 billion in 2009 (2008: € 4.378 billion) [see Note 19](#).

### Sales working budget decreases as a percentage of sales

Sales working budget expenditures relate to advertising and promotion initiatives at the point of sale as well as store fittings and furniture. As sales working budget expenses are channel specific, they are allocated to the Group's operating segments. The Group's sales working budget as a percentage of sales decreased 0.4 percentage points to 2.3% in 2009 (2008: 2.7%), primarily as a result of the non-recurrence of major sporting events in the prior year [see Note 21](#). In absolute terms, sales working budget expenditures decreased 19% to € 241 million in 2009 from € 297 million in the prior year [see Note 23](#).

### Marketing working budget decreases 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. The Group's marketing working budget as a percentage of sales decreased 0.6 percentage points to 9.9% in 2009 (2008: 10.5%), primarily as a result of the non-recurrence of major sporting events in the prior year [see](#) [E 22](#). In absolute terms, marketing working budget decreased 9% to € 1.028 billion in 2009 from € 1.132 billion in 2008 [see](#) [I 23](#).

### Operating overhead expenses increase

Group operating overheads include overhead costs related to marketing, sales, logistics, research and development as well as finance and administration functions. Almost half of overhead expenses are related to personnel costs. Operating overhead expenses as a percentage of sales increased 2.8 percentage points to 30.1% in 2009 from 27.3% in the prior year. This was primarily a result of the expansion of the Group's own-retail activities in emerging markets. In absolute terms, operating overhead expenses increased 6% to € 3.121 billion in 2009 versus € 2.949 billion in 2008.

OTHER OPERATING EXPENSES BY AREA		N° 23	
€ IN MILLIONS			
	2009	2008	
Sales working budget .....	241	297	
Marketing working budget .....	1,028	1,132	
Marketing overhead .....	348	376	
Sales force .....	1,296	1,179	
Logistics .....	582	565	
Research & development .....	86	81	
Finance & administration .....	809	748	
<b>Total</b>	<b>4,390</b>	<b>4,378</b>	

EBITDA		N° 24	
€ IN MILLIONS			
2005 <sup>1)</sup>	806		
2006 <sup>2)</sup>	1,078		
2007	1,165		
2008	1,280		
2009	780		

1) Reflects continuing operations as a result of the divestiture of the Salomon business segment.  
2) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

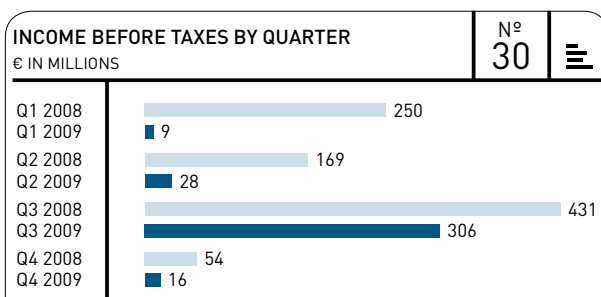
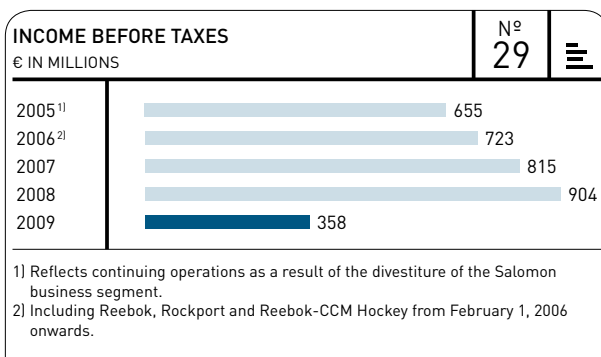
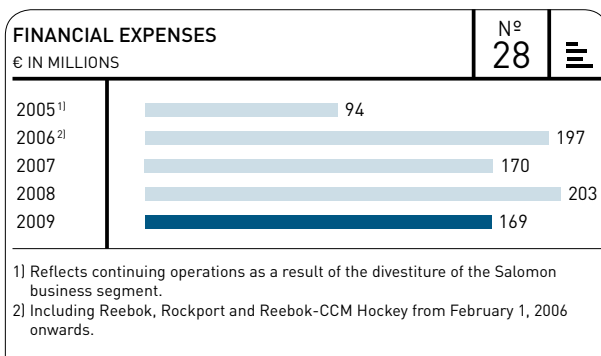
OPERATING MARGIN		N° 25	
IN %			
2005 <sup>1)</sup>	10.7		
2006 <sup>2)</sup>	8.7		
2007	9.2		
2008	9.9		
2009	4.9		

1) Reflects continuing operations as a result of the divestiture of the Salomon business segment.  
2) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

OPERATING PROFIT		N° 26	
€ IN MILLIONS			
2005 <sup>1)</sup>	707		
2006 <sup>2)</sup>	881		
2007	949		
2008	1,070		
2009	508		

1) Reflects continuing operations as a result of the divestiture of the Salomon business segment.  
2) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

OPERATING PROFIT BY QUARTER		N° 27	
€ IN MILLIONS			
Q1 2008	282		
Q1 2009	58		
Q2 2008	208		
Q2 2009	72		
Q3 2008	473		
Q3 2009	336		
Q4 2008	107		
Q4 2009	42		



### Number of Group employees increases 2%

At the end of December 2009, the Group employed 39,596 people. This represents an increase of 2% versus the prior year level of 38,982. New hirings related to the expansion of the Group's own-retail store base were the main driver of this development. These more than offset declines due to reorganisation initiatives and a hiring freeze the Group implemented for all non-retail-related functions. On a full-time equivalent basis, the number of employees decreased 4% to 34,437 at the end of 2009 (2008: 35,977).

### EBITDA declines 39%

The Group's earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (EBITDA) decreased 39% to € 780 million in 2009 (2008: € 1.280 billion) [see](#) [p. 24](#). Depreciation and amortisation expense for tangible and intangible assets with limited useful lives grew 28% to € 299 million in 2009 (2008: € 234 million). This development was mainly a result of increased fixed assets related to our own-retail expansion and impairment losses related to Reebok's distribution rights in China.

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. No impairment of intangible assets with unlimited useful lives was incurred in 2009 and 2008.

### Operating margin declines 5.0 percentage points

The operating margin of the adidas Group decreased 5.0 percentage points to 4.9% in 2009 (2008: 9.9%). The operating margin decline was due to the decrease in Group gross margin as well as higher other operating expenses as a percentage of sales. As a result, Group operating profit decreased 53% to € 508 million versus € 1.070 billion in 2008 [see](#) [p. 26](#).

### Financial income down 49%

Financial income decreased 49% to € 19 million in 2009 from € 37 million in the prior year, mainly due to changes in the fair value of financial instruments [see](#) [Note 32, p. 202](#).

### Financial expenses decrease 17%

Financial expenses decreased 17% to € 169 million in 2009 (2008: € 203 million) [see](#) [Note 32, p. 202](#). Negative exchange rate variances were more than compensated by lower interest expenses [see](#) [p. 28](#).

### Income before taxes decreases 60%

Income before taxes (IBT) as a percentage of sales decreased 4.9 percentage points to 3.5% in 2009 from 8.4% in 2008. This was a result of the Group's operating margin decrease. IBT for the adidas Group declined 60% to € 358 million from € 904 million in 2008 [see](#) [p. 29](#).

### Net income attributable to shareholders declines 62%

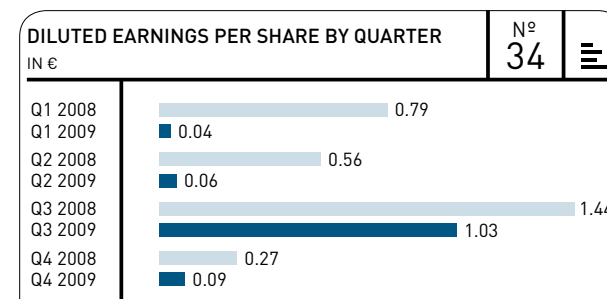
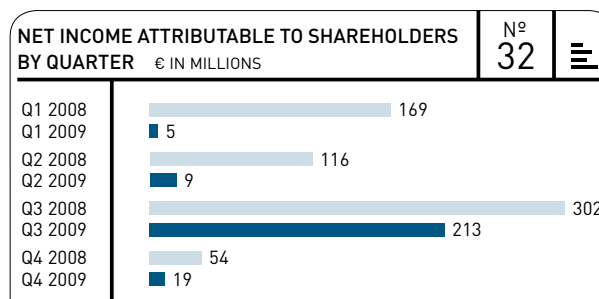
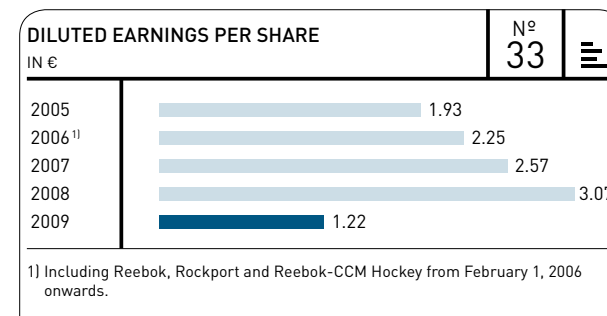
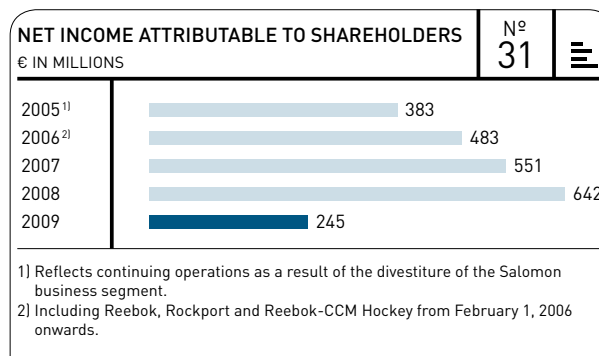
The Group's net income attributable to shareholders decreased 62% to € 245 million in 2009 from € 642 million in 2008 [see](#) [p. 31](#). The Group's lower operating profit was the primary reason for this development. The Group's tax rate increased 2.7 percentage points to 31.5% in 2009 (2008: 28.8%), mainly due to the write-down of deferred tax assets [see](#) [Note 33, p. 202](#).

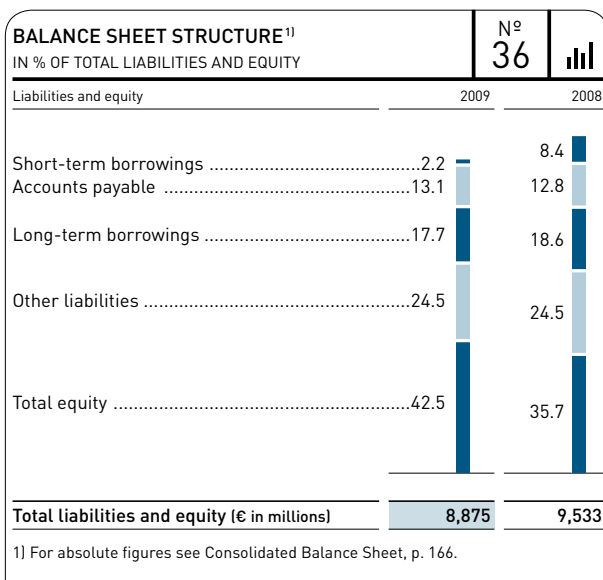
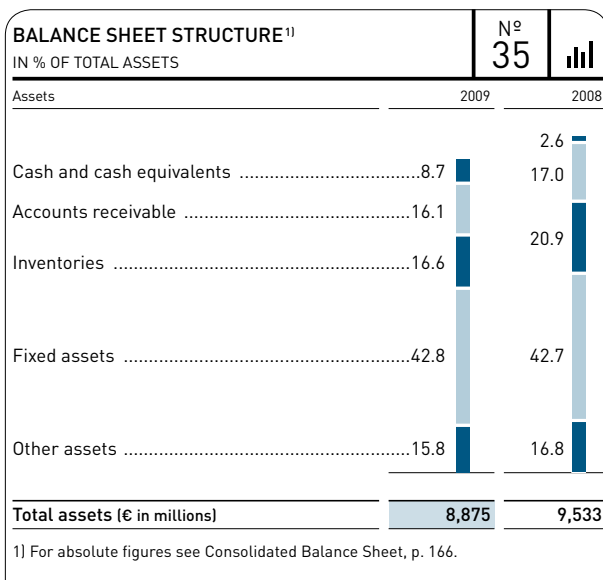
### Net income attributable to minority interests declines

Net income attributable to minority interests decreased 95% to € 0 million in 2009 from € 2 million in 2008. The decline was primarily due to the buyout of the Reebok minority partner in Spain, effective January 2009.

### Basic and diluted earnings per share decrease 61% and 60%, respectively

Basic earnings per share decreased 61% to € 1.25 in 2009 from € 3.25 in 2008. The weighted average number of shares used in the calculation of basic earnings per share decreased to 196,220,166 in 2009 (2008 average: 197,562,346) due to the share buyback programme from January to October 2008. The resulting reduction in the number of shares more than offset the effect from new shares created in November 2009 from conversions related to the convertible bond redemption. Diluted earnings per share in 2009 decreased 60% to € 1.22 from € 3.07 in the prior year [see see 33](#). The weighted average number of shares used in the calculation of diluted earnings per share was 209,238,099 (2008 average: 213,333,203). The dilutive effect largely resulted from approximately sixteen million additional potential shares in relation to the convertible bond that was completely converted in the fourth quarter of 2009.





## Balance Sheet and Cash Flow Statement

### Changes in accounting policy

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS as adopted by the EU). In 2009, there were relevant changes in IFRS which were reflected in the Group's consolidation and accounting principles [see Note 1, p. 170](#). However, the impact on the Group's consolidated financial statements from any such changes was not material in the reporting period.

### Total assets decrease 7%

At the end of 2009, total assets decreased 7% to € 8.875 billion versus € 9.533 billion in the prior year. This was primarily attributable to a decrease in current assets. A decrease in non-current assets also impacted this development [see Note 37](#).

### Group inventories down 26%

Group inventories decreased 26% to € 1.471 billion at the end of 2009 versus € 1.995 billion in 2008 [see Note 9, p. 182](#). On a currency-neutral basis, inventories declined 27%. This was mainly a result of reduced production volumes as well as clearance of excess inventories at all our brands [see Note 38](#).

### Accounts receivable decrease 12%

At the end of 2009, Group receivables decreased 12% to € 1.429 billion (2008: € 1.624 billion) [see Note 7, p. 181](#). On a currency-neutral basis, receivables were down 13%. This decrease reflects strict discipline in implementing the Group's trade terms and improved collection of receivables as the difficult economic situation eased in most markets at year-end [see Note 39](#).

### Other current financial assets down 44%

Other current financial assets decreased 44% to € 160 million at the end of 2009 from € 287 million in 2008 [see Note 8, p. 181](#). This development was mainly due to the decrease of the fair value of current forward contracts.

### Other current assets down 28%

Other current assets decreased 28% to € 360 million at the end of 2009 from € 502 million in 2008, mainly as a result of a decrease in prepayments [see Note 10, p. 182](#).

### Fixed assets decline 7%

Fixed assets decreased 7% to € 3.794 billion at the end of 2009 versus € 4.074 billion in 2008. Additions in an amount of € 264 million were mainly related to the continued expansion of our own-retail activities and investment into the Group's IT infrastructure.

Additions were more than offset by depreciation and amortisation amounting to € 310 million, disposals of € 48 million and a transfer of fixed assets to assets held-for-sale totalling € 106 million. In addition, negative currency translation effects in an amount of € 80 million on fixed assets denominated in currencies other than the euro impacted this development.

### Assets held-for-sale increase 296%

At the end of 2009, assets held-for-sale increased 296% to € 126 million compared to € 31 million at the end of 2008, due to additional assets now being in the scope of a sale [see Note 3, p. 176](#). Assets held-for-sale primarily relate to the planned sale of land and buildings in Herzogenaurach, Germany, as well as certain office buildings and warehouses in various other locations.

### Other non-current assets increase 5%

Other non-current assets increased by 5% to € 126 million at the end of 2009 from € 120 million in 2008, mainly driven by an increase in prepaid promotion contracts [see Note 16, p. 184](#).

#### Accounts payable decline 4%

Accounts payable declined 4% to € 1.166 billion at the end of 2009 versus € 1.218 billion in 2008 [see Note 40](#). On a currency-neutral basis, accounts payable were down 5%. This development was mainly attributable to the substantial reduction of goods received compared to the prior year, partly offset by improved terms with our suppliers.

#### Other current financial liabilities increase 28%

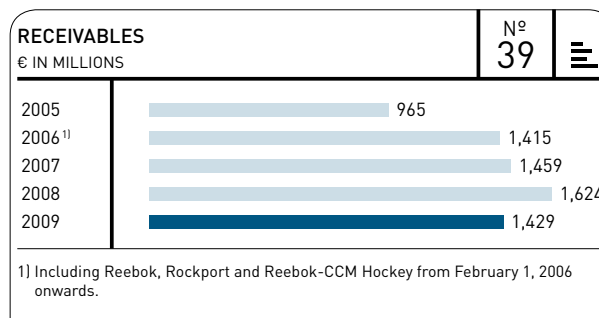
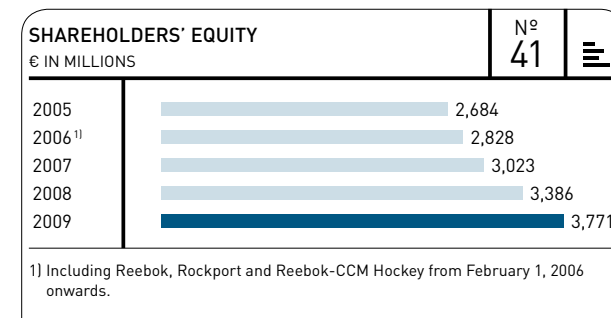
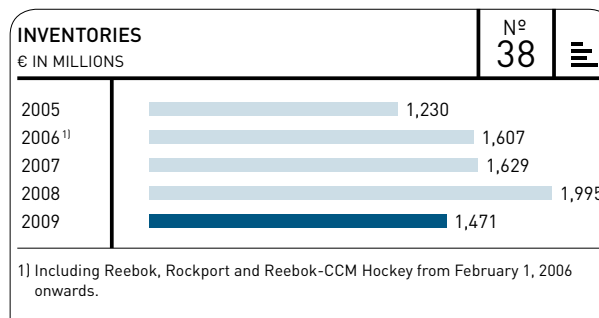
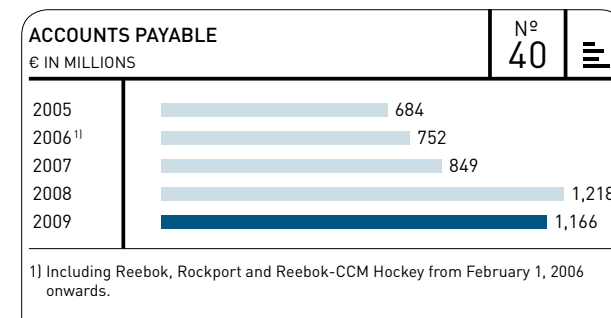
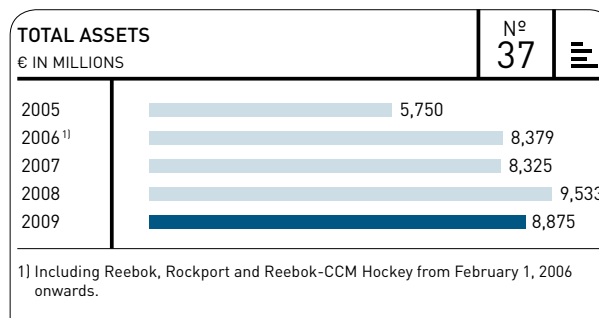
Other current financial liabilities increased 28% to € 101 million at the end of 2009 from € 79 million in 2008, primarily as a result of an increase in the fair value of current financial instruments [see Note 18](#), p. 185.

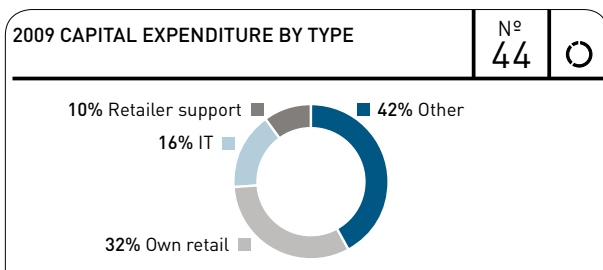
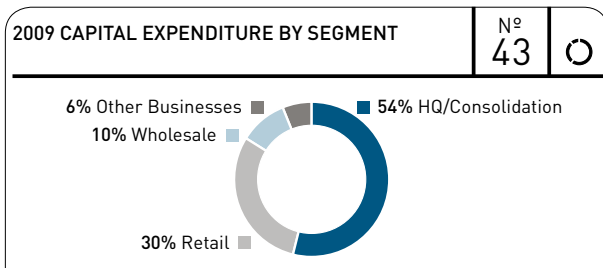
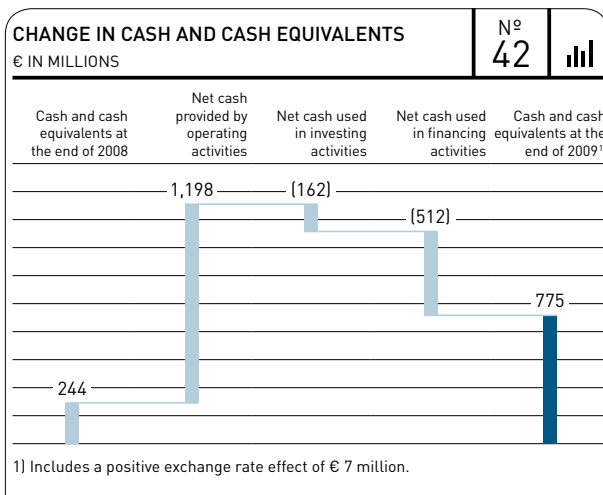
#### Accrued liabilities decrease 9%

Accrued liabilities decreased 9% to € 625 million at the end of 2009 from € 684 million in 2008, mainly due to a decline in the accruals for payment of goods and services not yet invoiced [see Note 20](#), p. 186.

#### Other current liabilities grow 7%

Other current liabilities were up 7% to € 232 million at the end of 2009 from € 216 million in 2008, mainly due to increases in tax liabilities other than income taxes [see Note 21](#), p. 187.





### Non-current accrued liabilities down 41%

Non-current accrued liabilities declined 41% to € 22 million at the end of 2009 from € 37 million in 2008. This was partly as a result of a decrease in the accruals for goods and services not yet invoiced.

### Equity grows due to full conversion of convertible bond

Shareholders' equity rose 11% to € 3.771 billion at the end of 2009 versus € 3.386 billion in 2008 [see Note 41](#). The full conversion of our convertible bond and the net income generated during the period were the main contributors to this development. Declines in the fair value of financial instruments, the dividend paid during the period and currency translation effects negatively impacted this development [see Note 26, p. 189](#).

### Expenses related to off-balance sheet items

Our most important off-balance sheet commitments are operating leases, which are related to retail stores, offices, warehouses and equipment. The Group has entered into various operating leases as opposed to property acquisitions to reduce exposure to property value fluctuations. Rent expenses increased 14% to € 480 million in 2009 from € 422 million in the prior year, mainly due to the continued expansion of the adidas Group's own-retail activities [see Note 27, p. 193](#).

### Cash flow development reflects lower working capital needs

In 2009, net cash inflow from operating activities was € 1.198 billion (2008: € 497 million). The increase in cash provided by operating activities compared to the prior year was primarily due to lower working capital needs.

Net cash outflow from investing activities was € 162 million (2008: € 444 million) and 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.

Net cash used in financing activities totalled € 512 million (2008: € 106 million). Cash inflows from financing activities were mainly related to proceeds from the issue of a five-year Eurobond in a nominal amount of € 500 million. Cash outflows from financing activities in an amount of € 508 million and € 404 million were attributable to the repayment of long-term and short-term borrowings, respectively. In addition, adidas AG paid dividends in an amount of € 97 million to its shareholders.

Exchange rate effects in an amount of € 7 million positively impacted the Group's cash position in 2009 (2008: € 2 million). As a result of all these developments, cash and cash equivalents increased by € 531 million to € 775 million at the end of 2009 (2008: € 244 million) [see Note 42](#).


### Capital expenditure reduced

Capital expenditure is the total cash expenditure for the purchase of tangible and intangible assets. Group capital expenditure decreased 37% to € 240 million in 2009 (2008: € 380 million). The Retail segment accounted for 30% of Group capital expenditure (2008: 36%). Investments primarily related to the expansion of our store base for the adidas and Reebok brands. Expenditure in the Wholesale segment accounted for 10% of total capital expenditure (2008: 7%). Capital expenditure in Other Businesses accounted for 6% of total expenditure (2008: 5%). The remaining 54% of Group capital expenditure was recorded in HQ/Consolidation (2008: 52%) and was mainly related to investments into new office buildings and IT infrastructure [see Note 43 and Global Operations, p. 88](#).



## Disclosures pursuant to § 315 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, 2009) and is divided into the same number of no-par-value bearer shares with a pro-rata amount in the nominal capital of € 1 each ("shares")  see Note 26, p. 189. Pursuant to § 4 section 10 of the Articles of Association, shareholders' claims to the issuance of individual share certificates are in principle excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations.

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 adidas AG share.

### Restrictions on voting rights or transfer of shares

We are not aware of any contractual agreements with the company 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 our 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

adidas AG has not been notified of, and is 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.

### Executive Board appointment and dismissal

Currently, the adidas AG Executive Board consists of four members  see Executive Board, p. 24. 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 as well as for their appointment and dismissal. 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 has appointed a member of the Executive Board as Chief Executive Officer (CEO) pursuant to § 6 of the Articles of Association. It may revoke the appointment of an individual as member of the Executive Board or Chief Executive Officer for good cause, such as gross negligence of duties or a withdrawal of confidence by the Annual General Meeting. In all other cases, 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  see Declaration on Corporate Governance including the Corporate Governance Report, p. 33 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, pursuant to § 85 section 1 AktG, the Fuerth local court shall, 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 in particular to issue and cancel shares

The authorisations of our 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. The authorisation to repurchase adidas AG shares is based on §§ 71 et seq. AktG and, as at the balance sheet date, on the authorisation granted by the Annual General Meeting on May 7, 2009.

#### — Authorised Capital

- Until May 28, 2011, 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 2006).
- Until June 21, 2012, 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 2009/II).
- 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).

Subject to Supervisory Board approval, shareholders' subscription rights can be excluded in certain cases  see Note 26, p. 189.

#### — Contingent Capital

By resolution of the Annual General Meeting held on May 11, 2006, the Executive Board was authorised, until May 10, 2011, 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 for a duration of up to 30 years and to accept guarantee of such bonds issued by affiliated companies. The Executive Board is authorised to grant to bondholders or bond creditors subscription or conversion rights relating to no more than a total of 20,000,000 shares in compliance with the corresponding conditions of the bonds. For this purpose, the nominal capital was conditionally increased by up to € 20,000,000 (Contingent Capital 2006). The Executive Board is authorised, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts and also if the issue price of the bonds with warrants and/or convertible 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 this limit in certain specific cases. This authorisation has not been utilised so far.

#### — Share Buyback

The authorisations of the company to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, on the authorisation granted by the Annual General Meeting on May 7, 2009.

Based on the authorisation granted on May 7, 2009, 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 on the date of utilisation of the authorisation) for any lawful purpose and within the legal frame until November 6, 2010. The authorisation may be used by adidas AG but also by its subsidiaries or by third parties on account of the company or its subsidiaries.

The repurchase will be carried out via the stock exchange through a public repurchase offer, through a public invitation to submit sale offers or through issuing tender rights to shareholders. Furthermore, the authorisation sets out the lowest and highest nominal value that may be granted in each case.

The adidas AG shares repurchased based on this authorisation may in particular be used as follows:

- They may be sold, subject to Supervisory Board approval, via the stock exchange or through a public share purchase offer made to all shareholders for cash or (limited to 10% of the nominal capital taking into account certain offsets) through sale at a price not significantly below the stock market price of shares with the same features.
- They may be used, subject to Supervisory Board approval, for the purpose of directly or indirectly acquiring companies, parts of companies or participations in companies.
- They may be offered and sold, subject to Supervisory Board approval, 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 to meet subscription or conversion rights arising from bonds with warrants and/or convertible bonds issued or to be issued by adidas AG or a direct or indirect subsidiary, in accordance with the authorisations granted by the Annual General Meetings held on May 8, 2003 and May 11, 2006.
- They may be used to meet the company's obligations arising from the Management Share Option Plan 1999 (MSOP).
- They may be cancelled without a further resolution of the Annual General Meeting being required.

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 two years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of the sale of shares for the above-mentioned purposes, shareholders' subscription rights are excluded. If any of the transactions carried out on the basis of this authorisation require the approval of the Supervisory Board, the Supervisory Board may transfer this responsibility to one of its committees.

In addition, the Executive Board was authorised by the Annual General Meeting on May 7, 2009 to conduct the share buyback pursuant to the resolved authorisation, also by using equity derivatives arranged with a financial institution in close conformity with market conditions. Subject to Supervisory Board approval, adidas AG may sell put options issued for physical delivery and/or buy call options if the option conditions ensure that these shares are only delivered if they were purchased in compliance with the equality principle. All shares purchased by using put and call options are limited to a maximum value of 5% of the nominal capital existing on 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 on the date of utilisation of the authorisation). The term of the options must be chosen in such a way that the shares are acquired upon the exercise of the options no later than November 6, 2010. The authorisation furthermore sets out the lowest and highest nominal value that may be granted in each case.

For selling and cancelling shares purchased using derivatives, the general rules adopted by the Annual General Meeting (set out above) are applicable.

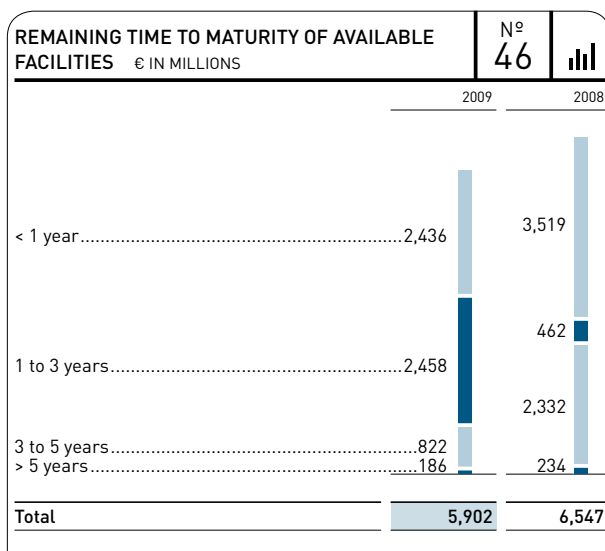
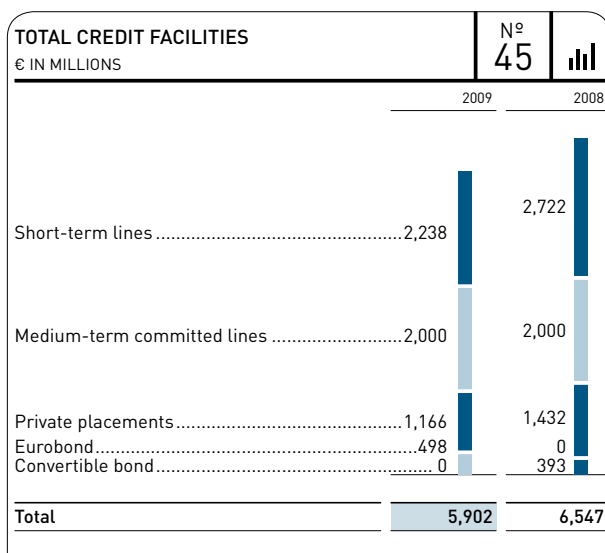
As at December 31, 2009, adidas AG does not hold any treasury shares.

#### **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 take-over bid.



## Treasury

### Group financing policy

The major goal of our financing policy is to minimise the Group's financial expenses while ensuring sufficient liquidity reserves at all times to meet the Group's payment commitments. The operating activities of our Group segments and the resulting cash inflows represent the Group's main source of liquidity. Liquidity is planned on a rolling monthly basis based on a multi-year financial and liquidity plan. This comprises all consolidated Group companies. Our in-house bank concept takes advantage of the surplus funds of individual Group companies to cover the financial requirements of others, 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 as well as ongoing interest rate optimisation are additional goals 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. The Treasury Committee approves all major changes to our Treasury Policy.
- 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, local managing directors and financial controllers are responsible for managing treasury matters in the 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.

### Centralised treasury function

In accordance with our Group's Treasury Policy, more than 90% of our world-wide credit lines are managed by the Group Treasury department. Portions of those lines are allocated to the Group's subsidiaries and backed by parental 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 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. 140. To optimise the Group's cash position and ensure optimal allocation of liquid financial resources, subsidiaries are required to transfer excess cash to the Group's headquarters.

### Long-term financial flexibility ensured

The adidas Group's long-term flexibility is ensured by unutilised credit facilities in an amount of € 4.135 billion at the end of 2009 (2008: € 3.974 billion). These include a € 2.000 billion committed multi-year syndicated loan which was not utilised at year-end (2008: € 1.801 billion unutilised) as well as bilateral credit lines at different banks in an amount of € 2.135 billion (2008: € 2.173 billion). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

### Short-term credit lines decrease

Short-term credit lines declined 18% to € 2.238 billion at the end of 2009 from € 2.722 billion in the prior year. Credit lines decreased in line with lower financing needs. Committed and uncommitted credit lines represent approximately 37% and 63% of total short-term credit lines, respectively (2008: 42% and 58%) [see](#) [table 47](#).

### Standard financial covenants

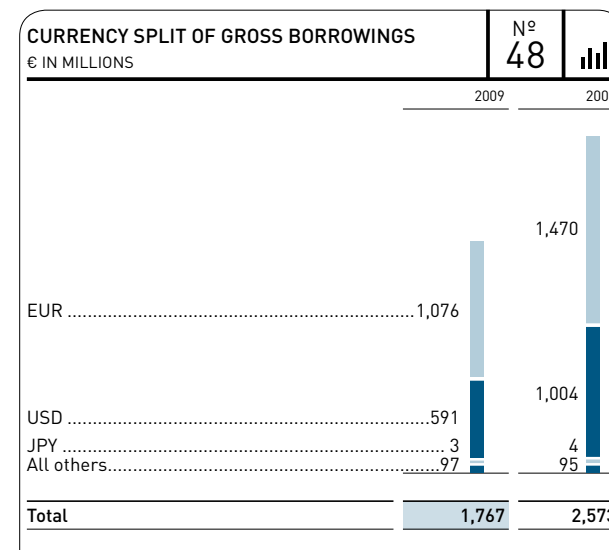
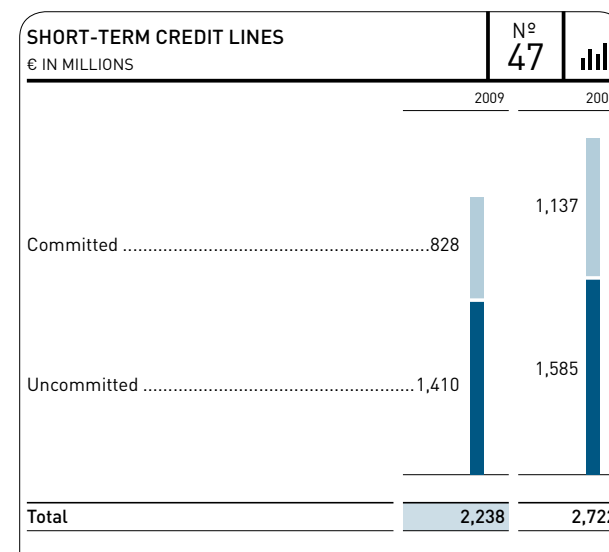
In the case of our committed credit facilities, we have entered into various covenants. These covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants. If we fail to meet any covenant and are unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2009, 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. 156. We currently believe that cash generated by operations, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs.

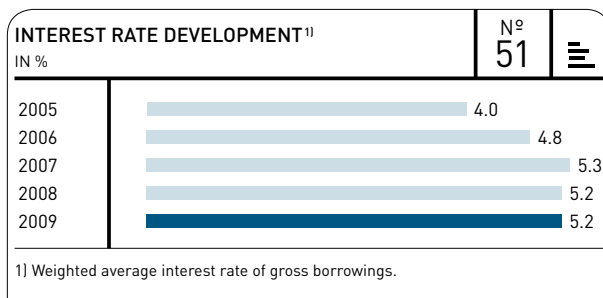
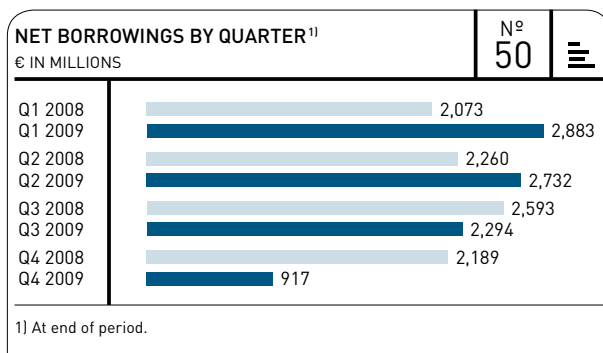
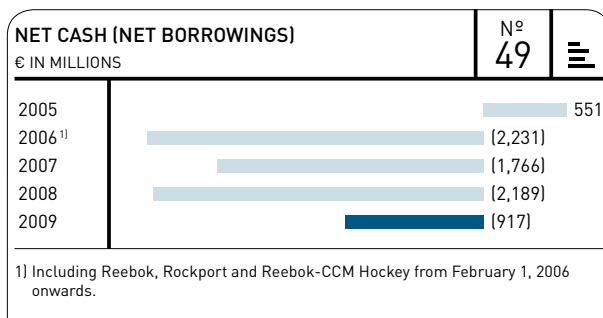
### Gross borrowings decrease significantly

Gross borrowings decreased 31% to € 1.767 billion at the end of 2009 from € 2.573 billion in the prior year. Bank borrowings declined 83% to € 103 million from € 605 million in the prior year. Our private placements in the USA, in Europe and in Asia decreased 19% to € 1.166 billion in 2009 (2008: € 1.432 billion). Bonds outstanding increased 27% and amounted to € 498 million (2008: € 393 million) [see](#) [table 52](#). No commercial paper was outstanding at the end of 2009 (2008: € 143 million).

### Euro dominates currency mix

The majority of our Group's gross borrowings are denominated in euros and US dollars. At the end of 2009, gross borrowings denominated in euros accounted for 61% of total gross borrowings (2008: 57%). The share of gross borrowings held in US dollars decreased to 33% (2008: 39%) [see](#) [table 48](#).





### Financing structure improved significantly

Over the course of 2009, we extended the Group's debt maturity profile, further optimising our financing structure. In June, we issued a German private placement in an amount of € 200 million, consisting of a three-year and five-year tranche. Additionally, adidas International Finance B.V., a fully owned and guaranteed subsidiary of adidas AG, issued a Eurobond in a nominal amount of € 500 million in July 2009. The bond has a maturity of five years, an annual coupon of 4.75% and was priced with a spread of 200 basis points above the respective Euro mid-swap. The transaction was multiple times oversubscribed. In October, the Group announced the early redemption of its € 400 million convertible bond. Following the announcement, the bond was fully converted by holders [see Our Share](#), p. 42. As a result, the Group's financing structure improved considerably with the term structure of debt maturities now more evenly spread. At the end of 2009, total refinancing needs in the next 12 months amounted to € 198 million (2008: € 797 million) [see](#) [table 55](#).

### Interest rate unchanged

The weighted average interest rate on the Group's gross borrowings remained stable at 5.2% in 2009 (2008: 5.2%) [see](#) [table 51](#). Positive effects from lower interest rates on short-term borrowings were offset by the higher share of longer-term borrowings in the Group's financing mix, which carry a higher average interest rate. Long-term fixed-rate financing amounted to 68% of the Group's total financing at the end of 2009 (2008: 58%). Variable financing amounted to 32% of total financing at the end of the year (2008: 42%).

### Net debt position decreases by € 1.272 billion

Net borrowings at December 31, 2009 amounted to € 917 million, which represents a substantial decrease of € 1.272 billion, or 58%, versus € 2.189 billion in the prior year [see](#) [table 49](#). This development significantly exceeded our original target of net debt to be below the prior year level communicated at the beginning of 2009. Lower working capital requirements and lower capital expenditure than originally planned positively influenced this development. The strong reduction was also supported by the complete conversion of our € 400 million convertible bond in the fourth quarter. Currency effects had a positive impact of € 12 million on net borrowings development. On a net debt basis, the utilisation of credit facilities available to the Group at the end of 2009 was 16% versus 33% in the prior year. The Group's financial leverage declined to 24.3% at the end of 2009 versus 64.6% in the prior year [see](#) [table 53](#). As a result, we achieved our medium-term goal of financial leverage below 50%. Efficient management of our capital structure continues to be a top management priority. Therefore, to limit financing risks while ensuring sufficient flexibility, we now aim to maintain a ratio of net borrowings over EBITDA of less than two times [see](#) [Subsequent Events and Outlook](#), p. 156.

### Currency management a key priority

Due to the Group's global activity, currency management is a key focus of the Group's Treasury department. 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. 88. In 2009, the Group Treasury department managed a net deficit of around US\$ 1.9 billion against the euro (2008: US\$ 1.9 billion).

As outlined in 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 six months prior to the start of a season.

As a result, we have almost completed our anticipated hedging needs for 2010 and we have already started to hedge our exposure for 2011 and to a minor degree for 2012. The rates for 2010 are slightly less favourable compared to those of 2009. The use or combination of different hedging instruments, such as forward contracts, currency options and swaps protects us against unfavourable currency movements, while retaining the potential to benefit from future favourable exchange rate developments ➔ see

Risk and Opportunity Report, p. 140.

FINANCING STRUCTURE <sup>1)</sup>		N°	☰
€ IN MILLIONS		52	
	2009	2008	
<b>Total cash and short-term financial assets</b>	<b>850</b>	<b>384</b>	
Bank borrowings	103	605	
Private placements	1,166	1,432	
Eurobond	498	0	
Convertible bond	0	393	
Commercial paper	0	143	
<b>Gross total borrowings</b>	<b>1,767</b>	<b>2,573</b>	
<b>Net borrowings</b>	<b>917</b>	<b>2,189</b>	

1) Rounding differences may arise in totals.

FINANCIAL LEVERAGE		N°	☰
IN %		53	
2005	(20.5)		
2006 <sup>1)</sup>	78.9		
2007	58.4		
2008	64.6		
2009	24.3		

1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

ISSUED PRIVATE PLACEMENTS AND BONDS				N°	☰
AT A GLANCE IN MILLIONS				54	
Issued Bonds	Volume	Coupon	Maturity		
Asian private placement	EUR 26	variable	2010		
Asian private placement	AUD 16	variable	2010		
German private placement	EUR 150	fixed and variable	2010		
US private placement	USD 288	fixed	2011		
French private placement	EUR 150	variable	2011 – 2012		
German private placement	EUR 78	fixed and variable	2012		
US private placement	USD 292	fixed	2013		
Eurobond	EUR 498	fixed	2014		
German private placement	EUR 122	fixed and variable	2014		
US private placement	USD 115	fixed	2015		
US private placement	USD 150	fixed	2016		
Other private placements	EUR 43	variable	2010 – 2012		

REMAINING TIME TO MATURITY OF GROSS BORROWINGS		N°	▮
€ IN MILLIONS		55	
	2009	2008	
< 1 year	198	797	
1 to 3 years	561	462	
3 to 5 years	822	1,080	
> 5 years	186	234	
<b>Total</b>	<b>1,767</b>	<b>2,573</b>	

## Wholesale Business Performance

The Wholesale segment comprises the adidas and Reebok business activities with retailers. In 2009, currency-neutral sales in the Wholesale segment decreased 9%. In euro terms, Wholesale sales declined 8% to € 7.174 billion from € 7.758 billion in the prior year. Gross margin decreased 2.1 percentage points to 41.6% (2008: 43.7%). This was mainly a result of higher input costs and a highly promotional retail environment. Gross profit decreased 12% to € 2.981 billion in 2009 from € 3.387 billion in 2008. Segmental operating costs as a percentage of sales decreased 0.1 percentage points to 8.9% (2008: 9.0%). As a result of the gross margin decline, which could not be offset by lower operating costs as a percentage of sales, segmental operating margin decreased 2.0 percentage points to 32.7% in 2009 versus 34.7% in the prior year. In absolute terms, segmental operating profit declined 13% to € 2.346 billion in 2009 versus € 2.692 billion in 2008.

WHOLESALE AT A GLANCE		N° 01	
€ IN MILLIONS			
	2009	2008	Change
Net sales	7,174	7,758	(8%)
Gross profit	2,981	3,387	(12%)
Gross margin	41.6%	43.7%	[2.1pp]
Segmental operating profit	2,346	2,692	(13%)
Segmental operating margin	32.7%	34.7%	(2.0pp)

WHOLESALE NET SALES BY QUARTER		N° 02	
€ IN MILLIONS			
Q1 2008		1,968	
Q1 2009		1,876	
Q2 2008		1,755	
Q2 2009		1,608	
Q3 2008		2,241	
Q3 2009		2,040	
Q4 2008		1,794	
Q4 2009		1,650	

### Currency-neutral segmental sales decline 9%

In 2009, revenues for the Wholesale segment declined 9% on a currency-neutral basis. adidas Sport Performance and Reebok sales declined compared to the prior year while revenues at adidas Sport Style increased. Currency translation effects positively impacted segment revenues in euro terms. Sales in the Wholesale segment declined 8% to € 7.174 billion in 2009 from € 7.758 billion in 2008.

### Currency-neutral Wholesale sales decline in nearly all regions

Currency-neutral sales for the Wholesale segment decreased in all regions except Latin America in 2009. Currency-neutral revenues in Western Europe declined 8% due to decreases in most major markets.

Revenues in European Emerging Markets decreased 13% on a currency-neutral basis, primarily due to lower sales in Russia as a result of the devaluation of the Russian rouble against its functional currency, the US dollar, which could not be offset by price increases. Currency-neutral Wholesale sales in North America declined 16% due to declines in both the USA and Canada. Revenues in Greater China decreased 20% on a currency-neutral basis. Sales in Other Asian Markets declined 5% on a currency-neutral basis due to declines in Japan which more than offset increases in other markets. In Latin America, currency-neutral sales grew 16%, supported by double-digit increases in all major markets and the effects resulting from consolidation of new companies in the region in the prior year.

Currency translation effects had a mixed impact on regional sales in euro terms. Sales in Western Europe declined 10% in 2009 to € 2.643 billion (2008: € 2.936 billion). In European Emerging Markets, sales decreased 13% to € 475 million from € 543 million in 2008. Revenues in North America declined 11% to € 1.295 billion in 2009 versus € 1.461 billion in the prior year. In Greater China, revenues decreased 14% to € 855 million in 2009 (2008: € 999 million). Sales in Other Asian Markets increased 1% to € 1.041 billion in 2009 from € 1.029 billion in 2008, while revenues in Latin America improved 10% to € 865 million in 2009 (2008: € 790 million).



### Currency-neutral adidas Sport Performance sales decline 11%

In 2009, adidas Sport Performance wholesale revenues decreased 11% on a currency-neutral basis. Revenues declined in all major categories. In particular, the football category was strongly impacted by the non-recurrence of strong prior year sales in connection with the UEFA EURO 2008™ in the first half year. Currency translation effects positively impacted revenues in euro terms. In 2009, adidas Sport Performance sales decreased 9% to € 4.706 billion from € 5.184 billion in the prior year.

### adidas Sport Style sales increase 7% on a currency-neutral basis

Currency-neutral adidas Sport Style wholesale revenues grew 7% in 2009. The increase was driven by strong momentum in the Style Essentials collection, whereas Originals sales declined. Currency translation effects negatively impacted revenues in euro terms. Sport Style sales grew 6% to € 1.225 billion in 2009 (2008: € 1.151 billion).

### Reebok sales decline 10% on a currency-neutral basis

In 2009, Reebok wholesale revenues decreased 10% on a currency-neutral basis. This was a result of declines in Classics and Men's Training, which were partly compensated by a double-digit sales increase in Women's Fitness. In euro terms, Reebok sales also decreased 10% to € 1.265 billion in 2009 from € 1.410 billion in 2008.

### Gross margin negatively impacted by higher input costs

Wholesale gross margin decreased 2.1 percentage points to 41.6% in 2009 from 43.7% in 2008. This was mainly due to higher input costs and a highly promotional retail environment. adidas wholesale gross margin decreased 1.6 percentage points to 44.4% in 2009 (2008: 46.0%). Wholesale gross margin of the Reebok brand decreased 4.6 percentage points to 28.4% in 2009 versus 33.0% in the prior year. As a result, Wholesale gross profit declined 12% to € 2.981 billion in 2009 versus € 3.387 billion in 2008.

### Segmental operating costs as a percentage of sales down 0.1 percentage points

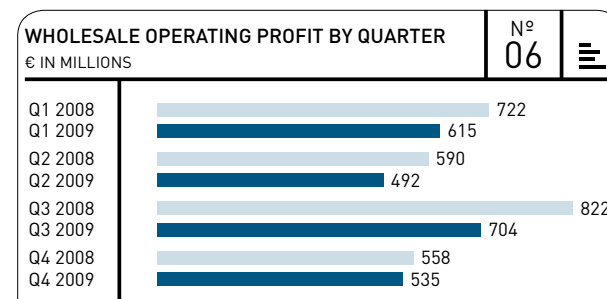
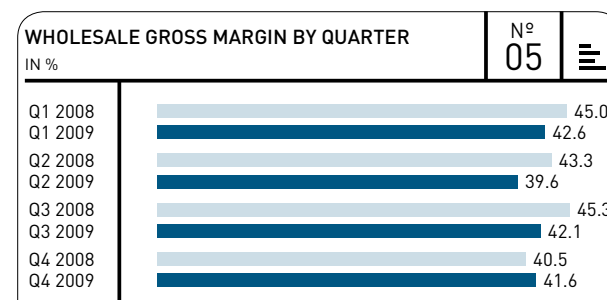
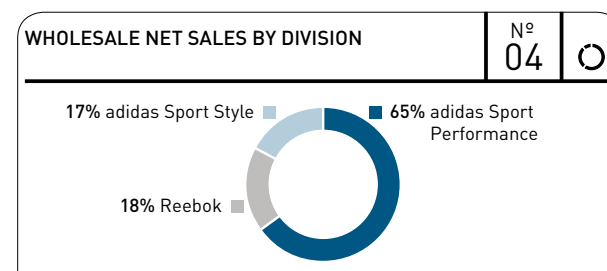
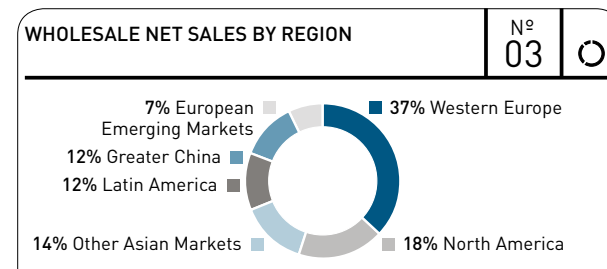
Segmental operating costs in Wholesale primarily relate to sales working budget expenses as well as expenditures for sales force, administration as well as logistics. Segmental operating costs as a percentage of sales decreased 0.1 percentage points to 8.9% (2008: 9.0%). This was primarily due to declines in personnel expenses as a result of cost control measures taken during the year. In euro terms, segmental operating costs decreased 9% to € 635 million in 2009 from € 695 million in 2008.

### Segmental operating profit decreases 13%

In 2009, segmental operating margin decreased 2.0 percentage points to 32.7% (2008: 34.7%). This was a result of the gross margin decline which more than offset lower segmental operating costs as a percentage of sales. Segmental operating profit decreased 13% to € 2.346 billion in 2009 versus € 2.692 billion in the prior year.

### Number of Wholesale employees decreases

At year-end 2009, the Group employed 4,881 people in the Wholesale segment, which represents a decrease of 8% versus 5,303 employees in the previous year. This development is mainly due to reorganisation initiatives as well as the implementation of a hiring freeze for all non-retail-related functions in 2009. On a full-time equivalent basis, the Wholesale segment employed 4,662 at year-end 2009. This represents a decrease of 9% versus the prior year-end level of 5,133.



## Retail Business Performance

The Retail segment comprises the own-retail activities of the adidas and Reebok brands. In 2009, currency-neutral Retail sales increased 7%. In euro terms, Retail sales grew 10% to € 1.906 billion (2008: € 1.738 billion). Currency-neutral comparable store sales declined 6% versus the prior year. Gross margin decreased 2.9 percentage points to 58.6% (2008: 61.5%). This was mainly a result of effects from the devaluation of the Russian rouble and higher input costs. However, gross profit increased 4% to € 1.116 billion in 2009 from € 1.069 billion in 2008. As a result of the decline in gross margin and higher operating costs as a percentage of sales, segmental operating margin decreased 4.8 percentage points to 14.0% (2008: 18.8%). In absolute terms, segmental operating profit declined 18% to € 267 million in 2009 versus € 326 million in 2008.

RETAIL AT A GLANCE		N° 01	
€ IN MILLIONS			
	2009	2008	Change
Net sales	1,906	1,738	10%
Gross profit	1,116	1,069	4%
Gross margin	58.6%	61.5%	(2.9pp)
Segmental operating profit	267	326	(18%)
Segmental operating margin	14.0%	18.8%	(4.8pp)

### Currency-neutral segmental sales increase 7%

In 2009, Retail revenues increased 7% on a currency-neutral basis. Concept store, factory outlet and other retail format sales were all up versus the prior year. Currency translation effects positively impacted segment revenues in euro terms. Sales grew 10% to € 1.906 billion from € 1.738 billion in the prior year. Currency-neutral comparable store sales, however, decreased 6% versus the prior year, with declines in all store formats.

### Own-retail store base increases

At December 31, 2009, the adidas Group Retail segment operated 2,212 stores. This represents a net increase of 328 or 17% versus the prior year-end level of 1,884. Over the course of the year, the Group opened 416 new stores. 88 stores were closed. Two stores were remodelled over the course of the year.

The number of concept stores increased by 184 to 1,203 at the end of 2009 (2008: 1,019). The number of factory outlets grew by 74 to 755 at the end of the year (2008: 681). Concession corners increased by 71 to 244 (2008: 173). Other formats, which include e-commerce, declined by 1 to 10 (2008: 11). Of the total number of stores, 1,626 were adidas and 586 Reebok branded (2008: 1,311 adidas, 573 Reebok).

### Currency-neutral Retail sales increase in nearly all regions

Currency-neutral Retail sales increased in all regions except European Emerging Markets and North America. Retail revenues in Western Europe increased 8% on a currency-neutral basis due to increases in most major markets except France. Sales in European Emerging Markets declined 1% on a currency-neutral basis.

Store expansion and price increases almost offset the negative impact from the devaluation of the Russian rouble against the functional currency, the US dollar. Currency-neutral Retail sales in North America remained stable as declines in the USA were offset by sales increases in Canada. Retail revenues in Greater China increased 57% on a currency-neutral basis primarily as a result of the opening of factory outlets to support the clearance of excess inventories in this market. Sales in Other Asian Markets grew 11% on a currency-neutral basis primarily as a result of increases in Japan. In Latin America, currency-neutral Retail sales grew 51%, mainly driven by new store openings.

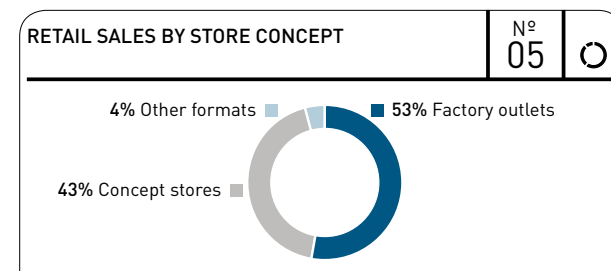
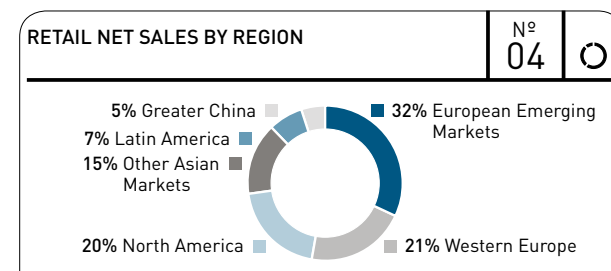
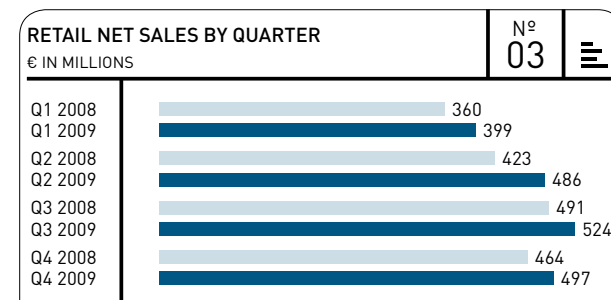
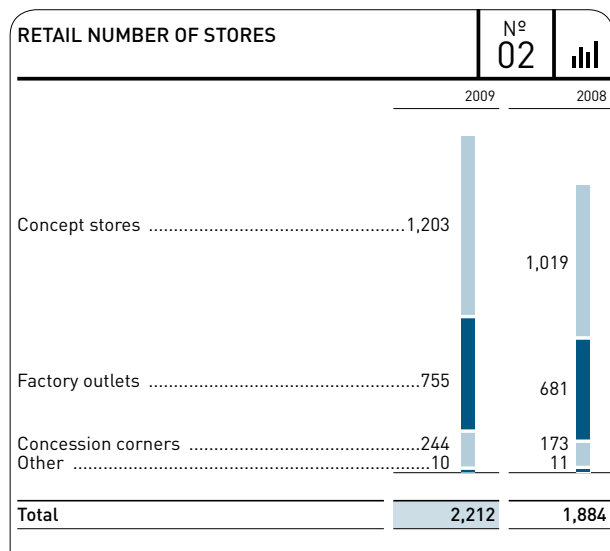
Currency translation effects had a mixed impact on regional sales in euro terms. Segmental sales in Western Europe increased 5% to € 405 million in 2009 (2008: € 384 million). In European Emerging Markets, sales increased 2% to € 617 million versus € 606 million in the year before. Revenues in North America grew 5% to € 380 million in 2009 from € 363 million in 2008. In Greater China, sales increased 66% to € 88 million versus € 53 million in the prior year. Sales in Other Asian Markets grew 19% to € 286 million in 2009 (2008: € 240 million), while revenues in Latin America improved 41% to € 129 million in 2009 versus € 92 million in the prior year.

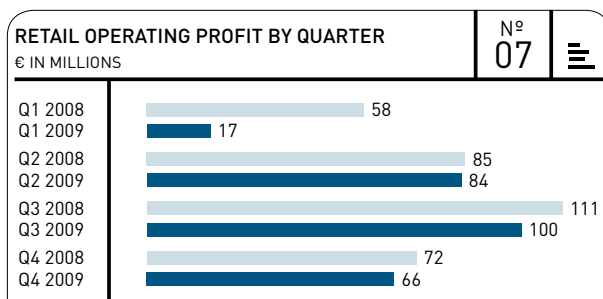
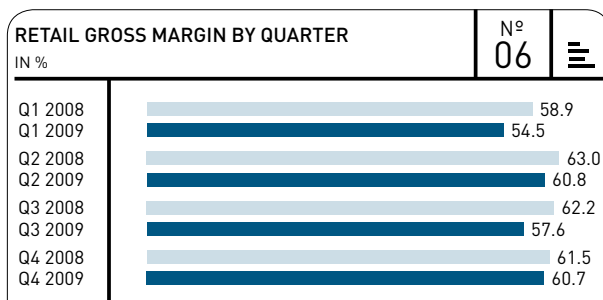
**Concept store sales increase 4% on a currency-neutral basis**

Concept store revenues include sales from adidas Sport Performance, adidas Sport Style and Reebok concept stores. In 2009, concept store revenues increased 4% on a currency-neutral basis. Sales increased at both adidas and Reebok. In euro terms, concept store sales increased 5% to € 833 million in 2009 from € 791 million in 2008. Currency-neutral comparable concept store sales, however, declined 15%.

**Factory outlet sales grow 5% on a currency-neutral basis**

Factory outlet revenues include sales from adidas and Reebok factory outlets. In 2009, factory outlet revenues increased 5% on a currency-neutral basis. Sales increased at both adidas and Reebok. In euro terms, factory outlet sales increased 13% to € 1.005 billion in 2009 from € 893 million in 2008. Comparable factory outlet sales, however, declined 1%.





### Currency-neutral sales from other retail formats increase 28%

Revenues from other retail formats include adidas and Reebok concession corners and e-commerce operations. In 2009, sales from other retail formats increased 28% on a currency-neutral basis. Growth was driven by improvements in both concession corners and e-commerce. In euro terms, revenues from other retail formats increased 27% to € 68 million in 2009 from € 54 million in 2008. Currency-neutral comparable sales from other formats increased 20%.

### adidas and Reebok branded Retail sales increase

In 2009, adidas Group Retail sales increased at both adidas and Reebok. Currency-neutral adidas Sport Performance sales increased 5%. Currency-neutral adidas Sport Style revenues grew 20% in the period. Currency-neutral Reebok sales were 7% higher compared to the prior year. Comparable store sales at the adidas brand declined at a high-single-digit rate, whereas Reebok sales decreased at a low-single-digit rate. Currency translation effects positively impacted revenues in euro terms. adidas own-retail sales increased 10% to € 1.567 billion in 2009 from € 1.430 billion in 2008. Own-retail sales of Reebok branded products also grew 10% to € 339 million in 2009 (2008: € 307 million).

### Retail gross margin negatively impacted by currency devaluation effects

Gross margin in the Retail segment decreased 2.9 percentage points to 58.6% in 2009 from 61.5% in 2008. This was mainly due to effects from the devaluation of the Russian rouble and higher input costs. In Russia, sales were negatively impacted by the devaluation of the Russian rouble against the functional currency, the US dollar, whereas cost of goods sold remained largely unaffected. The vast majority of these costs are denominated in US dollars. Gross margin declined across all store formats. By brand, adidas gross margin declined 2.7 percentage points to 60.9% (2008: 63.6%) and Reebok's gross margin decreased 3.8 percentage points to 48.1% (2008: 51.9%). As a result of the sales increase, however, Retail gross profit increased 4% to € 1.116 billion in 2009 from € 1.069 billion in 2008.

### Segmental operating costs as a percentage of sales up 1.8 percentage points

Segmental operating costs in Retail primarily relate to personnel and logistics expenses as well as the sales working budget. Segmental operating costs as a percentage of sales increased 1.8 percentage points to 44.5% (2008: 42.7%). This was a result of the expansion of the Group's store base. In euro terms, segmental operating costs increased 14% to € 849 million in 2009 from € 742 million in 2008.

### Segmental operating profit decreases 18%

In 2009, segmental operating margin decreased 4.8 percentage points to 14.0% (2008: 18.8%). This was a result of the gross margin decline and higher segmental operating costs as a percentage of sales. In absolute terms, segmental operating profit decreased 18% to € 267 million in 2009 versus € 326 million in the prior year.

### Retail employee base grows

On December 31, 2009, the Group employed 19,599 people in Retail operations. This represents an increase of 11% versus 17,614 employees at the end of the prior year. The increase in the number of employees relates to the expansion of the Group's store base. The vast majority of employees are employed on a part-time basis. On a full-time equivalent basis, the number of people employed in Retail increased 1% to 15,252 at the end of 2009 (2008: 15,168).

## Other Businesses Performance

Other Businesses primarily include the TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey segments. In addition, the segment Other centrally managed brands, which comprises brands such as Y-3, is also included. In 2009, currency-neutral sales of Other Businesses decreased 4%. In euro terms, sales remained almost stable at € 1.283 billion (2008: € 1.285 billion). Gross margin decreased 2.8 percentage points to 39.4% (2008: 42.2%). This was mainly a result of price repositioning initiatives at TaylorMade-adidas Golf due to the negative golf market development. Gross profit decreased 7% to € 506 million in 2009 from € 543 million in 2008. As a result of the decline in gross margin and higher operating costs as a percentage of sales, segmental operating margin decreased 4.3 percentage points to 21.9% (2008: 26.2%). In absolute terms, segmental operating profit declined 17% to € 281 million in 2009 versus € 337 million in 2008.

### Currency-neutral sales of Other Businesses decline 4%

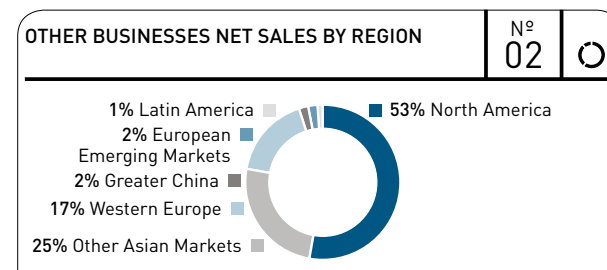
In 2009, revenues for Other Businesses declined 4% on a currency-neutral basis. While sales declined in the segments TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey, revenues increased at Other centrally managed brands. Currency translation effects positively impacted revenues in euro terms. Sales of Other Businesses remained almost stable at € 1.283 billion in 2009 (2008: € 1.285 billion).

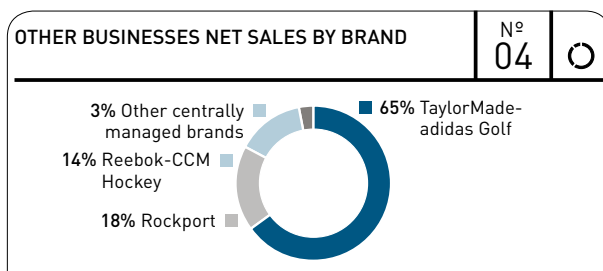
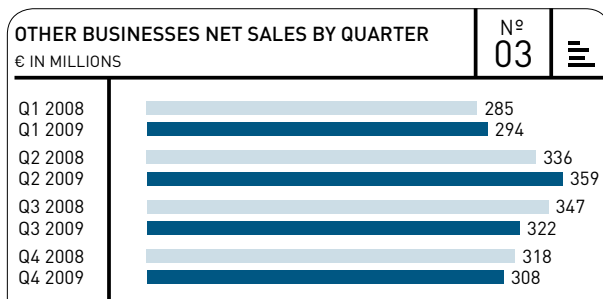
### Currency-neutral sales of Other Businesses decline in nearly all regions

Currency-neutral sales of Other Businesses decreased in all regions except Western Europe and Latin America. Revenues in Western Europe increased 10% on a currency-neutral basis due to higher TaylorMade-adidas Golf sales in the region. Revenues in European Emerging Markets decreased 2% on a currency-neutral basis primarily due to lower Reebok-CCM Hockey sales which could not be offset by higher Rockport revenues. Currency-neutral sales in North America decreased 5% primarily due to sales decreases at TaylorMade-adidas Golf and Rockport. Revenues in Greater China declined 9% on a currency-neutral basis due to lower TaylorMade-adidas Golf sales. Sales in Other Asian Markets decreased 8% on a currency-neutral basis, impacted by declines at TaylorMade-adidas Golf. In Latin America, currency-neutral sales grew 3% as a result of increases at TaylorMade-adidas Golf.

Currency translation effects had a mixed impact on regional sales in euro terms. Sales in Western Europe increased 3% to € 214 million (2008: € 208 million). In European Emerging Markets, sales grew 3% to € 30 million in 2009 from € 29 million in 2008. Revenues in North America declined 2% to € 685 million in 2009 versus € 695 million in the prior year. In Greater China, revenues decreased 3% to € 24 million in 2009 (2008: € 25 million). Sales in Other Asian Markets increased 1% to € 319 million in 2009 from € 316 million in 2008, and revenues in Latin America decreased 1% to € 12 million in 2009 (2008: € 12 million).

OTHER BUSINESSES AT A GLANCE			N° 01
€ IN MILLIONS			
	2009	2008	Change
Net sales	1,283	1,285	[0%]
Gross profit	506	543	[7%]
Gross margin	39.4%	42.2%	[2.8pp]
Segmental operating profit	281	337	[17%]
Segmental operating margin	21.9%	26.2%	[4.3pp]





### Currency-neutral TaylorMade-adidas Golf sales decline

In 2009, TaylorMade-adidas Golf revenues decreased 2% on a currency-neutral basis. This development was below initial Management expectations of a low-single-digit sales increase. Declines in all major categories could not be offset by the positive impact of Ashworth (consolidated since November 2008), which contributed € 50 million to TaylorMade-adidas Golf revenues in 2009. Currency translation effects positively impacted sales in euro terms. In 2009, TaylorMade-adidas Golf revenues increased 2% to € 831 million from € 812 million in the prior year.

### Currency-neutral Rockport sales decrease 8%

In 2009, Rockport revenues decreased 8% on a currency-neutral basis. Growth in accessories was offset by declines in footwear and apparel. Currency translation effects positively impacted sales in euro terms. Revenues in the Rockport segment decreased 5% to € 232 million in 2009 from € 243 million in 2008.

### Reebok-CCM Hockey sales decline 5% on a currency-neutral basis

Currency-neutral Reebok-CCM Hockey sales decreased 5% in 2009. This development was mainly due to lower licensed apparel sales. Currency translation effects negatively impacted sales in euro terms. Reebok-CCM Hockey revenues decreased 6% to € 177 million in 2009 from € 188 million in 2008.

### Gross margin negatively impacted by difficult pricing environment

Gross margin decreased 2.8 percentage points to 39.4% in 2009 from 42.2% in 2008. This was mainly due to price repositioning initiatives at TaylorMade-adidas Golf due to the negative golf market development. As a result, gross profit declined 7% to € 506 million in 2009 versus € 543 million in 2008.

### Operating costs as a percentage of sales up 1.5 percentage points

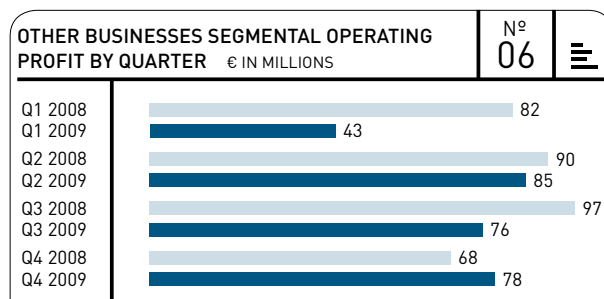
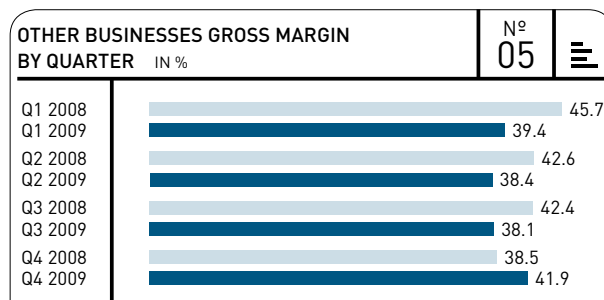
Operating costs as a percentage of sales increased 1.5 percentage points to 17.5% (2008: 16.0%). Integration expenses of € 21 million and the non-recurrence of a prior year book gain related to the acquisition of Ashworth were the primary drivers of this increase. In euro terms, operating costs increased 9% to € 224 million in 2009 from € 206 million in 2008.

### Segmental operating profit declines

In 2009, segmental operating margin decreased 4.3 percentage points to 21.9% (2008: 26.2%). This was a result of the gross margin decline and higher operating costs as a percentage of sales. In absolute terms, segmental operating profit decreased 17% to € 281 million in 2009 versus € 337 million in the prior year.

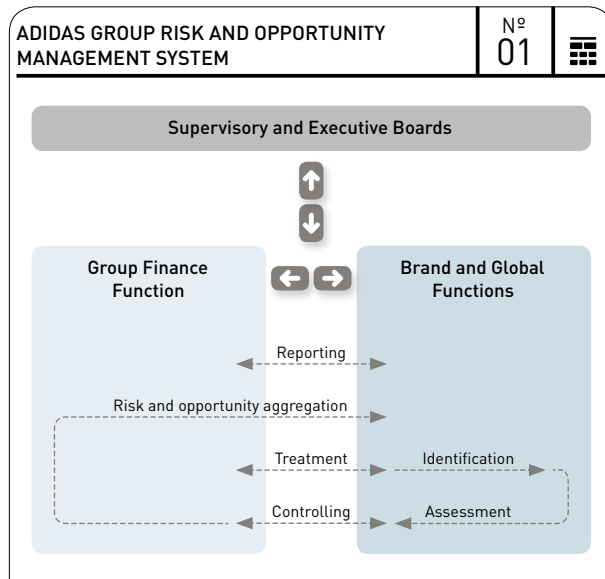
### Number of employees decreases

At year-end 2009, the Group employed 1,569 people in Other Businesses, representing a decrease of 7% versus 1,694 employees in the previous year. This development is primarily a result of reorganisation initiatives as well as the implementation of a hiring freeze for all non-retail-related functions. On a full-time equivalent basis, the number of employees in Other Businesses decreased 11% and amounted to 1,502 at the end of 2009 (2008: 1,679).



# Risk and Opportunity Report

The adidas Group continuously explores and develops opportunities to sustain and maximise earnings and also to drive long-term increases in shareholder value. In doing so, we acknowledge that it is necessary to take certain risks to maximise business opportunities. Our risk and opportunity management principles provide the framework for our Group to conduct business in a well-controlled environment.



## 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 Group's asset value, earnings, cash flow strength, or intangible values such as brand image. We have summarised the most important of these risks and opportunities in this report in three main categories: External and Industry, Strategic and Operational, and Financial.

We define risk as the potential occurrence of external or internal events that may negatively impact our ability to achieve short-term goals or long-term strategies. Risks also include lost or poorly utilised opportunities.

Opportunities are broadly defined as internal and external strategic and operational developments that have the potential to positively impact the Group if properly exploited.

## Risk and opportunity management system

To facilitate effective management, we have implemented an integrated management system which focuses on the identification, assessment, treatment, controlling 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 risk and opportunity management is optimised when risks, risk-compensating measures and opportunities are identified and assessed where they arise, in conjunction with a concerted approach to controlling, aggregating and reporting. Therefore, risk and opportunity management is a Group-wide activity, which utilises critical day-to-day management insight from local business units. Support and strategic direction are provided by brand and global functions.

Our Group Finance function is responsible for the alignment of various corporate functions in the risk and opportunity management process and coordinates the involvement of the Executive and Supervisory Boards as necessary. The Group Finance function is also responsible for providing line management with relevant tools and know-how to aggregate and control risks and opportunities utilising a consistent methodology.

Of significant importance is our Group's Risk Management Manual, which is available to all Group employees online. The manual outlines the principles, processes, tools, risk areas and key responsibilities within our Group. It also defines reporting requirements and communication timelines. Our Group supplements this top-down, bottom-up approach to risk and opportunity management by employing our Global Internal Audit department to independently assess and appraise operational and internal controls throughout the Group.



The main components of our risk and opportunity management process are:

— **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. Local business units have primary responsibility for the identification and management of risks and opportunities. Our Group Finance function has defined a catalogue of potential risks and opportunities for our Group to assist in the identification process. In addition to the potential financial impacts from changes in the overall macroeconomic, political and social landscape, each market actively monitors brand, distribution channel and price point developments in our core sport, leisure lifestyle and sport fusion markets. A key element of the identification process is primary qualitative and quantitative research such as trend scouting, consumer surveys and feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Here, secondary material such as NPD Sports Tracking Europe market research data is analysed and global relationships with independent trend and media agencies such as Trendwatching.com are maintained. 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, increased competition or changing consumer tastes.

— **Risk and opportunity assessment:**

Identified risks and opportunities are assessed with respect to (1) occurrence probability, and (2) potential contribution to loss or profit, with contribution being defined as operating profit before intra-Group royalties. The occurrence probability of individual risks and opportunities is evaluated on a scale of 0 to 100% likelihood. In this report, we summarise these findings by utilising “high”, “medium” or “low” classifications to represent an aggregate likelihood for various risk and opportunity categories. As risks and opportunities have different characteristics, we have defined separate methodologies for assessing the potential financial impact. With respect to risks, the extent of potential loss is measured on a case-by-case basis as the contribution deviation from the most recent forecast under the assumption that the risk fully materialises. This calculation also reflects the effects from risk-compensating measures. In assessing the potential contribution from opportunities, each opportunity is appraised with respect to viability, commerciality, potential risks and the expected profit contribution. 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 brand and market level.

— **Risk and opportunity treatment:**

Risks and opportunities are treated in accordance with the Group’s risk and opportunity management principles as described in the Risk Management Manual. Line management in cooperation with the Group Finance function and, in exceptional cases, the Executive Board and/or Supervisory Board, decides which individual risks we accept or avoid and the opportunities to pursue or forgo. As part of this process, we also decide on which risk-compensating or transfer measures will be implemented. Similarly, to maximise opportunities, it may be necessary to reduce or limit distribution in order to protect prices and margins or prolong product lifecycles. In some cases, we also seek to transfer the responsibility for execution for certain risks and opportunities to third parties (e.g. insurance, outsourcing, distribution agreements or brand sub-licensing).

— **Risk and opportunity monitoring and controlling:**

A primary objective of our integrated risk and opportunity management system is to increase the transparency of Group risks and opportunities. In addition, we also seek to measure the success of our risk-compensating initiatives. The Group centrally monitors each of these efforts on a frequent basis. In particular, the Group Finance function regularly examines the results of actions taken by operational management to accept, avoid, reduce or transfer risks over time. With respect to opportunities, we regularly monitor the objectives and key performance indicators established during the initial identification and evaluation process. This not only facilitates the validation of opportunities but also allows us to adapt and refine our products, communication and distribution strategy to ongoing developments in our rapidly changing marketplace. In particular, we collaborate with our manufacturing partners and retail customers to evaluate the impact of our growth and efficiency initiatives. Feedback is relayed in a timely manner to product, marketing and controlling functions.

— **Risk and opportunity aggregation and reporting:** The Group Finance function aggregates Group-wide risks and reports them to the Executive Board on a regular basis. Individual risks are aggregated based on the sum of all assessed risks (sum of occurrence likelihood × potential net loss), taking correlations between individual risks into account. Risks with a likely impact of at least € 1 million on the forecasted full year contribution are reported to the Group Finance function on a monthly basis. In addition, risks with a likely financial impact of € 5 million or more are required to be reported immediately upon identification to the Group Finance function. Opportunities are aggregated separately as part of the strategic business planning, budgeting and forecasting processes. The realisation of risks and opportunities can have a critical impact on our ability to achieve our strategic objectives. Therefore, Management is updated in regular business reviews, but also through ad hoc discussions as appropriate.

**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 risk management system with respect to the financial reporting process aims at minimising the risk of 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 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 risk management system serves to identify and assess and also 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 function regularly reviews accounting-relevant processes. Additionally, as part of the year-end audit, the external auditor examines selected aspects 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. Compliance with the financial accounting rules is ensured 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 with regard 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, by means of centralised management of change processes and with support through regular data backups.

## External and Industry Risks

### Macroeconomic risks

Growth in the sporting goods industry is influenced by consumer spending and consumer confidence. Abrupt economic downturns, in particular in regions where the Group is highly represented, therefore pose a significant short-term 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, a core element of our performance positioning is the utilisation of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influence.

In 2010, the Group expects the global economy to grow modestly after the global recession of the prior year [see Subsequent Events and Outlook, p. 156](#). Nevertheless, a high degree of uncertainty prevails in expectations regarding the pace and magnitude of economic recovery. Performance per geographic region is also expected to be mixed. Therefore, we continue to assess the likelihood that adverse macroeconomic events could impact our business as high. We also still assess the potential financial impact of such events as high.

### 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 this risk, identifying and responding to consumer demand shifts as early as possible is a key responsibility of our brands. In this respect, 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 continue to be 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. 92](#).

In addition, we also seek to enhance consumer demand for our brands and brand initiatives through extensive marketing, product and brand communication programmes. And we continue to focus on supply chain improvements to speed up creation-to-shelf timelines [see Global Operations, p. 88](#). In 2010, the adidas Group will continue to bring new product innovations to market, supported by extensive brand marketing campaigns [see Global Brands Strategy, p. 58](#).

Given the broad spectrum of our Group's product offering, retailer feedback and other early indicators [see Internal Group Management System, p. 108](#), we view the overall risk from consumer demand shifts as unchanged versus the prior year. Changes in consumer demand continue to have a medium likelihood of occurrence and could have a potential medium impact on our Group's financial results.

CORPORATE RISK OVERVIEW		Nº 02	
	Probability of occurrence	Potential financial impact	
<b>External and industry risks</b>			
Macroeconomic risks	high	high	
Consumer demand risks	medium	medium	
Industry consolidation risks	high	medium	
Political and regulatory risks	medium	medium	
Legal risks	low	medium	
Risk from product counterfeiting and imitation	high	low	
Social and environmental risks	low	low	
Natural risks	low	low	
<b>Strategic and operational risks</b>			
Risks from loss of brand image	low	high	
Own-retail risks	medium	medium	
Risks from rising input costs	medium	medium	
Supplier default risks	low	low	
Product quality risks	low	low	
Inventory risks	medium	medium	
Customer risks	low	medium	
Risk from loss of key promotion partnerships	medium	low	
Product design and development risks	low	high	
Personnel risks	low	medium	
Risks from non-compliance	low	medium	
IT risks	low	high	
<b>Financial risks</b>			
Credit risks	medium	medium	
Financing and liquidity risks	low	high	
Currency risks	medium	high	
Interest rate risks	medium	low	


### Industry consolidation risks

The adidas Group is exposed to risks from market consolidation and strategic alliances amongst competitors and/or retailers. 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 availability 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 committed to maintaining a regionally balanced sales mix and continually adapting the Group's distribution strategy. The negative real economy effects from the economic downturn and the uncertain outlook for 2010 are expected to put further pressure on the sporting goods industry to consolidate. Moreover, with improving credit market conditions the merger and acquisition environment is expected to improve slightly. Many retailers and competitor positions have weakened due to declining sales and earnings during the prior year. Therefore, we continue to see risks from market consolidation as having a high likelihood of occurrence. We continue to view the potential impact on both Group sales and profitability as medium.

### Political and regulatory risks

Political and regulatory risks include potential losses from expropriation, nationalisation, civil unrest, terrorism and significant changes to trade policies. In particular, the adidas Group faces risks arising from sudden increases of import restrictions, import tariffs and duties that could compromise the free flow of goods within the Group and from suppliers.

To limit these risks, we proactively utilise a regionally diversified supplier base which establishes a certain 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. 88.

At the end of 2008, nearly all apparel-specific safeguard measures against China expired based on the World Trade Organization (WTO) accession agreements. However, various governments sought protection against footwear imports by applying trade defence instruments, such as anti-dumping measures, on a broader scale. For example, Brazil and Argentina recently introduced higher import duties on footwear imports from China on a preliminary basis. These duties are expected to negatively impact our gross margin in 2010. Similarly, in December 2009, the European Union extended the existing anti-dumping measures against leather-upper footwear from China and Vietnam for a period of fifteen months.

As a result of heightened protectionist activity by governments, we now regard the risk of further political and regulatory actions as having a medium probability of occurrence versus a low probability in our prior year assessment. An unexpected significant change in the political and regulatory environment could have a medium potential financial impact.

### Legal risks

The adidas Group is exposed to the risk of claims and litigation for infringement of third-party trademark, patent and other rights. To reduce this risk, new product technologies, designs and names are carefully researched 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.

Due to the safeguards in place, we believe there continues to be a low likelihood of our Group infringing third-party trademark or patent rights in a material way. Nevertheless, we continue to believe that litigation could have a medium financial impact on our Group.

### Risks from product counterfeiting and imitation

As popular consumer brands which rely on technological and design innovation as defining characteristics, the Group's brands are a frequent target for counterfeiting and imitation. To reduce the loss of sales and the potential reputation damage resulting from counterfeit products sold under our brand names, the adidas Group makes use of extensive legal protection (generally through registration) and works closely with law enforcement authorities, investigators and outside counsel. Although we have stepped up measures such as product security labelling with our authorised suppliers, continued development of these measures remains a high priority for 2010 and beyond.

As in the prior year, over eight million counterfeit adidas Group products were seized worldwide in 2009.

We continue to regard the likelihood of sustained counterfeiting and imitation as high in the short and medium term. However, we believe we have adequate costs budgeted to support our ongoing efforts to successfully combat counterfeiting and imitation. We continue to assess the potential risk of counterfeiting and imitation to negatively impact our forecasted financial contribution as low.

### Social and environmental risks

We have a continuing responsibility to our workers, suppliers and 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. 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. 102](#). 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. 102](#), and [▶ www.adidas-Group.com/sustainability](http://www.adidas-Group.com/sustainability).

In order to minimise the environmental impact of producing and distributing our products, in 2009 the adidas Group continued to proactively engage in developing more environmentally sustainable products which included the first products from our "Better Place" programme [▶ see Sustainability, p. 102](#). In 2010, we intend to grow the share of sustainable products by intensifying our "Better Place" initiatives within all sports categories of the adidas Sport Performance division.

As a result, we continue to regard the risk of social and environmental malpractice as likely in only isolated cases and we believe the potential financial impact remains low.

### Natural risks


The adidas Group is exposed to external risks such as natural disasters, epidemics, fire and accidents. Further, 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 ample loss prevention measures such as working with reliable suppliers and logistics providers who guarantee high safety standards and disaster recovery plans. In addition to the considerable insurance coverage we have secured, the Group has also implemented contingency plans to minimise potential negative effects.

Our overall assessment of this risk is unchanged versus the prior year. As a result, we believe the likelihood of natural risks is low and expect only minor financial loss after insurance compensation should natural risks materialise.

### Strategic and Operational Risks

#### Risks from loss of brand image

Maintaining and enhancing brand image and reputation through the creation of strong brand identities is crucial for sustaining and driving revenue and profit growth. It is also an important credential as we extend our brands into new categories and geographies. The adidas Group faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. To mitigate this risk, we have defined clear mission statements, values and goals for all our brands. These form the foundation of our product and brand communication strategies. We also continually refine our product offering to meet shifts in consumer demand and to contemporise our offering to respond to current trends. Central to all our brand image initiatives is ensuring clear and consistent messaging to our targeted consumer audience, in particular at point-of-sale. Market share gains at TaylorMade and continued growth in the adidas Sport Style division give us confidence that image risk for these brands remains low.

During the past twelve months, the launch of several new Reebok product initiatives such as EasyTone™ and JUKARI Fit to Fly™ has started to improve the overall consumer experience for the Reebok brand and rebuild brand image  see Reebok Strategy, p. 70. While these results are encouraging, the risk from loss of brand image remains higher at Reebok than in our other brands, although we believe the risk has moderated compared to the prior year.

Aggregating these risks, we now believe that in the medium term brand image risk for the Group has a low likelihood of occurrence. Nevertheless, a significant deterioration in brand image could have a high potential financial impact on our Group.

#### **Own-retail risks**


New adidas, Reebok and Rockport own-retail stores require considerable up-front investment in furniture and fittings 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 net 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.

The Group reduces this risk by only entering into lease contracts with a duration of less than ten years. Store performance is measured by a retail scorecard consisting of nine quantitative key performance indicators. All shops are ranked by their weighted average score. Underperforming stores are restructured or closed as appropriate.

With improvements in consumer spending expected to lag behind economic recovery in 2010, the risk of a lower performance of our retail stores remains unchanged compared to the prior year. We therefore believe the likelihood of major own-retail underperformance remains medium. Due to the ongoing growth of our own-retail activities as a percentage of Group sales, we continue to assess the potential financial impact from own-retail underperformance, which may also involve impairment charges and store closures, as medium.



#### **Risks from 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, 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 manage and plan for sharp increases in input costs.

To reduce the financial impact on our product margins from higher sourcing costs, we are implementing further lean manufacturing techniques at our partner factories, eliminating time and cost from the procurement process, re-engineering our products and selectively increasing prices where possible  see Global Operations, p. 88. In addition, in the medium term we have the ability to adapt our sourcing structure to take advantage of more competitive pricing in other locations.

As a result of the significant slowdown of global economic activity, raw material prices declined compared to the prior year. This development is forecasted to positively impact our sourcing costs in 2010. As we begin planning for 2011, renewed price increases cannot be ruled out given the projected macroeconomic recovery. Therefore, we continue to assess the medium-term risks from rising input costs as having a medium likelihood of occurrence and a medium potential financial impact.

#### **Supplier default risks**

Over 95% of our product offering is sourced through independent suppliers mainly located in Asia  see Global Operations, p. 88. To reduce the risk of business interruptions following a potential supplier default, we work with vendors who demonstrate reliability, quality, innovation and continuous improvement. In addition, we have bought insurance coverage for the risk of business interruptions caused by physical damage to supplier premises. In 2009, the Group again significantly reduced the number of independent manufacturers through the further rationalisation of our supplier organisation  see Global Operations, p. 88. This exercise has allowed us to reduce risk by simplifying our sourcing structure and focusing on the highest-quality suppliers, without compromising our flexibility or competitiveness.

Therefore, we continue to assess supplier risks as having a low likelihood of occurrence and a low potential financial impact.

### 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 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 2009, we did not recall any products.

Our assessment of product quality risk remains unchanged versus the prior year. We regard the likelihood of significant product liability cases or having to conduct wide-scale product recalls as low. As we have insurance protecting us against the financial consequences of significant product liability cases, we also assess the financial impact as low.

### 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.

On the other hand, a sudden increase in demand can lead to product shortfalls at the point of sale for both our wholesale partners and own-retail operations. 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. Our replenishment programmes are essential to shorten production lead times, ensuring availability of products while avoiding excess inventories  see

Global Operations, p. 88.

In 2010, compared to prior years, precise demand and inventory planning will remain difficult, given the lack of clarity on how rapidly consumer spending will recover. However, compared to the prior year, our inventory situation has improved substantially. Therefore, we assess the associated inventory risk as having a medium likelihood of occurrence and medium 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 and the external impacts of the consumer environment in which they operate.

To limit these risks, we utilise a broad distribution strategy which includes expanding our controlled space activities. This enables us to reduce negative consequences resulting from sales shortfalls that can occur with key customers. Specifically, no customer of our Group or any of our operating segments accounted for more than 10% of Group sales in 2009.

When necessary, we also restrict or limit the distribution of our products to protect brand image or product margins. By differentiating our product offer to customers, we limit the risk of increased price competition on specific products which can result in margin erosion.

Although the economic environment remains challenging, given the operational improvements taken by several retailers in 2009, we believe the risk of a strong reduction of business with one of our biggest retailers now has a low likelihood of occurrence. Such an event, however, could have a medium financial impact on the sales and profitability of the Group.

### Risks from loss of key event or promotion partnerships

Event and promotion partnerships play an important role in building brand image and generating sales of licensed products. The adidas Group faces the risk of either losing key partnerships or having to accept unfavourable terms due to intensified competition for attractive contracts. During 2009, for example, the National Olympic Committee of China and adidas decided not to renew their promotion partnership.

To mitigate these inherent risks, we regularly seek to extend our most important partnership agreements before contract expiry. For example, in 2009 adidas extended its partnership with UEFA for the UEFA EURO 2012™ and UEFA EURO 2016™ football championships, as well as for the UEFA Champions League  see adidas Strategy, p. 60.

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. In addition, we follow a strategy of broadening the Group's portfolio of premium partnerships in order to reduce our reliance on single affiliations.


In 2009, competition for top promotion partnerships continued to grow as several smaller competitors increased spending in this area. As a result, we still believe there is a medium likelihood of losing important individual promotion contracts. Nevertheless, given the maturity of our most important contracts, we assess the potential financial impact of this risk to be low in the medium term.

#### Product design and development risks

Innovative and attractive products generate strong sales and – more importantly – create a halo effect for other products. The speed with which new product technologies and fresh designs are brought to market is decisive for maintaining competitive advantage. In 2009, all brands generated the majority of their sales with products which had been brought to market over the past 12 to 18 months  see Research and Development, p. 92. If the adidas Group failed to maintain a strong pipeline of new innovative products over a sustained period of time, we would risk a significant sales decline. We focus on 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 occurrence probability of this risk, which could potentially have a significant financial impact, as low.


#### 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. Loss of key personnel in strategic positions, to competitors or others, is therefore a significant risk we face. In addition, as labour markets become increasingly competitive, we also face the risk of being unable to identify, recruit and retain the most talented people that best meet the specific needs of our Group. To reduce this risk and enable our employees to make use of their full potential, we strongly engage in developing a motivating working environment. Our goal is to make the adidas Group the "Employer of Choice" within our industry. This is supplemented by offering attractive reward and incentive schemes as well as long-term career opportunities and planning  see Employees, p. 97.

Our overall assessment of personnel risks remains unchanged compared to the prior year. Although we expanded our own-retail activities (where employee turnover is higher than the Group average) and increased our employee base in emerging markets (where higher levels of wage inflation increase the volatility of the employment market) in 2009, the current economic environment is likely to reduce employee turnover.

Therefore, we continue to regard the occurrence likelihood of these risks as low. Should these risks materialise, they could have a medium financial impact on our Group.

#### Risks from non-compliance

We face the risk that our employees breach rules and standards that guide appropriate and responsible business behaviour. In order to successfully manage this risk, the Group Policy Manual was launched at the end of 2006 to provide the 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  see Declaration on Corporate Governance including the Corporate Governance Report, p. 33.

We continue to regard the likelihood of grave misconduct as low. Should they materialise, these risks could have a medium financial impact on the 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.

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, requiring password changes at predefined frequencies on our most critical systems and adhering to data protection regulations. 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 function.



Our target availability of 99.7% for major IT applications was exceeded in 2009. 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. In addition to these fundamental controls, the adidas Group has continued to focus on additional IT control initiatives in 2009. These include the development of a five-year IT Strategic Plan aligned with and approved by senior business management, as well as the periodic review and approval of IT project budgets by a governance board. A new team was formed within our IT organisation to manage all compliance-related activities, including the phased implementation of Segregation of Duties (SOD) controls within the ERP environment.

Based on these factors, we believe the risk of a major IT default continues to be low. Such a default, however, would result in a significant potential 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 risk from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and to a lesser extent from other contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments [see Note 28, p. 194](#). Without taking into account any collateral or other credit enhancements, the carrying amount of financial assets represents the maximum exposure to credit risk.

At the end of 2009, there was no relevant concentration of credit risk by type of customer or geography. Instead, 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. This review utilises external ratings from credit agencies. Tolerance limits for accounts receivable are also established for each customer. Then 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, which are employed on a selective basis only, include credit insurances, accounts receivable sales without recourse and bank guarantees as well as retention of title clauses.

The Group utilises allowance accounts for impairments that represent our estimate of incurred credit losses with respect to accounts receivable. The allowance consists of two components:

(1) an allowance based on historical experience of unexpected losses 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 2009, no Group customer accounted for more than 10% of accounts receivable. Nevertheless, the negative impact of the deterioration of the global economy on consumer confidence and spending is not expected to be reversed significantly in 2010 in view of the still very challenging economic environment. As a consequence, we believe that our overall credit risk level from customers, particularly smaller retailers, remains high in several markets

[see Economic and Sector Development, p. 112](#). Therefore, our estimate of the likelihood and potential financial impact of credit risks from customers remains medium.

Credit risks from other financial contractual relationships include items such as other financial assets, short-term bank deposits and derivative financial instruments. 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. During 2009, the credit default swap premiums for many banks declined from their highs in the aftermath of the financial turmoil in 2008, mainly as a result of governmental intervention worldwide. This development indicates a slight decrease of the associated risks.

Although financial market conditions stabilised in 2009, we continue to believe that the likelihood and potential financial impact of credit risks from these assets is medium. Nevertheless, we believe our risk concentration is limited due to the broad distribution of our investment business with more than 24 banks. At December 31, 2009, no bank accounted for more than 19% of our investment business and the average concentration, including subsidiaries' short-term deposits in local banks, was 1%. This leads to a maximum exposure of € 158 million in the event of default of any single bank. Furthermore, we held derivatives with a positive fair market value in the amount of € 55 million. The maximum exposure to any single bank resulting from these assets amounted to € 4 million and the average concentration was 3%.

FUTURE CASH OUTFLOWS <sup>1)</sup>		N°		03			
€ IN MILLIONS							
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total		
<b>As at December 31, 2009</b>							
Bank borrowings incl. commercial paper	103				103		
Private placements	245	537	370	201	1,353		
Eurobond	24	48	538		610		
Convertible bond							
Accounts payable	1,166	—	—	—	1,166		
Other financial liabilities	21	0	1	1	23		
Derivative financial liabilities	81	23	1	1	106		
<b>Total</b>	<b>1,640</b>	<b>609</b>	<b>909</b>	<b>203</b>	<b>3,361</b>		
<b>As at December 31, 2008</b>							
Bank borrowings incl. commercial paper	748				748		
Private placements	462	539	374	261	1,636		
Convertible bond	408				408		
Accounts payable	1,218	—	—	—	1,218		
Other financial liabilities	25	1		2	28		
Derivative financial liabilities	57	15	6	2	80		
<b>Total</b>	<b>2,918</b>	<b>555</b>	<b>380</b>	<b>265</b>	<b>4,118</b>		

1) Rounding differences may arise in totals.

### 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's Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2009, Group cash and cash equivalents amounted to € 775 million (2008: € 244 million). Moreover, our Group maintains € 2.2 billion bilateral short-term credit lines and a € 2 billion committed medium-term syndicated loan facility with international banks, which does not include a market disruption clause. The € 4.2 billion in credit lines are designed to ensure sufficient liquidity at all times. In order to mitigate financing risks and to reduce the dependence on bank financing, in 2009 the adidas Group issued a German private placement in the amount of € 200 million in two tranches with a maturity of three and five years respectively, and a Eurobond in a nominal amount of € 500 million with a maturity of five years [see Treasury, p. 128](#).

Future cash outflows arising from financial liabilities that are recognised in the Consolidated Balance Sheet are presented in the adjacent table [see 03](#). 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 2009, we reduced net debt by € 1.272 billion, which resulted in the achievement of our medium-term target of financial leverage below 50% at year-end. As a result of this effort and in light of our available credit lines, financing structure and business model, we continue to regard the occurrence probability of financing and liquidity risks, which could also lead to increased interest costs, as low. Nevertheless, failure to maintain liquidity could have a high financial impact on Group performance.

### Currency risks

Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. 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 [see 04](#). 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 sensitivity analysis is based on the net balance sheet exposure, including inter-company 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 2008 and 2009.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2009 would have led to a € 1 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 144 million. A 10% weaker euro at December 31, 2009 would have led to a € 1 million decrease in net income. Shareholders' equity would have increased by € 176 million [see](#) [05](#). The impacts of fluctuations of the euro against the British pound and of the US dollar against 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. These include:

- Interest rates 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.

<b>EXPOSURE TO FOREIGN EXCHANGE RISK<sup>1)</sup></b>		N° <b>04</b>		
BASED ON NOTIONAL AMOUNTS, € IN MILLIONS				
	USD	GBP	JPY	
<b>As at December 31, 2009</b>				
Exposure from firm commitments and forecasted transactions	(2,320)	237	199	
Balance sheet exposure including intercompany exposure	(74)	7	0	
<b>Total gross exposure</b>	<b>(2,394)</b>	<b>245</b>	<b>200</b>	
Hedged with other cash flows	150	—	—	
Hedged with currency options	532	—	(6)	
Hedged with forward contracts	1,659	(260)	(120)	
<b>Net exposure</b>	<b>(53)</b>	<b>(15)</b>	<b>73</b>	
<b>As at December 31, 2008</b>				
Exposure from firm commitments and forecasted transactions	(2,341)	323	339	
Balance sheet exposure including intercompany exposure	(192)	(24)	(7)	
<b>Total gross exposure</b>	<b>(2,533)</b>	<b>299</b>	<b>332</b>	
Hedged with other cash flows	83	—	—	
Hedged with currency options	457	(25)	(57)	
Hedged with forward contracts	1,294	(197)	(185)	
<b>Net exposure</b>	<b>(699)</b>	<b>77</b>	<b>90</b>	
1) Rounding differences may arise in totals.				

<b>SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE RATE CHANGES</b>		N° <b>05</b>		
€ IN MILLIONS				
	USD	GBP	JPY	
<b>As at December 31, 2009</b>				
	<b>EUR +10%</b>	<b>EUR +10%</b>	<b>USD +10%</b>	
Equity	(144)	21	13	
Net income	1	(1)	0	
	<b>EUR -10%</b>	<b>EUR -10%</b>	<b>USD -10%</b>	
Equity	176	(25)	(13)	
Net income	(1)	1	(1)	
<b>As at December 31, 2008</b>				
	<b>EUR +10%</b>	<b>EUR +10%</b>	<b>USD +10%</b>	
Equity	(108)	17	22	
Net income	10	(1)	(1)	
	<b>EUR -10%</b>	<b>EUR -10%</b>	<b>USD -10%</b>	
Equity	133	(20)	(21)	
Net income	(13)	0	1	

- Operational issues, such as potential discounts to key accounts, who 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. 128](#). 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 2010 was roughly € 2.3 billion at year-end 2009, which we hedged using forward contracts, currency options and currency swaps [▶ see 04](#). Our Group's Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2010 hedging has almost been completed, it is clear that conversion rates on major currencies will be slightly less favourable compared to those of 2009. Volume forecast variances, greater currency volatility and an increasing portion of our business in emerging markets remain challenges with regard to currency risks in 2010. In addition, translation impacts from the conversion of non-euro-denominated results into our Group's functional currency, the euro, could lead to a material negative or positive impact on our Group's financial performance. Consequently, we believe the likelihood of currency risk impacting our 2010 financial performance is medium, however the potential financial impact could be high.

#### Interest rate risks

Changes in 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, 2009. 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. The fair value interest rate risk from private placements that are hedged with fair value hedges was also taken into consideration. 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 2008 and 2009. A 100 basis point increase in interest rates at December 31, 2009 would have increased shareholders' equity by € 0 million (2008: € 4 million) and decreased net income by € 1 million (2008: € 1 million). A 100 basis point decrease of the interest rates at December 31, 2009 would have resulted in a € 0 million decrease in shareholders' equity (2008: € 5 million) and a € 1 million increase in net income (2008: € 1 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 net borrowings [▶ see Treasury, p. 128](#). In light of the low interest rate level in North America and Europe, and the easing of government fiscal action to stimulate economic growth, the risk of upward interest rate adjustments has increased compared to the prior year. Therefore, we now believe that the likelihood of a Group-wide interest rate increase has risen to medium. Nevertheless, given the increase in our Group's portion of longer-term fixed rate financing in 2009, we continue to project any potential interest rate increases as having a low financial effect.

## External and Industry Opportunities

### Favourable macroeconomic and fiscal policy changes

Since we are a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments and fiscal policy changes 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 taxation of corporate profits, 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 World Health Organization, around 400 million people were considered obese in 2005. A further 1.6 billion more were estimated to be overweight. These numbers are projected to increase to 700 million and 2.3 billion respectively by 2015. 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. Given our strong market position, in particular in categories considered suitable for weight loss such as training, running and swimming, we expect to benefit from this trend.

### 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.

### Emerging markets as long-term growth drivers

According to estimates by the United Nations, the global population is projected to grow from currently 6.8 billion to 7 billion by the end of 2012 and is estimated to surpass 9 billion by 2050. A large portion of this growth is being driven by emerging economies. Rising employment rates and real incomes and a growing middle class are fuelling these economies – and subsequently our industry. Sports participation in most of these countries 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 easily accessible, affordable luxury goods which presents an additional growth opportunity.

### Women's segment offers long-term potential

In our opinion, the women's sports market is one of the most attractive segments in the sporting goods industry with women accounting for more than a third of total spending on athletic footwear. Our Group still generates the majority of its revenues in men's and unisex categories. The adidas Group will continue to invest in developing women-specific product offerings in both performance and lifestyle that emphasise female individuality, authenticity and style. Examples today include adidas by Stella McCartney, EasyTone™ footwear at Reebok, and the Women's Burner® 09 at TaylorMade.

CORPORATE OPPORTUNITY OVERVIEW	Nº 06	☰
<b>External and industry opportunities</b>		
Favourable macroeconomic and fiscal policy changes		
Growing importance of sports to fight obesity		
Ongoing fusion of sport and lifestyle		
Emerging markets as long-term growth drivers		
Women's segment offering long-term potential		
Increasing consumer demand for functional apparel		
Growing popularity of "green" products		
<b>Strategic and operational opportunities</b>		
Strong market positions worldwide		
Multi-brand approach		
Personalisation and customisation replacing mass wear		
Exploiting potential of new and fast-growing sports categories		
Breaking new ground in distribution		
Cost optimisation drives profitability improvements		
<b>Financial opportunities</b>		
Favourable financial market changes		

### 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 moisture management, superior ease of motion and increased comfort are all factors encouraging consumers to switch to high-performance gear. 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, only a 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.

### Growing popularity of “green” products

Today’s consumers are increasingly concerned about the impact their consumption has on the environment. Therefore, they demand more and more products that are environmentally benign. Over the past two years, we have accelerated our efforts to create meaningful product platforms to drive growth in this area. For example, in 2009, the first products from the adidas “Better Place” programme were introduced globally. 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 performance categories participating in the programme, we are moving forward with ambitious plans in the build-up to the London 2012 Olympic Games [see Sustainability, p. 102](#). Reebok has also been steadily introducing eco-friendly products. In 2010, for example, Reebok will launch the Kid’s Green Easy Collection utilising recycled raw materials. Our efforts to use environmentally friendly materials in our products are of course not exclusive to these specific programmes and are also used in other categories, albeit to a lesser extent.

### Strategic and Operational Opportunities

#### 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. The adidas Group can therefore compete more effectively for shelf space.

#### Multi-brand approach

We believe there is a natural limit to the audience size a single brand can appeal to, given the diverse tastes and expectations of a highly fragmented consumer market. 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. 52](#). 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.

### Personalisation and customisation 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. 52](#). 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 Performance, mi Originals and mi Team. In 2009, Reebok launched the “Your Reebok” iPhone application, which enables consumers to design and order personalised footwear with their mobile phones. At TaylorMade-adidas Golf, the myTPball online platform offers customers the opportunity to create and order their own golf balls and our Centers of Excellence™ provide customised fitting sessions for consumers 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 will therefore continue to invest in the space. For example, in February 2009, we acquired Bones in Motion, Inc., a specialist in developing, manufacturing and selling sports- and fitness-specific location-aware software applications and web-based services. This strategic move extended our innovation capabilities to further exploit the growing market of interactive, personalised training systems.

### 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 their 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, muscle toning footwear has evolved into a meaningful category, particularly for those who want to keep fit with a minimum investment of time. The toning category was the fastest-growing footwear category in the USA in 2009. According to market surveys such as those conducted by SportsONEsource, the toning category is forecasted to grow rapidly in coming years, potentially to levels of about one billion US dollars. Having successfully launched the Reebok EasyTone™ in 2009, the Reebok brand will introduce additional styles and extensions within this category over the next two to three years.

### Breaking new ground in distribution

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 to 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 2009, we launched Originals shop-in-shops with several key retail partners particularly in Europe and introduced our first adidas SLVR store in New York. In addition, in 2009 we also established a new dedicated team to take charge of our global e-commerce activities. Through initiatives like these, we believe we will be able to more effectively target consumers and involve them emotionally with our products.

### 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 believe there is still significant opportunity to further streamline cost structures throughout our Group. In North America, for example, we believe we will be able to realise medium-term economies of scale as we look for possibilities to further integrate adidas and Reebok functions. In addition, we continue searching for ways to increase efficiency in our supply chain and make it truly demand-driven. For example, as a result of our "Fast and Lean Creation" programme, roles and responsibilities will be restructured to reduce costly non-value-added administration and data entry, allowing our development teams to focus on their core tasks. 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. 88](#). Another example in this respect is the reduction of the number of articles, which 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 opportunities [see Treasury, p. 128](#).

#### Management Assessment of Overall Risk and Opportunities

Management aggregates all risks reported by different business units and functions. Based on the compilation of risks – taking into account the occurrence likelihood and potential financial impact and the current business outlook explained within this report – adidas Group Management does not foresee any individual or aggregate risks which could materially jeopardise the viability of the Group as a going concern. Management remains confident that the Group's earnings power forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group. Nonetheless, in the short term, due to ongoing macroeconomic challenges and their negative impact on private consumption and consumer spending, we believe that the adidas Group risk profile remains unchanged compared to the prior year.

## Subsequent Events and Outlook

In 2010, most major economies are forecasted to recover from the severe global recession in 2009. Although consumer spending is expected to lag behind GDP growth, this development is projected to have a moderately positive impact on the sporting goods industry and our Group. Based on our extensive pipeline of new product and marketing initiatives, we expect top- and bottom-line improvements in our Group's financial results compared to the prior year. We forecast adidas Group sales to increase at a low- to mid-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 increase to a level between 46% and 47%, primarily as a result of lower input costs and less clearance sales. Operating margin is forecasted to be around 6.5%. As a result, we project earnings per share to grow to a level between € 1.90 and € 2.15.

### Subsequent Events

#### Memorandum of Understanding signed with Pou Sheng International (Holdings) Limited

In January 2010, adidas (China) Ltd. signed a Memorandum of Understanding for the business activities of the Reebok brand in China with the Chinese sporting goods retailer Pou Sheng International (Holdings) Limited. Both parties intend to enter into an agreement under which Pou Sheng will co-design, manufacture and become key distributor of Reebok branded footwear and apparel in China. A final agreement is expected to be reached in the second quarter of 2010. The new set-up will enable Reebok to more effectively meet local market tastes and accelerate time-to-market. We forecast this strategic change to support the brand's turnaround in China and project a positive medium-term impact on Reebok's market position and profitability.

#### Lawsuit settled

In January, adidas Group settled a lawsuit. The settlement will have a positive low-double-digit million euro impact on the Group's financial results in 2010.

#### Trademark divested

In January, adidas Group sold a trademark. The divestiture will have a positive low-double-digit million euro impact on the Group's financial results in 2010.

#### No other subsequent changes

Since the end of 2009, there have been no other significant organisation, management, economic, sociopolitical, legal or financing changes which we expect to influence our business materially going forward.

### Outlook

#### Economic uncertainties and risks remain challenges to Group business outlook

Expectations for the development of the global economy and the sporting goods industry in 2010 are subject to a high degree of uncertainty. Although economic indicators signalled an improvement in the overall macro-economic climate towards the end of 2009, the sustainability of the recovery is difficult to assess. According to some market participants, recent growth momentum was primarily built upon fiscal and monetary stimuli packages implemented by many countries rather than a fundamental economic upswing. As a result, economic forecasts provided by various governmental bodies and research institutes differ considerably in their evaluation of global and regional GDP development.

Moreover, due to record high unemployment rates in many countries, consumer confidence and private consumption are forecasted to remain subdued. Consequently, the extent to which the adidas Group will benefit from GDP improvements is currently difficult to foresee.

#### Global economy expected to return to modest growth in 2010

According to the World Bank, in 2010 growth of the global economy is projected to return to a growth rate of approximately 2.7%, mainly attributable to a strong upswing of industrial activity and improving financial market conditions. However, the potential for inflationary pressures as a result of extensive monetary easing measures implemented by many governments poses a considerable downward risk to worldwide growth prospects.



In Europe, GDP in the Euro Zone is expected to grow at a low rate of around 1.0% in 2010. The region is likely to benefit from positive spillover effects of expansive fiscal and monetary policy measures on domestic consumption as well as improving global demand. However, tight credit markets are forecasted to remain a constraint for corporate investments.

European emerging markets are estimated to grow at around 3.1% in 2010. Economies such as Russia and Turkey are forecasted to be positively impacted by rising commodity prices, steadily improving private consumption and rising exports, albeit significantly below pre-crisis levels.

In North America, GDP is also projected to return to growth of approximately 2.5% versus the prior year. The unprecedented government intervention in the USA is expected to have positive stimulus on both private consumption and corporate investment activity, in particular in the first half of 2010. Due to increasing household spending, imports are also projected to increase. Nevertheless, wealth losses in the course of the financial crisis and record-high unemployment rates continue to weigh on domestic demand.

In Asia, growth rates are expected to accelerate in 2010, particularly in emerging markets. While countries such as China, India and Indonesia are likely to be positively affected by a rebound in exports, the economy in China should also continue to see the positive effects from government stimulus packages spill over into domestic demand. As a result, GDP for emerging markets in Asia is forecasted to grow around 8.0% in 2010. Japan's economy is estimated to expand at around 1.3% in 2010 versus the prior year. This mainly relates to modestly growing domestic and foreign demand for Japanese products as inventory clearance measures come to an end worldwide, as well as planned additional government stimulus measures.

In Latin America, growth rates are likely to increase to a level of around 3.1% in 2010. Private consumption, export activity and capital expenditures are expected to increase in most major markets. Due to the strong dependence on demand for commodities, economic growth in many of the region's countries is likely to be positively impacted by the overall global economic improvement.

#### **Global sporting goods industry to expand only moderately**

In 2010, we expect the global sporting goods industry to expand. However, growth is projected to be moderate with considerable regional differences. Mature markets such as the USA and Western Europe are faced with high unemployment rates having adverse effects on consumer confidence and spending. Moreover, the promotional and price-sensitive retail environment is predicted to improve only slowly. Emerging markets such as Latin America are expected to post slightly accelerating growth rates.

#### **Western European sporting goods industry to remain stable**

Developed Western European markets such as France, Germany and the UK are expected to benefit from positive momentum related to the 2010 FIFA World Cup™, in particular in the first half of the year. However, growing football sales are likely to be partly offset by declining sales in other sports categories. Moreover, the retail environment in Western Europe also remains challenging due to low consumer confidence and spending. In light of record-high unemployment rates in many of the region's countries, this is not expected to improve significantly over the course of 2010.

#### **Sales in European emerging markets to improve moderately**

After a decline of sporting goods sales in European emerging markets in 2009, industry sales are expected to improve in 2010, albeit moderately. Although the effects of the macroeconomic turmoil on consumer demand remain pronounced, industry sales are expected to also benefit from the 2010 FIFA World Cup™ as well as retail expansion.

#### **North American sporting goods market highly price-sensitive**

The North American sporting goods market is expected to remain approximately stable compared to the prior year. However, due to high unemployment rates, consumers are likely to continue delaying purchases, remaining selective and price-sensitive. The outlook for the different sport categories is mixed. While traditional categories such as basketball and Classics are forecasted to decline slightly, the emerging toning category is forecasted to grow strongly. We expect retail consolidation and rationalisation to remain in the focus of many market participants.

### Greater China sporting goods market continues to grow

In Greater China, the sporting goods industry's footprint is expected to continue expanding in 2010, albeit at considerably lower rates compared to 2008. While the first half year development will still be depressed due to the clearance of excess inventory at retail, growth is likely to be more pronounced in the second half. Rising income levels and growing sports participation rates are expected to support the trend. In addition, the expansion of local brands will positively contribute to industry development.

### Other Asian markets sporting goods sales mixed

In other Asian markets, sporting goods sales development is expected to differ from region to region. While sales in Japan are forecasted to decline slightly as a result of the negative effects from low levels of private consumption and consumer confidence, emerging Asian countries such as India or Vietnam are projected to post solid growth. This mainly relates to rising income levels in these countries as well as to governmental programmes aimed at increasing sports participation among the population.

### Latin American sporting goods industry affected by higher import duties

In Latin America, growth of the sporting goods industry is expected to continue in 2010, also fuelled by the positive impact of sales related to the 2010 FIFA World Cup™ in South Africa. Nevertheless, higher import duties in key markets such as Brazil are forecasted to dampen the industry growth prospects for international manufacturers  see Risk and Opportunity Report, p. 140.

### adidas Group sales to be at least in line with economic growth rates

Based on our strength in innovation, operational execution and regional diversification, we are confident that the Group's net sales increase in 2010 will be at least in line with the growth rates of the global economy. We also expect Group sales growth to be at least in line with the overall development of the sporting goods industry.

### adidas Group sales to increase at a low- to mid-single-digit rate in 2010

We expect adidas Group sales to increase at a low- to mid-single-digit rate on a currency-neutral basis in 2010. Despite the projected global economic recovery, sales development will be negatively tempered by a slow turnaround in consumer demand and continuing cautious retailer behaviour. This will be a result of sustained high unemployment rates in many major markets and only moderate improvements in consumer confidence. However, positive impacts from the 2010 FIFA World Cup™, our high exposure to fast-growing emerging markets as well as improvements at the Reebok brand are forecasted to more than offset these negative effects.

### Currency-neutral Wholesale revenues expected to increase moderately

We project currency-neutral Wholesale segment revenues to increase at a low-single-digit rate compared to the prior year. Order backlog development as well as positive retailer and trade show feedback support our growth expectations for 2010. Currency-neutral adidas Sport Performance sales are forecasted to increase, supported by strong football sales in connection with the 2010 FIFA World Cup™, for which adidas is an Official Sponsor. Sales in other major categories are expected to decline. adidas Sport Style revenues are projected to increase on a currency-neutral basis as a result of increasing momentum in new product lines, such as adidas Style Essentials. Currency-neutral Reebok sales are expected to increase due to double-digit revenue growth in Women's Fitness as well as improvements in the Men's Training category.

### Retail sales to increase at a high-single-digit rate on a currency-neutral basis

adidas Group currency-neutral Retail segment sales are projected to grow at a high-single-digit rate in 2010. Expansion of the Group's own-retail store base will be the primary driver of the revenue increase. The Group expects a net increase of its store base by around 125 adidas and Reebok stores in 2010, depending on the timing and availability of desired locations. We forecast to open around 150 new stores. New stores will primarily be located in emerging markets in Eastern Europe. Approximately 25 stores will be closed over the course of the year. Around 200 stores will be remodelled. Comparable store sales are expected to increase at a low-single-digit rate compared to the prior year. Due to ongoing high price sensitivity of consumers, factory outlets are expected to perform better than concept stores as a result of lower average price points.

### Currency-neutral sales of Other Businesses to increase at a low-single-digit rate

In 2010, revenues of Other Businesses are expected to increase at a low-single-digit rate on a currency-neutral basis. TaylorMade-adidas Golf revenues are projected to be stable compared to the prior year. The positive effect from new TaylorMade product launches in core categories such as metalwoods and irons will be offset by the non-recurrence of prior year Ashworth sales from a licensing agreement with a competitor that was terminated in the first half of 2009. Revenues at Rockport and Reebok-CCM Hockey are forecasted to increase as a result of improvements in the brands' product portfolio and better consumer reception.

### adidas Group sales development expected to differ regionally

We expect Group currency-neutral revenue development to differ regionally in 2010. In Western Europe, we expect a positive stimulus for Group revenues from sales related to the 2010 FIFA World Cup™. However, we believe macroeconomic pressures on consumer spending will continue to have an adverse effect on Group sales development in this region. In European Emerging Markets, the stabilisation of the Russian rouble compared to 2009, as well as gradual improvements in underlying consumption trends in several of the region's markets are expected to have a positive impact on Group sales development. In North America, we expect to benefit from our strong market position in the emerging toning category. However, ongoing high price sensitivity among consumers as well as cautious retailer buying habits are projected to continue to weigh on Group sales growth in this region. In Greater China, further initiatives to manage inventory levels at retail are expected to result in declining sales versus the prior year in the first half of 2010. In the second half year, Group revenues in this region are forecasted to increase again. In Other Asian Markets, overall macroeconomic challenges in the Japanese market will burden Group sales development while the region's emerging markets are expected to perform robustly. Lastly, in Latin America, the strong positioning of our brands as well as positive impetus from sales associated with the 2010 FIFA World Cup™ are projected to result in revenue growth for the Group in 2010.

### Group gross margin to improve in 2010

In 2010, the adidas Group gross margin is forecasted to increase to a level between 46% and 47% (2009: 45.4%). Improvements are expected in all segments. Group gross margin will benefit from lower levels of clearance sales compared to the prior year. This will be a result of a lower inventory position at the beginning of 2010 compared to the prior year. In addition, sourcing costs are expected to decline compared to the prior year as a result of reduced material costs and lower capacity utilisation among suppliers. However, these positive effects are expected to be partly offset by several negative impacts: Ongoing price pressures from a highly competitive retail environment, in particular in more mature markets, are forecasted to have a negative impact on Group gross margin. In addition, hedging terms in 2010 will be less favourable compared to the prior year. Finally, the recent increase of import duties in Latin America is projected to negatively affect Group gross margin.

MAJOR 2010 PRODUCT LAUNCHES		Nº 01	☰
Product	Brand	Launch Month	
adiPURE™ football boot	adidas	January	
STAR WARS™ Originals line	adidas	January	
Supernova™ GLIDE running shoe	adidas	January	
miCoach training system	adidas	January	
adiSTAR® Salvation running shoe	adidas	January	
adidas by Stella McCartney performance cycling collection	adidas	January	
TECHFIT™ PowerWEB™ men's training apparel	adidas	February	
UEFA Champions League Finale ball and footwear package	adidas	March	
TERREX outdoor apparel and footwear	adidas	March	
SUPER TREKKING outdoor footwear	adidas	March	
2010 FIFA World Cup™ package	adidas	March	
F50 football boot	adidas	June	
Supernova™ Sequence and Supernova™ Riot running shoes	adidas	June	
Men's and women's Fluid training shoes	adidas	June	
High Performance BOUNCE™ running shoe	adidas	August	
adidas Basketball Team Signature collection	adidas	November	
Training Day collection men's training apparel	Reebok	January	
Cirque du Soleil collection	Reebok	February	
RunTone™ men's footwear	Reebok	March	
U-Form 4-Speed football cleat	Reebok	May	
ZigEnergy and ZigFuel men's footwear	Reebok	June	
TrainTone™ women's footwear	Reebok	June	
Reebok   Emporio Armani footwear	Reebok	June	
JUKARI Fit to Flex™ women's footwear	Reebok	July	
JumpTone™ men's footwear	Reebok	July	
Reebok   EA7 collection	Reebok	August	
ZigSlash and ZigReenergize basketball footwear	Reebok	October	
Burner® SuperFast driver and fairway woods	TaylorMade	January	
Burner® W (women's) golf ball	TaylorMade	February	
R9™ SuperTri driver	TaylorMade	February	
Rossa® Monza® Spider Vicino putter	TaylorMade	March	
Burner® SuperLaunch irons	TaylorMade	April	
Men's FORMOTION™ apparel	adidas Golf	January	
Men's/women's CLIMACOOL® apparel with soft-touch COOLMAX™	adidas Golf	January	
Men's adiPURE™ apparel	adidas Golf	February	
Women's adiPURE™ apparel	adidas Golf	May	
Men's/women's EZ-Tech Performance	Ashworth	September	
Men's/women's Doeskin Outerwear	Ashworth	September	
TruWALK men's and women's footwear	Rockport	August	
Reebok 11K skates	Reebok Hockey	January	
CCM U+™ OCTOLIGHT stick	CCM Hockey	April	
CCM U+™ PRO Protective	CCM Hockey	April	

**ADIDAS GROUP 2010 OUTLOOK**

 No  
**02**


Currency-neutral sales	low- to mid-single-digit increase
Gross margin	46% to 47%
Operating margin	around 6.5%
Earnings per share	€ 1.90 to € 2.15

**Group operating expenses to decrease as a percentage of sales**

In 2010, the Group's operating expenses as a percentage of sales are expected to decrease modestly (2009: 42.3%). Sales and marketing working budget expenses as a percentage of sales are expected to increase modestly versus the prior year to support adidas presence at the 2010 FIFA World Cup™ as well as to sustain Reebok's growth strategy in muscle toning and conditioning. However, this increase will be more than offset by lower operating overhead expenditures as a percentage of sales. This will be largely due to the continued hiring freeze in non-retail-related functions and various efficiency improvement measures introduced in 2009, such as the implementation of joint operating models for the adidas and Reebok brands and the elimination of regional headquarters. These efficiency gains will outweigh higher administrative and personnel expenses in the Retail segment as a result of the build-up of management expertise and the planned expansion of the Group's store base.

We expect the number of employees within the adidas Group to increase versus the prior year level. Ongoing initiatives to streamline our organisation are forecasted to be more than offset by new hirings related to own-retail expansion. The majority of new hirings will be employed on a part-time basis and located in emerging markets.

The adidas Group will continue to spend around 1% of sales on research and development in 2010. Areas of particular focus include training, running, football, basketball and outdoor at adidas, and women's fitness and men's training at Reebok see Research and Development, p. 92. The number of employees working in research and development throughout the Group will remain virtually unchanged in 2010.

**Operating margin to show improvement**

In 2010, we expect the operating margin for the adidas Group to be around 6.5% (2009: 4.9%). Gross margin improvements as well as lower operating expenses as a percentage of sales are expected to contribute to the improvement compared to the prior year.

**Earnings per share to increase to a level between € 1.90 and € 2.15**

Earnings per share are expected to increase strongly to a level between € 1.90 and € 2.15 (2009 diluted earnings per share: € 1.22). 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 as a result of a lower average level of net borrowings in 2010 compared to the prior year. The Group tax rate is expected to be slightly below the prior year level (2009: 31.5%) as a result of the non-recurrence of prior year charges related to the writedown of deferred tax assets.

**Operating working capital as a percentage of sales to improve**

Improving operating working capital management continues to be a priority in our efforts to optimise cash flow from operations. In 2010, our goal is to reduce average operating working capital as a percentage of sales (2009: 24.3%). Optimisation of order volumes based on expected sales development and rigorous monitoring of inventory ageing are at the forefront of our activities. We will also focus on tightly managing accounts receivable and payment terms with our suppliers.


**Investment level to be between € 300 million and € 400 million**

In 2010, investments in tangible and intangible assets are expected to amount to € 300 million to € 400 million (2009: € 240 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in emerging markets. These investments will account for almost 50% of total investments in 2010. Other areas of investment include the further development of the adidas Group Headquarters in Herzogenaurach, Germany, and the increased deployment of SAP and other IT systems in major subsidiaries within the Group. The most important factors in determining the exact level and timing of investments will be the rate at which we are able to successfully secure own-retail opportunities. All investments within the adidas Group in 2010 are expected to be fully financed through cash generated from operations.

### Excess cash to be used to reduce net debt

In 2010, we expect continued positive cash flows from operating activities. Cash will be used to finance working capital needs, investment activities, as well as dividend payments. Tight working capital management and disciplined investment activities are expected to help optimise the Group's free cash flow in 2010. We intend to largely use excess cash to further reduce net borrowings, which we forecast to be below the prior year level at year-end. Following the achievement of our medium-term goal of financial leverage below 50% in 2009, we now aim to maintain a ratio of net borrowings over EBITDA of less than two times (2009 ratio: 1.2).

### Efficient liquidity management in place for 2010 and beyond

Efficient liquidity management continues to be a priority for the adidas Group in 2010. We focus on continuously anticipating the cash inflows from the operating activities of our Group segments, as this represents the main source of liquidity within the Group. Liquidity is forecasted on a multi-year financial and liquidity plan on a quarterly basis. Long-term liquidity is ensured by continued positive free cash flows and sufficient unused committed and uncommitted credit facilities. In 2010, we expect limited financing activities in order to replace maturing credit facilities  see Treasury, p. 128.

### Management to propose dividend of € 0.35

In light of the strong cash flow generation in 2009 and the significantly reduced level of net borrowings, Management has decided to change its dividend policy. Going forward, we intend to pay out between 20 and 40% of net income attributable to shareholders (previously: 15 to 25%). At our Annual General Meeting on May 6, 2010, we intend to propose a dividend per share of € 0.35 for the financial year 2009 (2008: € 0.50). Subject to shareholder approval, the dividend will be paid on May 7, 2010. The proposal represents a payout ratio of 30% for 2009 (2008:15%). The decrease in the dividend per share is a result of the decline in the Group's net income attributable to shareholders in 2009. Based on the number of shares outstanding at the end of 2009, the dividend payout will decrease 24% to € 73 million (2008: € 97 million).

### Increasing momentum for adidas Group in 2011 and beyond

In line with the projections of leading global economic research institutes, we expect the macroeconomic environment in 2011 to continue its gradual recovery after the severe global recession of 2009. We expect economic growth to be supported by accelerating private consumption compared to 2010. We forecast this development to support the operational performance of our Group in 2011. Under this assumption, we project adidas Group sales and net income to improve in 2011 compared to 2010 levels.

### Key goals for long-term success

In addition, the Group will continue to work towards reaching our priority goals to achieve long-term sustainable shareholder value creation. These include:

— **Expand presence in emerging markets:** Over the last several years, emerging economies in Asia, Europe and Latin America have consistently outperformed growth of more mature markets. Despite the economic backlash suffered in some emerging markets in 2009, we believe these markets continue to represent the most significant long-term growth opportunity to our industry as a whole. Rising standards of living, increasing disposable income, positive demographic trends and growing sports participation rates should continue to support increasing consumption of sporting goods in these markets. Therefore, assuming constant exchange rates, our Group sees the opportunity to increase our representation in emerging markets to over 40% of Group sales in the medium term from currently around 35%.

— **Intensify controlled space focus:** We intend to increase our controlled space initiatives to at least 35% of Group sales in the coming years. This includes new openings of adidas and Reebok own-retail stores, the further extension of our mono-branded store base in China, as well as new shop-in-shop initiatives with retail partners in several markets around the world.

— **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 over 11%.

— **Increase financial flexibility:** We aim to further improve financial flexibility and reduce financing risk of our Group by largely using excess cash for the continued reduction of net borrowings. We strive to maintain a ratio of net borrowings over EBITDA of less than two times going forward. A strong balance sheet and a lower level of debt increase our flexibility to realise value-generating medium- and long-term opportunities in the best interests of our shareholders as they arise.

**adidas by Stella McCartney  
Tennis Performance Dress**

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09



The adidas by Stella McCartney Tennis Performance Dress is styled for a full range of motion with a racerback top and low-cut waist with loose pleats. The incorporated CLIMALITE® technology's light and breathable fabric pulls sweat away from the skin to provide Caroline Wozniacki and other tennis players with a comfortable feeling when competing on court. This dress reflects Wozniacki's trendiness and highlights the importance of style within tennis.

adidas  
stella mccartney



**CAROLINE  
WOZNIACKI  
DENMARK**



## CONSOLIDATED FINANCIAL STATEMENTS

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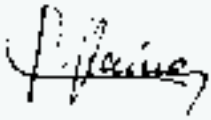
### ➔ NEW YORK, USA – SEPTEMBER 12, 2009

It is Caroline Wozniacki's first Grand Slam semi-final. The 19-year-old newcomer is fired up to take on Yanina Wickmayer in the US Open. In an exciting match, Wozniacki demonstrates her great speed, her outstanding defence and her passion for tennis. It only takes her 1 hour 36 minutes to dismiss her opponent 6-3, 6-3. She is the first Dane to reach a Grand Slam final.

## 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.

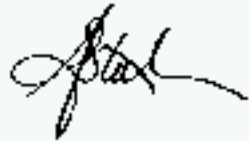
Herzogenaurach, February 19, 2010



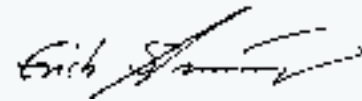
Herbert Hainer  
Chief Executive Officer



Glenn Bennett  
Global Operations



Robin J. Stalker  
Chief Financial Officer



Erich Stamminger  
Global Brands



## Auditor's Report

We have audited the consolidated financial statements prepared by adidas AG, Herzogenaurach, comprising the balance sheet, income statement, statement of comprehensive income and expense, statement of changes in equity, statement of cash flows and the notes, together with the Group management report for the fiscal year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, 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.

Frankfurt am Main, February 19, 2010

KPMG AG  
Wirtschaftsprüfungsgesellschaft

(Original German version signed by:)

Dr. Bernd Erle  
Wirtschaftsprüfer  
(German Public Auditor)

Rainer Gebele  
Wirtschaftsprüfer  
(German Public Auditor)

## ADIDAS AG CONSOLIDATED BALANCE SHEET (IFRS)

€ IN MILLIONS

N°  
01

	Note	Dec. 31, 2009	Dec. 31, 2008	Change in %
Cash and cash equivalents	5	775	244	218.0
Short-term financial assets	6	75	141	(46.5)
Accounts receivable	7	1,429	1,624	(12.0)
Other current financial assets	8	160	287	(44.3)
Inventories	9	1,471	1,995	(26.3)
Income tax receivables	33	89	110	(18.9)
Other current assets	10	360	502	(28.4)
Assets classified as held for sale	3	126	31	296.1
<b>Total current assets</b>		<b>4,485</b>	<b>4,934</b>	<b>(9.1)</b>
Property, plant and equipment	11	723	886	(18.4)
Goodwill	12	1,478	1,499	(1.4)
Trademarks	13	1,342	1,390	(3.4)
Other intangible assets	13	160	204	(21.2)
Long-term financial assets	14	91	96	(5.3)
Other non-current financial assets	15	58	60	(4.8)
Deferred tax assets	33	412	344	19.6
Other non-current assets	16	126	120	4.5
<b>Total non-current assets</b>		<b>4,390</b>	<b>4,599</b>	<b>(4.6)</b>
<b>Total assets</b>		<b>8,875</b>	<b>9,533</b>	<b>(6.9)</b>
Short-term borrowings	17	198	797	(75.1)
Accounts payable		1,166	1,218	(4.3)
Other current financial liabilities	18	101	79	28.2
Income taxes	33	194	321	(39.5)
Provisions	19	320	324	(1.3)
Accrued liabilities	20	625	684	(8.7)
Other current liabilities	21	232	216	7.5
Liabilities classified as held for sale	3	0	6	(100.0)
<b>Total current liabilities</b>		<b>2,836</b>	<b>3,645</b>	<b>(22.2)</b>
Long-term borrowings	17	1,569	1,776	(11.7)
Other non-current financial liabilities	22	25	23	7.1
Pensions and similar obligations	23	157	132	19.0
Deferred tax liabilities	33	433	463	(6.3)
Non-current provisions	19	29	28	2.3
Non-current accrued liabilities	20	22	37	(40.7)
Other non-current liabilities	24	28	29	(7.7)
<b>Total non-current liabilities</b>		<b>2,263</b>	<b>2,488</b>	<b>(9.1)</b>
Share capital		209	194	8.1
Reserves		212	(10)	—
Retained earnings		3,350	3,202	4.6
<b>Shareholders' equity</b>	26	<b>3,771</b>	<b>3,386</b>	<b>11.3</b>
Minority interests	25	5	14	(61.0)
<b>Total equity</b>		<b>3,776</b>	<b>3,400</b>	<b>11.1</b>
<b>Total liabilities and equity</b>		<b>8,875</b>	<b>9,533</b>	<b>(6.9)</b>

From 2009, other (non-)current financial assets/liabilities are shown separately from other (non-)current assets/liabilities.  
Rounding differences may arise in percentages and totals.  
The accompanying Notes are an integral part of these consolidated financial statements.

## ADIDAS AG CONSOLIDATED INCOME STATEMENT (IFRS)

€ IN MILLIONS

N°  
02

	Note	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	Change
Net sales	35	10,381	10,799	(3.9%)
Cost of sales		5,669	5,543	2.3%
<b>Gross profit</b>		<b>4,712</b>	<b>5,256</b>	<b>(10.4%)</b>
[% of net sales]		45.4%	48.7%	(3.3pp)
Royalty and commission income		86	89	(3.9%)
Other operating income	29	100	103	(2.8%)
Other operating expenses	11, 13, 30	4,390	4,378	0.3%
[% of net sales]		42.3%	40.5%	1.7pp
<b>Operating profit</b>		<b>508</b>	<b>1,070</b>	<b>(52.6%)</b>
[% of net sales]		4.9%	9.9%	(5.0pp)
Financial income	32	19	37	(48.6%)
Financial expenses	32	169	203	(17.0%)
<b>Income before taxes</b>		<b>358</b>	<b>904</b>	<b>(60.4%)</b>
[% of net sales]		3.5%	8.4%	(4.9pp)
Income taxes	33	113	260	(56.7%)
[% of income before taxes]		31.5%	28.8%	2.7pp
<b>Net income</b>		<b>245</b>	<b>644</b>	<b>(61.9%)</b>
[% of net sales]		2.4%	6.0%	(3.6pp)
<b>Net income attributable to shareholders</b>		<b>245</b>	<b>642</b>	<b>(61.8%)</b>
[% of net sales]		2.4%	5.9%	(3.6pp)
<b>Net income attributable to minority interests</b>		<b>0</b>	<b>2</b>	<b>(95.1%)</b>
Basic earnings per share (in €)	34	1.25	3.25	(61.5%)
Diluted earnings per share (in €)	34	1.22	3.07	(60.2%)

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 COMPREHENSIVE INCOME AND EXPENSE**

€ IN MILLIONS

 N°  
03


	Note	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
<b>Net income after taxes</b>		<b>245</b>	<b>644</b>
Net (loss)/gain on cash flow hedges, net of tax	28	(132)	149
Actuarial (losses)/gains of defined benefit plans and asset ceiling effect (IAS 19), net of tax	23	(12)	2
Currency translation		(19)	78
<b>Other comprehensive income</b>		<b>(163)</b>	<b>229</b>
<b>Total comprehensive income</b>		<b>82</b>	<b>873</b>
Attributable to shareholders of adidas AG		82	871
Attributable to minority interests		0	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 CHANGES IN EQUITY**

€ IN MILLIONS

 N°  
04


	Note	Share capital	Capital reserve	Cumulative translation adjustments	Hedging reserve	Other reserves <sup>1)</sup>	Retained earnings	Total shareholders' equity	Minority interests	Total equity
<b>Balance at December 31, 2007</b>		<b>204</b>	<b>737</b>	<b>(510)</b>	<b>(58)</b>	<b>(8)</b>	<b>2,659</b>	<b>3,023</b>	<b>11</b>	<b>3,034</b>
<b>Total comprehensive income</b>				<b>78</b>	<b>149</b>	<b>2</b>	<b>642</b>	<b>871</b>	<b>2</b>	<b>873</b>
Dividend payment	26						(99)	(99)	(0)	(99)
Exercised share options	38	0						0		0
Repurchase of adidas AG shares		(10)	(399)					(409)		(409)
Newly founded joint ventures									1	1
Reclassifications of minorities in accordance with IAS 32	25						(0)	(0)		(0)
<b>Balance at December 31, 2008</b>		<b>194</b>	<b>338</b>	<b>(432)</b>	<b>91</b>	<b>(6)</b>	<b>3,202</b>	<b>3,386</b>	<b>14</b>	<b>3,400</b>
<b>Total comprehensive income</b>				<b>(19)</b>	<b>(132)</b>	<b>(12)</b>	<b>245</b>	<b>82</b>	<b>0</b>	<b>82</b>
Dividend payment	26						(97)	(97)		(97)
Exercised share options	38	0	0					0		0
Conversion of convertible bond		16	384					400		400
Acquisition of shares from minority shareholders	25								(12)	(12)
Newly created minority interests	25								3	3
Reclassifications of minorities in accordance with IAS 32	25						0	0		0
<b>Balance at December 31, 2009</b>		<b>209</b>	<b>722</b>	<b>(451)</b>	<b>(41)</b>	<b>(18)</b>	<b>3,350</b>	<b>3,771</b>	<b>5</b>	<b>3,776</b>

1) Reserves for actuarial gains/losses, asset ceiling effect (IAS 19) and share option plans.  
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 CASH FLOWS (IFRS)

€ IN MILLIONS

N°  
05

	Note	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
<b>Operating activities:</b>			
Income before taxes		358	904
Adjustments for:			
Depreciation and amortisation	11, 13, 14, 30	299	234
Unrealised foreign exchange losses/(gains), net		15	[46]
Interest income	32	[16]	[37]
Interest expense	32	138	178
Losses/(gains) on sale of property, plant and equipment, net		23	[7]
Other non-cash expense/(income)	29, 30	5	[21]
<b>Operating profit before working capital changes</b>		<b>822</b>	<b>1,205</b>
Decrease/(increase) in receivables and other current assets		464	[236]
Decrease/(increase) in inventories		617	[324]
[Decrease]/increase in accounts payable and other current liabilities		[312]	374
<b>Cash generated from operations before interest and taxes</b>		<b>1,591</b>	<b>1,019</b>
Interest paid		[131]	[176]
Income taxes paid		[262]	[346]
<b>Net cash from operating activities</b>		<b>1,198</b>	<b>497</b>
<b>Investing activities:</b>			
Purchase of trademarks and other intangible assets		[46]	[60]
Proceeds from sale of other intangible assets		10	8
Purchase of property, plant and equipment		[195]	[316]
Proceeds from sale of property, plant and equipment		16	27
Acquisition of further investments in subsidiaries	4	[14]	[6]
Acquisition of subsidiaries and other business units net of cash acquired	4, 36	[8]	[50]
Proceeds from sale/(purchase) of short-term financial assets		60	[59]
Purchase of investments and other long-term assets		[1]	[25]
Interest received		16	37
<b>Net cash used in investing activities</b>		<b>[162]</b>	<b>[444]</b>
<b>Financing activities:</b>			
[Repayments of]/proceeds from long-term borrowings		[508]	588
Proceeds from issue of a Eurobond		497	—
Dividend paid to shareholders of adidas AG	26	[97]	[99]
Dividend paid to minority shareholders		—	[0]
Exercised share options		0	0
Repurchase of adidas AG shares		—	[409]
Cash repayments of short-term borrowings		[404]	[186]
<b>Net cash used in financing activities</b>		<b>[512]</b>	<b>[106]</b>
<b>Effect of exchange rates on cash</b>			
		7	2
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>531</b>	<b>[51]</b>
Cash and cash equivalents at beginning of year	5	244	295
<b>Cash and cash equivalents at year-end</b>	5	<b>775</b>	<b>244</b>

Rounding differences may arise in percentages and totals.

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

## Notes

adidas AG, a listed German stock corporation and ultimate parent of the Group, and its subsidiaries design, develop, produce and market – increasingly through own-retail activities – a broad range of athletic and sports lifestyle products. The Group's Headquarters are located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany. The adidas Group has divided its operating activities 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.

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 or manufactures 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 under the brand names Reebok Hockey and CCM Hockey.

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.

### General

01

The accompanying consolidated financial statements of adidas AG and its subsidiaries (collectively the "adidas Group" or the "Group") as at December 31, 2009, are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a section 1 HGB.

New standards and interpretations and amendments to existing standards and interpretations applicable for the financial year ending December 31, 2009 are:

- **IFRS 2 Amendment – Share-based Payment – Vesting Conditions and Cancellations** (effective date: January 1, 2009): This amendment had no impact on the Group's financial statements.
- **IFRS 7 Amendments – Financial Instruments: Disclosures** (effective date: January 1, 2009): This amendment had no material impact on the Group's financial statements.
- **IFRS 8 Operating Segments** (effective date: January 1, 2009): This new standard had an impact on the nature and extent of the Notes in the Group's financial statements.

- **IAS 1 Presentation of Financial Statements – Revised** (effective date: January 1, 2009): This amendment had no material impact on the Group's financial statements.
- **IAS 23 Borrowing Costs – Revised** (effective date: January 1, 2009): This amendment had no material impact on the Group's financial statements.
- **IAS 27 Amendments – Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate** (effective date: January 1, 2009): These amendments had no material impact on the Group's financial statements.
- **IAS 32/IAS 1 Amendments – Financial Instruments: Presentation/Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation** (effective date: January 1, 2009): These amendments had no material impact on the Group's financial statements.
- **IFRIC 9/IAS 39 Amendments – Reassessment of Embedded Derivatives/Financial Instruments: Recognition and Measurement – Embedded Derivatives** (effective date: January 1, 2009): These amendments had no impact on the Group's financial statements.

- **IFRIC 13 Customer Loyalty Programmes** (effective date: January 1, 2009): This interpretation had no material impact on the Group's financial statements.
- **IFRIC 14/IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective date: January 1, 2009): This interpretation had no impact on the Group's financial statements.
- **Improvements to IFRS (2008)** (effective date: January 1, 2009): These improvements had no material impact on the Group's financial statements.

New standards and interpretations and amendments to existing standards and interpretations that will be effective for financial years after December 31, 2009, and have not been applied in preparing these consolidated financial statements are:

- **IFRS 3 Business Combinations – Revised** (effective date: July 1, 2009): This amendment will have an impact on the Group's financial statements in the event of business combinations.
- **IAS 27 Amendment – Consolidated and Separate Financial Statements** (effective date: July 1, 2009): This amendment is not expected to have any material impact on the Group's financial statements.
- **IAS 32 Amendment – Financial Instruments: Presentation – Classification of Rights Issues** (effective date: February 1, 2010): This amendment is not expected to have any impact on the Group's financial statements.
- **IAS 39 Amendment – Financial Instruments: Recognition and Measurement – Eligible hedged items** (effective date: July 1, 2009): This amendment is not expected to have any material impact on the Group's financial statements.
- **IFRIC 12 Service Concession Arrangements** (effective date: March 29, 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- **IFRIC 15 Agreements for the Construction of Real Estate** (effective date: January 1, 2010): This interpretation is not expected to have any impact on the Group's financial statements.
- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation** (effective date: June 30, 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- **IFRIC 17 Distributions on Non-cash Assets to Owners** (effective date: November 1, 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- **IFRIC 18 Transfers of Assets from Customers** (effective date: November 1, 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- **Improvements to IFRS (2008) > IFRS 5** (effective date: July 1, 2009): These improvements are not expected to have any material impact on the Group's financial statements.

Entities shall apply the new standards and interpretations, and amendments to existing standards and interpretations for annual periods beginning on or after the effective date.

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 been prepared on the historical cost basis, with the exception of certain items such as cash and cash equivalents, 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.

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 accounts 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 adidas AG directly or indirectly governs the financial and operating policies of the respective enterprise.

The number of consolidated subsidiaries evolved as follows for the years ending December 31, 2009 and 2008, respectively:

NUMBER OF CONSOLIDATED COMPANIES	N°	
	2009	2008
<b>January 1</b>	<b>190</b>	<b>171</b>
Newly founded/consolidated companies	5	10
Divestments/exclusion from consolidation	(9)	(3)
Merged companies	(10)	(2)
Purchased companies	1	14
<b>December 31</b>	<b>177</b>	<b>190</b>

A schedule of the shareholdings of adidas AG is shown in Attachment II to these Notes. Further, a schedule of these shareholdings will be published in the electronic platform of the German Federal Gazette.

The first-time consolidation of purchased companies had a material impact in 2008 → see Note 4.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognised in the balance sheet at fair value. A debit difference between the acquisition cost and the proportionate fair value of assets and liabilities is shown as goodwill. A credit difference is recorded in the income statement. Goodwill arises due to the expectation of strategic advantages or relates to synergies. Upon the acquisition of minority interests, no fair value adjustments are recognised. A debit difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is shown as goodwill. A credit difference is recorded in the income statement.

All intercompany transactions and balances, as well as any unrealised gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

## Currency translation

Transactions of assets and liabilities in foreign currencies are translated into the respective functional currency at spot rates on the transaction date.

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

Assets and liabilities of the Group's non-euro functional currency subsidiaries are translated into the reporting currency, the "euro", which is also the functional currency of adidas AG, at closing exchange rates at the balance sheet date. Revenues and expenses are translated at 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 income.

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

EXCHANGE RATES € 1 EQUALS	Average rate for the year ending Dec. 31		Spot rate at Dec. 31	
	2009	2008	2009	2008
	USD	1.3932	1.4702	1.4406
GBP	0.8912	0.7956	0.8881	0.9525
JPY	130.23	152.39	133.16	126.14

## 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 derivative financial instruments with banks for trading purposes.

Derivative financial instruments are initially recognised in the balance sheet 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 item being hedged. On the date a derivative contract is entered into, the Group designates certain 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, are recognised in equity. When the effectiveness is not 100%, the ineffective portion of the fair value is recognised in net income. Cumulated 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 net income.

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 qualify for hedge accounting under IAS 39 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 hedged items 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 and short-term bank deposits with maturities of three months or less from the date of acquisition.

## Receivables and other assets

Receivables and other assets are recognised at fair value, which 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 past experience of losses.



### 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 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

Assets and liabilities (primarily non-current) that are 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 cost to sell.

### Property, plant and equipment

Property, plant and equipment are stated at cost (which 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 computed utilising the "straight-line method", except where the "declining-balance method" is more appropriate in light of the actual utilisation pattern. Useful lives are as follows:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT		Nº 02	☰
		Years	
Buildings/Leasehold improvements		5 - 50	
Technical equipment and machinery as well as other equipment and furniture and fittings		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

In the event that facts and circumstances indicate that the cost of non-current assets (financial and non-financial assets) should be impaired, an evaluation of recoverability is performed. An impairment loss is recognised in the income statement 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 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 other assets, an impairment loss recognised in prior periods is reversed 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

If substantially all risks and rewards associated with an asset are transferred to the Group under finance lease agreements, the asset less accumulated depreciation and the corresponding liability are recognised at the fair value of the asset or the lower net present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge 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.

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

### Identifiable intangible assets

Acquired intangible assets are valued at cost less accumulated amortisation (except for assets with indefinite useful lives) and impairment losses. Amortisation is calculated on a straight-line basis with the following useful lives:

USEFUL LIVES OF IDENTIFIABLE INTANGIBLE ASSETS		Nº 02	☰
		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, 2009 and 2008, respectively.

The recoverable amount is determined on the basis of fair value less costs to sell, which are calculated with 1% of the fair value. The fair value is determined in discounting the 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. Royalty savings beyond this period are extrapolated using steady growth rates of 1.7% (2008: 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 considering a five-year average debt/equity structure and financing costs including 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 is 9.3% (2008: 8.3%).

If expenditures for internally generated intangible assets qualify for recognition, these are not expensed as incurred.

### Goodwill

Goodwill is the excess of the purchase cost over the fair value of acquired identifiable assets and liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities of that foreign entity are treated as assets and liabilities of the reporting entity respectively, 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 less accumulated impairment losses. Effective January 1, 2005, scheduled amortisation of goodwill ceased due to changes in IFRS. Goodwill is tested annually for impairment, and additionally when there are indications of potential impairment.

As a consequence of the Group's reorganisation in the second half of 2009, the goodwill formerly allocated to the two cash-generating units adidas and Reebok has been reallocated to new cash-generating units. This reallocation was based on a relative value approach.

In addition to the already existing and unchanged cash-generating unit TaylorMade-adidas Golf, the carrying amounts of acquired goodwill are allocated to the following cash-generating units: Rockport, Reebok-CCM Hockey as well as the 17 regional markets which are responsible for the joint distribution of adidas and Reebok.

The cash-generating units (or groups of units) represent the lowest level within the Group at which goodwill is monitored for internal management purposes after the Group's reorganisation.

The impairment test for goodwill has been performed based on the original cash-generating units adidas and Reebok, as well as on the newly allocated cash-generating units (or groups of units).

In both cases, 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 reflects an expected low- to mid-single-digit sales increase for the majority of the cash-generating units (or groups of units). We expect slightly higher sales growth in several of the emerging markets. Furthermore, we expect the operating margin to improve primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning for capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the single cash-generating units (or groups of units). Cash flows beyond this period are extrapolated using steady growth rates averaging 1.7% (2008: 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 debt/equity structure and financing costs including the Group's major competitors for each cash-generating unit (or group 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 cash-generating unit (or group of units) and the respective discount rates applied to the cash flow projections are as follows:

ALLOCATION OF GOODWILL			Nº
€ IN MILLIONS			02
	Goodwill (€ in millions)	Intangible assets with indefinite useful lives (€ in millions)	Discount rate
TaylorMade-adidas Golf	283	25	8.9%
Greater China	210	213	10.2%
Other Asian Markets	159	164	9.9 – 13.9%
Western Europe	513	404	8.2 – 10.5%
Other	313	536	
<b>Total</b>	<b>1,478</b>	<b>1,342</b>	

The goodwill shown in the table under Other Asian Markets, Western Europe and Other is an aggregation of several cash-generating units (or groups of units), as the goodwill of each individual cash-generating unit (or group of units) is insignificant compared to the total amount of goodwill. The determination of the recoverable amounts of the aggregated cash-generating units (or groups of units) Other Asian Markets as well as Western Europe is based on the same material assumptions.

The reconciliation of goodwill is as follows:

RECONCILIATION OF GOODWILL								Nº
€ IN MILLIONS								02
	adidas	Reebok	TaylorMade-adidas Golf	Greater China	Other Asian Markets	Western Europe	Other	Total
January 1, 2009	790	425	284	—	—	—	—	1,499
Additions	5	1	—	—	—	—	—	6
Currency translation differences (January 1, 2009 to September 30, 2009)	(23)	(16)	(1)	—	—	—	—	(40)
Reallocation	(772)	(410)	—	208	157	508	309	0
Currency translation differences (October 1, 2009 to December 31, 2009)	—	—	—	2	2	5	4	13
December 31, 2009	0	0	283	210	159	513	313	1,478

### Research and development

Research costs are expensed as incurred. Development costs are also expensed as incurred when recognition criteria are not met.

The Group spent € 86 million and € 81 million on product research and development for the years ending December 31, 2009 and 2008, 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.

The fair value of the liability component of the Group’s convertible bond was determined using a market interest rate for a comparable straight bond at time of issuance. As at December 31, 2008, this amount was presented as part of short-term borrowings on an amortised cost basis until conversion or maturity of the bond. The remaining portion is included in shareholders’ equity where the value of the equity component was not changed in subsequent periods.

After conversion, the liability component was reclassified into shareholders’ equity.

### Accrued liabilities and provisions

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

With respect to accrued liabilities, the timing and amount of an outflow of resources is not uncertain.

### Pensions and similar obligations

Provisions for pensions and similar obligations comprise the Group provision obligation under defined benefit and contribution plans. Obligations under defined benefit plans are calculated separately for each plan by estimating the benefit amount that employees have earned in return for their service during the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high-quality corporate bonds. Calculations are performed by qualified actuaries using the “projected unit credit method” in accordance with IAS 19. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement when they are due.

As of January 1, 2005, due to application of the amendment to IAS 19 (“Employee Benefits” issued in December 2004), the Group recognises actuarial gains or losses to defined benefit plans arising during the financial year immediately outside the income statement 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 TV media buying costs are expensed over the original duration of the broadcast.

Promotional expenses that involve payments, including one-time up-front payments for promotional contracts, are expensed systematically 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 that 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.

### Equity compensation benefits

Stock options were granted to members of the Executive Board of adidas AG as well as to the managing directors/senior vice presidents of its affiliated companies and to further senior executives of the Group in connection with the Management Share Option Plan (MSOP) of adidas AG [see also Note 38](#). The company has the choice to settle a potential obligation by issuing new shares or providing the equivalent cash compensation. When options are exercised and the company decides to issue new shares, the proceeds received net of any transaction costs are credited to share capital and capital surplus. The company has so far chosen to issue new shares.

In accordance with IFRS 2, an expense and a corresponding entry to equity for equity-settled stock options and an expense and a liability for cash-settled stock options is recorded.

The Group has applied IFRS 2 retrospectively and has taken advantage of the transitional provisions of IFRS 2 with respect to equity-settled awards. As a result, the Group has applied IFRS 2 only to equity-settled awards granted after November 7, 2002, that had not yet vested on January 1, 2005 [Tranche V (2003)].

### 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](#), 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.

### Assets/liabilities classified as held-for-sale

03

Part of the assets of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG and adidas AG as well as assets of Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG are presented as disposal groups held-for-sale following a Memorandum of Understanding signed in 2009 (land and buildings/leasehold improvements). Selling negotiations have commenced. Alternatives are currently under assessment and a final decision is expected in June 2010. At December 31, 2009, the disposal groups contained assets amounting to € 53 million (2008: € 12 million). In addition, the Memorandum of Understanding includes assets of € 51 million in the USA and a warehouse of € 20 million in the Netherlands.

Furthermore, the previous Reebok warehouse in the UK has been classified as an asset held-for-sale as a result of the intention to sell in 2010 and the existence of purchase offers (December 31, 2009: € 2 million; December 31, 2008: € 2 million). In the first quarter of 2009, additional assets of € 2 million were classified as held-for-sale. In 2009, impairment losses in the amount of € 2 million were recognised in other operating expenses.

The previous adidas warehouse in the UK has been reclassified to property, plant and equipment due to a change in conditions. For the years ending December 31, 2009 and 2008, depreciation in the amount of € 0 million has been reflected for the asset reclassified to property, plant and equipment.

At December 31, 2008, a Rockport warehouse in the USA was classified as held-for-sale as a result of the intention to sell and the existence of a purchase offer (€ 4 million). The warehouse was sold in the third quarter of 2009.

Due to the intention to sell and several existing letters of intent, Gekko Brands, LLC, which was acquired within the scope of the acquisition of Ashworth, Inc. [see Note 4](#), was classified as a disposal group held-for-sale. At December 31, 2008, this disposal group contained assets of € 10 million less liabilities of € 6 million. Gekko Brands, LLC, was sold in the first quarter of 2009.

ASSETS CLASSIFIED AS HELD-FOR-SALE		Nº 03	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Accounts receivable and other current assets	18	14	
Inventories	—	4	
Property, plant and equipment, net	108	10	
Trademarks and other intangible assets, net	—	3	
<b>Total</b>	<b>126</b>	<b>31</b>	

LIABILITIES CLASSIFIED AS HELD-FOR-SALE		Nº 03	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Accounts payable	—	2	
Provisions	—	1	
Deferred tax liabilities	—	3	
<b>Total</b>	<b>—</b>	<b>6</b>	

## Acquisition/Disposal of subsidiaries as well as assets and liabilities

04

Effective January 1, 2009, adidas International B.V. acquired the outstanding 25% of the shares of Reebok's subsidiary in Spain, Reebok Spain S.A., Alicante, for a purchase price in the amount of € 12 million. The goodwill resulting from this transaction amounted to € 1 million.

Effective January 1, 2009, adidas International B.V. acquired 51% of the shares of Life Sport Ltd. for a purchase price in the amount of ILS 25.6 million. Based in Holon (Israel), Life Sport Ltd. is a marketing company for adidas products in Israel.

The acquisition had the following effect on the Group's assets and liabilities:

LIFE SPORT LTD.'S NET ASSETS AT THE ACQUISITION DATE		Nº 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	0	—	0
Accounts receivable	5	—	5
Inventories	7	—	7
Other current assets	2	—	2
Property, plants and equipment, net	6	—	6
Other intangible assets	0	1	1
Non-current financial assets	0	—	0
Deferred tax assets	0	—	0
Current financial liabilities	(9)	—	(9)
Accounts payable	(7)	—	(7)
Other current liabilities	(3)	—	(3)
Non-current financial liabilities	(1)	—	(1)
Pensions and similar obligations	(0)	—	(0)
<b>Net assets</b>	<b>0</b>	<b>1</b>	<b>1</b>
Goodwill arising on acquisition			4
<b>Purchase price settled in cash</b>			<b>5</b>
Cash and cash equivalents acquired			0
<b>Cash outflow on acquisition</b>			<b>5</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

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 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 the cash-generating unit adidas at the time of the acquisition. As part of the Group's reorganisation in the second half of 2009, it has been reallocated and is denominated in the local functional currency [see also Note 2](#).

The acquired subsidiary contributed net losses of € 0 million to the Group's net income for the period from January to December 2009.

Effective January 23, 2009, adidas AG acquired the remaining 5% of the shares of its subsidiary in Greece, adidas Hellas A.E., Thessaloniki, for a purchase price in the amount of € 1 million.

On February 16, 2009, adidas International, Inc. acquired assets of Bones in Motion, Inc. as part of an asset deal for a purchase price in the amount of USD 5 million. Based in Austin/Texas (USA), Bones in Motion, Inc. is engaged in developing, manufacturing and selling sports- and fitness-specific location-aware software applications and web-based services.

The acquisition had the following effect on the Group's assets and liabilities:


BONES IN MOTION, INC.'S NET ASSETS AT THE ACQUISITION DATE		N° 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Accounts receivable	0	—	0
Trademarks and other intangible assets, net	—	3	3
<b>Net assets</b>	<b>—</b>	<b>3</b>	<b>3</b>
Goodwill arising on acquisition			1
<b>Purchase price settled in cash</b>			<b>4</b>
Cash and cash equivalents acquired			—
<b>Cash outflow on acquisition</b>			<b>4</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The following valuation methods for the acquired assets were applied:

— **Trademarks and other intangible assets:** The "multi-period-excess-earnings method" was used for the valuation of patents. 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 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 the cash-generating unit adidas at the time of the acquisition. As part of the Group's reorganisation in the second half of 2009, it has been reallocated and is denominated in the local functional currency  see also Note 2.

If this acquisition had occurred on January 1, 2009, total Group net sales would have been € 10.4 billion and net income would have been € 245 million for the year ending December 31, 2009.

Effective January 3, 2008, adidas Canada acquired 100% of the shares of Saxon Athletic Manufacturing, Inc. for a purchase price in the amount of CAD 4.6 million. Based in Brantford/Ontario (Canada), Saxon Athletic is a design, development, marketing and manufacturing company for team uniforms worn by professional and amateur teams throughout North America.

The acquisition had the following effect on the Group's assets and liabilities:

SAXON ATHLETIC MANUFACTURING, INC.'S NET ASSETS AT THE ACQUISITION DATE		N° 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Accounts receivable	1	—	1
Inventories	1	—	1
Borrowings	(1)	—	(1)
Other current financial liabilities	(1)	—	(1)
<b>Net assets</b>	<b>0</b>	<b>—</b>	<b>0</b>
Goodwill arising on acquisition			2
<b>Purchase price settled in cash</b>			<b>2</b>
Cash and cash equivalents acquired			—
<b>Cash outflow on acquisition</b>			<b>2</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The acquired subsidiary contributed € 0 million to the Group's net income for the period from February to December 2008.

Effective January 10, 2008, adidas AG acquired an additional 22.5% of the shares of its subsidiary for the adidas brand in Greece, adidas Hellas A.E., Thessaloniki (Greece), for a purchase price in the amount of € 6 million, thus taking its controlling stake to over 95%.

Effective April 1, 2008, adidas International B.V. acquired 99.99% of the shares of Reebok Produtos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.) for a purchase price in the amount of BRL 6 million. Based in Jundiai (Brazil), Reebok Produtos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.) is a marketing company for Reebok products in Brazil.

The acquisition had the following effect on the Group's assets and liabilities:

REEBOK PRODUCTOS ESPORTIVOS BRASIL LTDA.'S NET ASSETS AT THE ACQUISITION DATE		Nº 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Inventories	2	—	2
Other current assets	0	—	0
<b>Net assets</b>	<b>2</b>	<b>—</b>	<b>2</b>
Goodwill arising on acquisition			—
<b>Purchase price settled in cash</b>			<b>2</b>
Cash and cash equivalents acquired			—
<b>Cash outflow on acquisition</b>			<b>2</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.8 billion and net income would have been € 641 million for the year ending December 31, 2008.

The acquired subsidiary contributed € 6 million to the Group's net income for the period from April to December 2008.

Effective September 5, 2008, adidas International, Inc. acquired 100% of the shares of Textronics, Inc. for a purchase price in the amount of US \$ 35 million. Based in Wilmington/Delaware (USA), Textronics, Inc. is a specialist in the development of wearable sensors for use in fitness and health monitoring.

The acquisition had the following effect on the Group's assets and liabilities:

TEXTRONICS, INC.'S NET ASSETS AT THE ACQUISITION DATE		Nº 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	0	—	0
Inventories	0	—	0
Other current assets	0	—	0
Property, plant and equipment, net	0	—	0
Trademarks and other intangible assets, net	—	9	9
Deferred tax assets	—	3	3
Accounts payable	(0)	—	(0)
Other current liabilities	(0)	—	(0)
Deferred tax liabilities	—	(3)	(3)
<b>Net assets</b>	<b>0</b>	<b>9</b>	<b>9</b>
Goodwill arising on acquisition			16
<b>Purchase price settled in cash</b>			<b>25</b>
Cash and cash equivalents acquired			0
<b>Cash outflow on acquisition</b>			<b>25</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The following valuation methods for the acquired assets were applied:

— **Trademarks and other intangible assets:** The "relief-from-royalty method" was applied for trademarks/trade names. The fair value was determined by discounting the royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset. For the valuation of core technology, 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 "income approach" was applied for covenants not-to-compete by comparing the estimated prospective cash flows with and without the agreements in place. The value of the covenants not-to-compete is the difference between these discounted cash flows being discounted to present value at the appropriate discount rate.

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 the cash-generating unit adidas at the time of the acquisition. As part of the Group's reorganisation in the second half of 2009, it has been reallocated and is denominated in the local functional currency — see also Note 2.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.8 billion and net income would have been € 640 million for the year ending December 31, 2008.

The acquired subsidiary contributed net losses of € 1 million to the Group's net income for the period from September to December 2008.

Effective November 20, 2008, as a result of a takeover bid, Taylor Made Golf Co., Inc. acquired 100% of the shares of Ashworth, Inc., including all direct and indirect holdings for a purchase price of US \$ 30 million. Based in Carlsbad/California (USA), Ashworth is a well-established golf lifestyle apparel brand.

The acquisition had the following effect on the Group's assets and liabilities:

ASHWORTH, INC.'S NET ASSETS AT THE ACQUISITION DATE		N° 04	
€ IN MILLIONS			
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	2	—	2
Accounts receivable	20	—	20
Inventories	27	3	30
Other current assets	2	—	2
Property, plant and equipment, net	21	2	23
Trademarks and other intangible assets, net	3	34	37
Deferred tax assets	1	4	5
Borrowings	(37)	—	(37)
Accounts payable	(15)	—	(15)
Income taxes	(0)	—	(0)
Accrued liabilities and provisions	(6)	(1)	(7)
Other current liabilities	(2)	—	(2)
Deferred tax liabilities	0	(14)	(14)
<b>Net assets</b>	<b>16</b>	<b>28</b>	<b>44</b>
Negative goodwill arising on acquisition (recognised in the income statement)			21
<b>Purchase price settled in cash</b>			<b>23</b>
Cash and cash equivalents acquired			2
<b>Cash outflow on acquisition</b>			<b>21</b>

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The following valuation methods for the acquired assets were applied:

— **Inventories:** The “pro rata basis valuation” was applied for estimating the fair value of acquired inventories. Realised margins were added to the book values of acquired inventories. Subsequently, the costs for completion for selling, advertising and general administration as well as a reasonable profit allowance were deducted.

— **Property, plant and equipment:** The “indirect cost method” was applied for the valuation of property, plant and equipment. The “comparison method” was exclusively applied to the valuation of embroidery machines. In the “indirect cost method”, the cost of “as new” reproduction for each asset or group of assets was determined by indexing the original capitalised cost. If necessary, allowances have been taken into account for physical depreciation, functional and economic obsolescence. The “comparison method” was applied by estimating prices of comparable embroidery machines in terms of age, make and model. Indirect cost estimates such as freight, installation and set-up were also included in the valuation.

— **Trademarks and other intangible assets:** The “relief-from-royalty method” was applied for trademarks/trade names. The fair value was determined by discounting the royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset. For the valuation of customer relationships, the “multi-period-excess-earnings method” was used. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected 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 “cost approach” was applied for apparel designs. These were valued as the cost to recreate the current design plus the opportunity cost measured as the cash flow impact between having pre-existing designs versus having to recreate the designs plus amortisation tax benefit. The “discounted cash flow method” was applied for covenants not-to-compete by comparing the estimated prospective cash flows with and without the subject agreements in place. The value of the covenants not-to-compete is the difference between these discounted cash flows being discounted to present value at the appropriate discount rate. For the valuation of backlogs, the “income approach” was used. The corresponding cash flows were based on the estimated exhaustion of the backlog, and discounted with an appropriate discount rate. Charges for the use of contributory assets and an amortisation tax benefit were also included in the calculation.

The negative goodwill resulted from the excess of net assets (fair values assigned to all assets acquired less liabilities assumed) versus the acquisition cost paid, due to a massive decrease in the share price of the company acquired, also taking the respective deferred taxes into consideration.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.9 billion and net income would have been € 611 million for the year ending December 31, 2008.

Mainly due to restructuring costs and other one-time expenses, the acquired subsidiary contributed losses of € 13 million to the Group's total operating result in the fiscal year 2008. Contribution to net income in 2008 could not be disclosed due to the integration of financing and tax activities.



## Notes to the Consolidated Balance Sheet

### Cash and cash equivalents

05

Cash and cash equivalents consist of cash at banks and on hand as well as short-term bank deposits. 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.

### Short-term financial assets

06

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 money market funds and structured deposits.

### Accounts receivable

07

Accounts receivable consist mainly of the currencies US dollar, euro and Japanese yen and are as follows:

ACCOUNTS RECEIVABLE € IN MILLIONS	Nº 07	
	Dec. 31, 2009	Dec. 31, 2008
Accounts receivable, gross	1,553	1,743
Less: allowance for doubtful accounts	124	119
<b>Accounts receivable, net</b>	<b>1,429</b>	<b>1,624</b>

### MOVEMENT IN ALLOWANCES FOR DOUBTFUL ACCOUNTS

Nº 07

€ IN MILLIONS	Nº 07	
	2009	2008
<b>Allowances at January 1</b>	<b>119</b>	<b>111</b>
Additions	68	49
Additions – Ashworth, Inc. acquisition	–	4
Reversals	(29)	(22)
Write-offs charged against the allowance accounts	(34)	(21)
Currency translation differences	0	(2)
Other changes	0	0
<b>Allowances at December 31</b>	<b>124</b>	<b>119</b>

### ACCOUNTS RECEIVABLE PAST DUE BUT NOT IMPAIRED

Nº 07

€ IN MILLIONS

	past due 1–30 days	past due 31–60 days	past due 61–90 days	past due 91–180 days	past due more than 180 days
<b>Dec. 31, 2009</b>	<b>115</b>	<b>57</b>	<b>10</b>	<b>6</b>	<b>5</b>
Dec. 31, 2008	163	77	20	10	10

With respect to accounts receivable 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.

### Other current financial assets

08

Other current financial assets consist of the following:

OTHER CURRENT FINANCIAL ASSETS € IN MILLIONS	Nº 08	
	Dec. 31, 2009	Dec. 31, 2008
Interest rate derivatives	0	1
Currency options	22	22
Forward contracts	20	156
Security deposits	60	66
Other financial assets	58	42
<b>Other current financial assets</b>	<b>160</b>	<b>287</b>

Information in relation to forward contracts as well as currency options and interest rate derivatives is also included in these Notes – see Note 28.

## Inventories

09

Inventories by major classification are as follows:

INVENTORIES € IN MILLIONS	Dec. 31, 2009			Dec. 31, 2008		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Finished goods and merchandise on hand	1,197	73	1,124	1,463	82	1,381
Goods in transit	317	—	317	566	—	566
Raw materials	26	2	24	40	2	38
Work in progress	6	—	6	10	—	10
<b>Inventories</b>	<b>1,546</b>	<b>75</b>	<b>1,471</b>	<b>2,079</b>	<b>84</b>	<b>1,995</b>

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 cost to sell amounts to € 355 million and € 407 million as at December 31, 2009 and 2008, respectively [see also Note 2](#).

## Other current assets

10

Other current assets consist of the following:

OTHER CURRENT ASSETS € IN MILLIONS	Dec. 31, 2009	Dec. 31, 2008
	Prepaid expenses	208
Tax receivables other than income taxes	84	82
Sundry	72	130
<b>Other current assets, gross</b>	<b>364</b>	<b>504</b>
Less: allowance	4	2
<b>Other current assets, net</b>	<b>360</b>	<b>502</b>

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

## Property, plant and equipment

11

Property, plant and equipment consist of the following:

PROPERTY, PLANT AND EQUIPMENT € IN MILLIONS	Dec. 31, 2009	Dec. 31, 2008
	Land and buildings/Leasehold improvements	380
Technical equipment and machinery	156	140
Other equipment, furniture and fittings	876	847
	<b>1,412</b>	<b>1,476</b>
Less: accumulated depreciation	757	656
	<b>655</b>	<b>820</b>
Construction in progress, net	68	66
<b>Property, plant and equipment, net</b>	<b>723</b>	<b>886</b>

Scheduled depreciation expenses were € 198 million and € 165 million for the years ending December 31, 2009 and 2008, respectively [see also Note 30](#). Impairment losses which are included within depreciation and amortisation (shown in other operating expenses [see also Note 30](#)) were € 16 million and € 6 million for the years ending December 31, 2009 and 2008, respectively. These are related to assets within other equipment, furniture and fittings, mainly in the Group's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits.

In 2009, assets amounting to € 2 million and € 0 million in connection with the unrealised sale of assets [see Note 3](#) were transferred from "assets classified as held-for-sale" to "land and buildings" and "other equipment, furniture and fittings" within property, plant and equipment, respectively.

The reclassified depreciation expenses consist of depreciation subsequently reflected [see also Note 3](#) and the formerly reclassified depreciation which has now been taken back.

Contractual commitments for the acquisition of property, plant and equipment mainly relate to building projects in Herzogenaurach amounting to € 68 million.

For details see Statement of Movements of Tangible and Intangible Assets [Attachment I](#) to these Notes.

## Goodwill

12

Goodwill primarily relates to the Group's acquisitions of the Reebok and TaylorMade businesses as well as recent and previous acquisitions of subsidiaries, primarily in the United States, Australia/New Zealand, Netherlands/Belgium and Italy.

GOODWILL € IN MILLIONS	N° 12	
	Dec. 31, 2009	Dec. 31, 2008
Goodwill, gross	1,478	1,499
Less: impairment	—	—
<b>Goodwill, net</b>	<b>1,478</b>	<b>1,499</b>

The majority of goodwill which primarily relates to the acquisition of the Reebok business in 2006 is denominated in US dollars. A negative currency translation effect of € 27 million and positive € 45 million was recorded for the years ending December 31, 2009 and 2008, 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 unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no impairment expense for the years ending December 31, 2009 and 2008.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted goodwill in the future. For details see Statement of Movements of Tangible and Intangible Assets [➤ Attachment I to these Notes](#).

## Trademarks and other intangible assets

13

Trademarks and other intangible assets consist of the following:

TRADEMARKS AND OTHER INTANGIBLE ASSETS € IN MILLIONS	N° 13	
	Dec. 31, 2009	Dec. 31, 2008
Reebok	1,075	1,113
Rockport	152	157
Reebok-CCM Hockey	90	93
TaylorMade-adidas Golf	25	27
<b>Trademarks, gross</b>	<b>1,342</b>	<b>1,390</b>
Less: accumulated amortisation	0	0
<b>Trademarks, net</b>	<b>1,342</b>	<b>1,390</b>
Software, patents and concessions, gross	538	517
Less: accumulated amortisation	378	313
<b>Other intangible assets, net</b>	<b>160</b>	<b>204</b>
<b>Trademarks and other intangible assets, net</b>	<b>1,502</b>	<b>1,594</b>

At December 31, 2009, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and Ashworth, Inc. in 2008, have indefinite useful lives. They were estimated to be indefinite due to the high degree of continuing brand recognition.

The Group determines whether trademarks with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the fair value less costs to sell of the trademarks. Estimating the fair value less costs to sell requires the Group to make an estimate of the expected future brand-specific sales and appropriate arm's length 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 impairment expense for the years ending December 31, 2009 and 2008.

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

Scheduled depreciation expenses were € 66 million and € 61 million for the years ending December 31, 2009 and 2008, respectively [➤ see also Note 30](#). Impairment losses which are included within depreciation and amortisation (shown in other operating expenses [➤ see also Note 30](#)) were € 19 million and € 0 million for the years ending December 31, 2009 and 2008, respectively. These are related to distribution rights, for which no future economic benefit exists.

For details see Statement of Movements of Tangible and Intangible Assets [➤ Attachment I to these Notes](#).

## Long-term financial assets

14

Long-term financial assets include a 10% investment in FC Bayern München AG of € 79 million (2008: € 77 million). This investment is classified as “fair value through profit or loss” and recorded at fair value. This equity security does not have a quoted market price in an active market, therefore existing contractual settlements were used in order to calculate the fair value as at December 31, 2009. 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		Nº 14	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Investment in FC Bayern München AG	79	77	
Investments	12	12	
Other financial assets	0	7	
<b>Long-term financial assets</b>	<b>91</b>	<b>96</b>	

Fair value adjustments from impairment losses amounted to € 5 million and € 0 million for the years ending December 31, 2009 and 2008, respectively. These are related to impairments of other financial assets to cover anticipated risks of default [see also Note 32](#).

## Other non-current financial assets

15

Other non-current financial assets consist of the following:

OTHER NON-CURRENT FINANCIAL ASSETS		Nº 15	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Interest rate derivatives	4	8	
Currency options	19	19	
Forward contracts	2	7	
Security deposits	21	23	
Other financial assets	12	3	
<b>Other non-current financial assets</b>	<b>58</b>	<b>60</b>	

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes [see also Note 28](#).

## Other non-current assets

16

Other non-current assets consist of the following:

OTHER NON-CURRENT ASSETS		Nº 16	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Prepaid expenses	117	108	
Sundry	9	12	
<b>Other non-current assets</b>	<b>126</b>	<b>120</b>	

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts [see also Note 37 and Note 27](#).

## Borrowings and credit lines

17

With settlement on October 8, 2003, the adidas Group had issued a € 400 million convertible bond through its wholly-owned Dutch subsidiary, adidas International Finance B.V. The bond was guaranteed by adidas AG and issued in tranches of € 50,000 each with a maturity up to 15 years. The bond was, at the option of the respective holder, subject to certain conditions, convertible from and including November 18, 2003, up to and including September 20, 2018, into ordinary no-par-value bearer shares of adidas AG at the conversion price of € 25.50 which was fixed upon issue. The coupon of the bond was 2.5% and was payable annually in arrears on October 8 of each year, commencing on October 8, 2004. The bond was convertible into approximately 16 million no-par-value bearer shares.

The convertible bond was not callable by the issuer until October 2009. It was callable thereafter, between October 2009 and October 2012, subject to the adidas AG share price amounting to at least 130% of the conversion price. After having fulfilled the aforementioned condition, in October 2009 the Group announced the early redemption of the convertible bond. Following the announcement, the convertible bond was fully converted into no-par-value bearer shares of adidas AG by the bondholders. Investors had the right to put the bond at par in October 2009, October 2012 and October 2015.

The fair values of the liability component and the equity conversion component were determined on the issuance of the bond. The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate of approximately 4.6% for an equivalent straight bond without conversion rights. Due to the retrospective application of the amendment to IAS 39 and IAS 32 as of December 31, 2005, the liability and equity split of the convertible bond changed. As a result, the liability component as at the date of issuance increased by € 71.1 million with an equivalent decrease in equity. The amount of the equity component, which is included in equity in the capital reserve, amounts to € 44.1 million (less transaction costs of € 0.9 million). The liability component was valued using the “effective interest method”.

The adidas AG share first traded above 110% (€ 28.05) of the conversion price of € 25.50 on more than 20 trading days within the last 30 trading days in the fourth quarter of 2004. Consequently, bondholders had the right to convert their convertible bonds into equity since January 1, 2005.

Gross borrowings decreased by € 806 million in 2009 compared to an increase of € 427 million in 2008.

In June 2009, a German private placement in an amount of € 200 million was issued, consisting of a three-year and five-year tranche. Additionally, adidas International Finance B.V., a fully owned and guaranteed subsidiary of adidas AG, issued a Eurobond in an amount of € 500 million in July 2009.

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, 2009 are denominated in euros (2009: 61%; 2008: 57%) and US dollars (2009: 33%; 2008: 39%).

The weighted average interest rate on the Group's gross borrowings remained stable at 5.2% in 2009 (2008: 5.2%).

As at December 31, 2009, the Group had cash credit lines and other long-term financing arrangements totalling € 5.9 billion (2008: € 6.5 billion); thereof unused credit lines accounted for € 4.1 billion (2008: € 4.0 billion). In addition, the Group had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.4 billion (2008: € 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 of December 31, 2009, and December 31, 2008, 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 borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

GROSS BORROWINGS AS AT DECEMBER 31, 2009					
€ IN MILLIONS					
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings incl. commercial paper	—	103	—	—	103
Private placements	198	458	324	186	1,166
Eurobond	—	—	498	—	498
Convertible bond	—	—	—	—	—
<b>Total</b>	<b>198</b>	<b>561</b>	<b>822</b>	<b>186</b>	<b>1,767</b>

In accordance with the long-term funding strategy, the bank borrowings and commercial paper with short-term maturities are also classified as long-term borrowings as they represent permanent funding volumes that are covered by the committed long-term syndicated loan.

GROSS BORROWINGS AS AT DECEMBER 31, 2008					
€ IN MILLIONS					
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings incl. commercial paper	—	—	748	—	748
Private placements	404	462	332	234	1,432
Convertible bond	393	—	—	—	393
<b>Total</b>	<b>797</b>	<b>462</b>	<b>1,080</b>	<b>234</b>	<b>2,573</b>

#### Other current financial liabilities

18

Other current financial liabilities consist of the following:

OTHER CURRENT FINANCIAL LIABILITIES		
€ IN MILLIONS		
	Dec. 31, 2009	Dec. 31, 2008
Interest rate derivatives	2	—
Currency options	10	15
Forward contracts	69	42
Other financial liabilities	20	22
<b>Other current financial liabilities</b>	<b>101</b>	<b>79</b>

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes [see Note 28](#).

## Provisions

19

Provisions consist of the following:

PROVISIONS								N° 19	
€ IN MILLIONS									
	Jan. 1, 2009	Currency translation differences	Usage	Reversals	Changes in companies consolidated	Additions	Transfers	Dec. 31, 2009	Thereof non-current
Marketing	54	—	24	1	—	16	—	45	—
Employee benefits	42	(1)	20	1	—	35	—	55	11
Returns, allowances, warranty	114	(1)	70	1	—	63	—	105	2
Taxes, other than income taxes	13	—	5	—	—	4	—	12	—
Other provisions	129	(1)	21	4	—	29	—	132	16
<b>Total provisions</b>	<b>352</b>	<b>(3)</b>	<b>140</b>	<b>7</b>	<b>—</b>	<b>147</b>	<b>—</b>	<b>349</b>	<b>29</b>

Marketing provisions mainly consist of provisions for promotion contracts.

Provisions for employee benefits mainly consist of provisions for profit-sharing plans. With regard to provisions for early retirement, claims for reimbursement in an amount of € 3 million (December 31, 2008: € 2 million) are shown under other non-current assets.

Other provisions mainly include items not otherwise allocated 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 provisions while considering all evidence from events until the preparation of the consolidated financial statements.

## Accrued liabilities

20

Accrued liabilities consist of the following:

ACCRUED LIABILITIES								N° 20	
€ IN MILLIONS									
	Jan. 1, 2009	Currency translation differences	Usage	Reversals	Changes in companies consolidated	Additions	Transfers	Dec. 31, 2009	Thereof non-current
Goods and services not yet invoiced	321	(5)	245	5	—	186	—	252	1
Marketing	155	3	107	6	—	109	—	154	1
Payroll and commissions	157	(1)	87	14	—	107	—	162	16
Other accruals	88	—	48	1	—	40	—	79	4
<b>Total accrued liabilities</b>	<b>721</b>	<b>(3)</b>	<b>487</b>	<b>26</b>	<b>—</b>	<b>442</b>	<b>—</b>	<b>647</b>	<b>22</b>

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 mainly include items not otherwise allocated and also accruals for interest.

## Other current liabilities

21

Other current liabilities consist of the following:

OTHER CURRENT LIABILITIES € IN MILLIONS	N° 21	
	Dec. 31, 2009	Dec. 31, 2008
Finance lease obligations	1	2
Liabilities due to personnel	31	30
Tax liabilities other than income taxes	108	80
Liabilities due to social security	13	10
Deferred income	27	18
Sundry	52	76
<b>Other current liabilities</b>	<b>232</b>	<b>216</b>

Information regarding finance lease obligations is also included in these Notes [see Note 27](#).

## Other non-current financial liabilities

22

Other non-current financial liabilities consist of the following:

OTHER NON-CURRENT FINANCIAL LIABILITIES € IN MILLIONS	N° 22	
	Dec. 31, 2009	Dec. 31, 2008
Interest rate derivatives	10	9
Currency options	10	13
Forward contracts	5	1
Other financial liabilities	—	—
<b>Other non-current financial liabilities</b>	<b>25</b>	<b>23</b>

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes [see Note 28](#).

Liabilities due after more than five years amounted to € 1 million at December 31, 2009 (2008: € 2 million).

## Pensions and similar obligations

23

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	N° 23	
	Dec. 31, 2009	Dec. 31, 2008
Net liability	148	119
thereof defined benefit liability	150	124
thereof defined benefit asset	(2)	(5)
thereof adidas AG:		
Defined benefit liability	123	102
Defined benefit asset	(2)	(5)
Similar obligations	7	8
<b>Pensions and similar obligations</b>	<b>155</b>	<b>127</b>
thereof defined benefit liability	157	132
thereof defined benefit asset	(2)	(5)

### Defined contribution plans

The total expense for defined contribution plans amounted to € 35 million in 2009 (2008: € 33 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.

ACTUARIAL ASSUMPTIONS IN %	N° 23	
	Dec. 31, 2009	Dec. 31, 2008
Discount rate	5.0	5.9
Salary increases	3.3	4.3
Pension increases	2.0	2.0
Expected return on plan assets	5.4	5.0

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 rate and mortality 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 2009 amount to € 16 million (2008: positive € 3 million). The accumulated actuarial losses recognised amount to € 25 million (2008: € 9 million) [see also Note 26](#).

The expected return on plan assets assumption is set separately for the various benefit plans. The expected return on plan assets is determined for each asset category separately and generally based on capital market research and forecasted returns. The expected return on plan assets for the funded benefit plan in Germany is based on the overall surplus sharing of the underlying insurance contracts.

<b>PENSION EXPENSES FOR DEFINED BENEFIT PLANS</b>		N° 23	
€ IN MILLIONS			
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Current service cost	11	12	
Interest cost	10	9	
Expected return on plan assets	(3)	(4)	
<b>Pension expenses</b>	<b>18</b>	<b>17</b>	

Of the total pension expenses, an amount of € 13 million (2008: € 12 million) relates to employees in Germany. The pension expense is recorded within the other operating expenses whereas the production-related part thereof is recognised within the cost of sales.

<b>DEFINED BENEFIT OBLIGATION</b>		N° 23	
€ IN MILLIONS			
	2009	2008	
<b>Defined benefit obligation as at January 1</b>	<b>172</b>	<b>171</b>	
Currency translation differences	3	(4)	
Current service cost	11	12	
Interest cost	10	9	
Contribution by plan participants	0	1	
Pensions paid	(8)	(6)	
Actuarial loss/(gain)	19	(11)	
<b>Defined benefit obligation as at December 31</b>	<b>207</b>	<b>172</b>	

<b>STATUS OF FUNDED AND UNFUNDED OBLIGATIONS</b>		N° 23	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Present value of unfunded obligation	144	120	
Present value of funded obligation	63	52	
<b>Present value of total obligations</b>	<b>207</b>	<b>172</b>	
Fair value of plan assets	(61)	(53)	
Asset ceiling effect	2	—	
<b>Recognised net liability for defined benefit obligations</b>	<b>148</b>	<b>119</b>	
<b>thereof defined benefit liability</b>	<b>150</b>	<b>124</b>	
<b>thereof defined benefit asset</b>	<b>(2)</b>	<b>(5)</b>	

The asset ceiling effect arises from the German funded defined benefit plan and is recognised in the consolidated statement of comprehensive income.

The calculations of assets and liabilities recognised from defined benefit plans are 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 benefit increases) and demographic variables (such as mortality and withdrawal rate). The actuarial assumptions may differ significantly from the actual experience, i.e. the present value of the benefits actually provided in future may differ from the amount reported.

<b>MOVEMENT IN PLAN ASSETS</b>		N° 23	
€ IN MILLIONS			
	2009	2008	
<b>Fair value of plan assets at January 1</b>	<b>53</b>	<b>60</b>	
Currency translation differences	2	(5)	
Pensions paid	(3)	(2)	
Contributions by the employer	3	3	
Contributions paid by plan participants	0	1	
Actuarial gain/(loss)	3	(8)	
Expected return on plan assets	3	4	
<b>Fair value of plan assets at December 31</b>	<b>61</b>	<b>53</b>	

In 2010, the expected payments amount to € 9 million. Thereof € 7 million relate to benefits paid immediately by the company and contributions paid by the company into plan assets amount to € 2 million. In 2009, the actual return on plan assets is € 6 million (2008: negative € 4 million).



CONSTITUTION OF PLAN ASSETS		Nº 23	
€ IN MILLIONS		Dec. 31, 2009	Dec. 31, 2008
Equity instruments		19	15
Bonds		13	11
Real estate		1	1
Pension plan reinsurance		19	16
Other assets		9	10
<b>Fair value of plan assets</b>		<b>61</b>	<b>53</b>

HISTORICAL DEVELOPMENT		Nº 23				
€ IN MILLIONS		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Present value of defined benefit obligation		207	172	171	170	131
Fair value of plan assets		61	53	60	46	—
Thereof: defined benefit assets		(2)	(5)	(4)	(2)	—
<b>Deficit in plan</b>		<b>148</b>	<b>124</b>	<b>115</b>	<b>126</b>	<b>131</b>
Experience adjustments arising on the plan liabilities		(3)	2	(1)	4	1
Experience adjustments arising on the plan assets		3	(8)	4	—	—

## Other non-current liabilities

24

Other non-current liabilities consist of the following:

OTHER NON-CURRENT LIABILITIES		Nº 24	
€ IN MILLIONS		Dec. 31, 2009	Dec. 31, 2008
Finance lease obligations		2	2
Liabilities due to personnel		7	10
Deferred income		17	17
Sundry		2	—
<b>Other non-current liabilities</b>		<b>28</b>	<b>29</b>

Information regarding finance lease obligations is also included in these Notes [see Note 27](#).

Liabilities due after more than five years amounted to € 10 million at December 31, 2009 (2008: € 15 million).

## Minority interests

25

This line item within equity comprises the equity of third parties in a number of our consolidated companies. Minority interests are attributable to seven subsidiaries as at December 31, 2009 and six subsidiaries as at December 31, 2008 [see Shareholdings/Attachment II](#) to these Notes.

These subsidiaries were partly acquired in connection with the acquisition of Reebok and partly through purchases or foundations in the last two years.

In accordance with IAS 32, the following minority interests are not reported within minority interests: GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG (Germany), as the company is a limited partnership, and adidas Hellas A.E. (Greece) in 2008, as this minority was held with a put option. The fair value of these minorities is shown within other liabilities. The result for these minorities is reported within financial expenses.

## Shareholders' equity

26

On December 31, 2008, the nominal capital of adidas AG ("the company") amounted to € 193,515,512 divided into 193,515,512 no-par-value bearer shares ("shares") and was fully paid in.

As a result of the exercise of 4,100 share options in August 2009 and the issuance of 16,400 shares associated with the company's Management Share Option Plan (MSOP) on October 5, 2009, the nominal capital of adidas AG increased to an overall amount of € 193,531,912 and was divided into 193,531,912 shares.

Furthermore, the nominal capital increased as a result of the exercise of all 7,999 outstanding convertible bonds with conversion rights issued by adidas International Finance B.V. (formerly adidas-Salomon International Finance B.V.) in 2003 and guaranteed by adidas AG (formerly adidas-Salomon AG), and the issuance of 15,684,274 new shares on November 9, 2009 to an overall amount of € 209,216,186 divided into 209,216,186 shares.

At the balance sheet date, the nominal capital of the company amounted to a total of € 209,216,186 and was divided into 209,216,186 shares. The nominal capital is fully paid in.

The corresponding adjustment to the amount of nominal capital resulting from the above transactions up to and including December 31, 2009 was submitted for declaratory entry in the commercial register on January 28, 2010.

Apart from the aforementioned, there were no changes to the nominal capital. Consequently, on February 19, 2010, the nominal capital of adidas AG amounts to € 209,216,186 and is divided into 209,216,186 shares.

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 § 71 b German Stock Corporation Act (Aktiengesetz – AktG). On February 19, 2010, the company did not hold treasury shares.

The number of shares in circulation is as follows:

DEVELOPMENT OF NUMBER OF SHARES IN CIRCULATION		N <sup>o</sup> 26	☰
	Change in number of shares +/-	Number of shares	
<b>Number of no-par-value shares issued as at Jan. 1, 2009</b>		193,515,512	
Capital increase and issuance of no-par-value shares on October 5, 2009 based on MSOP exercises in August 2009	+ 16,400	193,531,912	
Capital increase and issuance of no-par-value shares resulting from the exercise of 7,999 conversion rights deriving from the convertible bond on November 9, 2009	+ 15,684,274	209,216,186	
<b>Number of no-par-value shares issued as at Dec. 31, 2009</b>		<b>209,216,186</b>	

#### 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 financial year 2009 or in the period following the balance sheet date up to and including February 19, 2010. The following description of the existing authorised capital does not contain the cancellation of the Authorised Capital 2005/I and 2008, which had not been made use of up to May 7, 2009, resolved by the Annual General Meeting on May 7, 2009.

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 June 21, 2012

— 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 2009/II);

until May 28, 2011

— 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 2006). The authorisation to exclude subscription rights pursuant to the last 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 were issued by the company since May 11, 2006, subject to the exclusion of subscription

rights pursuant to § 186 section 3 sentence 4 AktG on the basis of authorised capital or following a repurchase, or for which conversion or subscription rights were granted after May 11, 2006, through issuance of convertible bonds or bonds with warrants, with subscription rights excluded pursuant to § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of entry of this authorisation into the commercial register or – if this amount is lower – as at the respective date on which the authorisation is used.

#### Contingent Capital

The following description of the Contingent Capital is based on § 4 sections 5, 6 and 7 of the Articles of Association as well as the underlying resolutions of the Annual General Meeting. Further amounts of contingent capital do not exist.

#### Contingent Capital 1999/I

The Contingent Capital 1999/I served the purpose of fulfilling stock options in connection with the Management Share Option Plan (MSOP) to members of the Executive Board of adidas AG as well as to managing directors/senior vice presidents of its affiliated companies and to other executives of adidas AG and of its affiliated companies.

Due to the issuance of 16,400 shares resulting from the exercise of 4,100 share options within the exercise periods ending in October 2009 for Tranche V (2003) of the Management Share Option Plan (MSOP), the nominal amount of the Contingent Capital 1999/I totalled € 1,278,348 since October 5, 2009 and at the balance sheet date, divided into 1,278,348 shares.

The corresponding adjustment of the amount of Contingent Capital 1999/I was submitted for declaratory entry in the commercial register on January 28, 2010 and will be amended in the Articles of Association following the registration.

All option rights deriving from the company's Management Share Option Plan (MSOP) have either been exercised or lapsed. The Contingent Capital 1999/I is not used any further.

Consequently, on February 19, 2010, the nominal amount of Contingent Capital 1999/I amounts to € 1,278,348 and is divided into 1,278,348 shares.

#### Contingent Capital 2003/II

The Contingent Capital 2003/II served the purpose of meeting conversion rights deriving from the convertible bonds issued by adidas International Finance B.V. in 2003 and guaranteed by adidas AG.

After the issuance of 15,684,274 new shares as a result of the exercise of the conversion rights deriving from all outstanding 7,999 convertible bonds, the Contingent Capital 2003/II amounts to only € 20,313,766 and is divided into up to 20,313,766 shares as at balance sheet date (35,998,040 as at December 31, 2008). There are no more subscription or conversion rights outstanding.

The corresponding adjustment to the amount of the Contingent Capital 2003/II resulting from the above transaction up to and including December 31, 2009 was submitted for declaratory entry in the commercial register on January 28, 2010 and will be amended in the Articles of Association following the registration.

The Contingent Capital 2003/II is not used any further.

Consequently, on February 19, 2010, the nominal amount of the Contingent Capital 2003/II amounts to € 20,313,766 and is divided into 20,313,766 shares.

### Contingent Capital 2006

The nominal capital is conditionally increased by up to € 20,000,000 divided into not more than 20,000,000 shares (Contingent Capital 2006) as at balance sheet date. The contingent capital increase will be implemented only to the extent that holders of the subscription or conversion rights or the persons obliged to exercise the subscription or conversion duties based on the bonds with warrants or convertible bonds, which are issued or guaranteed by the company or an affiliated company pursuant to the authorisation of the Executive Board by resolution of the Annual General Meeting of May 11, 2006, make use of their subscription or conversion rights or, if they are obliged to exercise the subscription or conversion rights, they meet their obligations to exercise the warrant or convert the bond. The Executive Board is authorised, subject to Supervisory Board approval, to fully exclude shareholders' rights when issuing warrants and/or convertible bonds, if the bonds with warrants and/or convertible bonds are issued at a price which is not significantly below the market value of these bonds. The limit for subscription right exclusions of 10% of the registered nominal capital in accordance with § 186 section 3 sentence 4 in conjunction with § 221 section 4 sentence 2 AktG shall be observed.

The Executive Board of adidas AG did not issue subscription or conversion rights, or shares from the Contingent Capital 2006 in the financial year 2009 or in the period following the balance sheet date up to and including February 19, 2010.

### Repurchase of adidas AG shares

At the Annual General Meeting on May 7, 2009, the shareholders of the company cancelled the authorisation to repurchase adidas AG shares granted by the Annual General Meeting on May 8, 2008, which had partly been used in 2008, but not in the year under review. At the same time, the shareholders granted the Executive Board an authorisation to repurchase adidas AG shares in an amount totalling up to 10% of the nominal capital until November 6, 2010. The authorisation may be used by the company and also by its subsidiaries or by third parties appointed by the company or a subsidiary, on behalf of the company or its subsidiaries. See [Disclosures pursuant to § 315 Section 4 of the German Commercial Code, p. 129](#) for further information.

The authorisation was not utilised in the year under review and up to and including February 19, 2010.

### Convertible bond

The 2.5% convertible bond with conversion rights into adidas AG shares issued by adidas International Finance B.V. on October 8, 2003 and absolutely and irrevocably guaranteed by adidas AG, in the aggregate principal amount of € 400,000,000 and with a term ending on October 8, 2018 was redeemed prematurely on October 8, 2009 being effective November 23, 2009. Up to and including November 9, 2009, all conversion rights deriving from the outstanding 7,999 bonds were exercised. Following the completion of the conversion process, 15,684,274 new shares based on the Contingent Capital 2003/II of the company were issued. The new shares are entitled to dividends as of the beginning of the financial year 2009.

### Changes in the percentage of voting rights

Pursuant to § 160 section 1 number 8 AktG, existing shareholdings which have been notified to the company in accordance with § 21 section 1 or section 1a German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The Capital Research and Management Company, Los Angeles, USA, informed the company by letter on January 5, 2009, pursuant to § 21 section 1 sentence 1 WpHG, that on December 19, 2008, their voting interest in adidas AG exceeded the threshold of 5% and amounted to 5.01% of the voting rights (9,695,127 shares) on this date. All of these voting rights are attributable to the Capital Research and Management Company, in accordance with § 22 section 1 sentence 1 number 6 WpHG.

The Euro Pacific Growth Fund, Los Angeles, USA, informed the company by letter on January 19, 2009, pursuant to § 21 section 1 WpHG, that on January 13, 2009, their voting interest in adidas AG had exceeded the threshold of 3% and amounted to 3.11% of the voting rights (6,021,253 shares) on this date.

The Bank of New York Mellon Corporation, New York, USA, informed the company by letter on February 3, 2009 in accordance with § 21 section 1 sentence 1 WpHG that on January 14, 2009, their voting interest in adidas AG exceeded the threshold of 3% and amounted to 3.05% of the voting rights (5,901,424 shares) on this date. All of these voting rights are attributable to the Bank of New York Mellon Corporation in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The UBS AG, Zurich, Switzerland, informed the company by letter on March 3, 2009, pursuant to § 21 section 1 WpHG, that on February 25, 2009, their voting interest in adidas AG had exceeded the threshold of 3% and amounted to 3.37% of the voting rights (6,525,021 shares) on this date. 0.23% of these voting rights (442,894 shares) are attributable to UBS AG in accordance with § 22 section 1 sentence 1 number 1 WpHG.

The UBS AG, Zurich, Switzerland, informed the company by letter on March 4, 2009, pursuant to § 21 section 1 WpHG, that on February 26, 2009, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 1.04% of the voting rights (2,010,607 shares) on this date. 0.23% of these voting rights (442,832 shares) are attributable to UBS AG in accordance with § 22 section 1 sentence 1 number 1 WpHG.

The Fidelity International, Tadworth, Great Britain, informed the company by letter on March 4, 2009 on behalf of FMR LLC, Boston, USA, pursuant to § 21 section 1 WpHG, that on February 26, 2009, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.95% of the voting rights (5,700,013 shares) on this date. All of these voting rights are attributable to the FMR LLC in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Invesco Ltd, Hamilton, Bermudas, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Ltd. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Invesco Holdings Company Limited, London, Great Britain, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Holdings Limited in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The IVZ Callco Inc., Halifax, Canada, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to IVZ Callco Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Invesco Inc., Toronto, Canada, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Invesco Canada Holdings Inc. (formerly AIM Canada Holdings Inc.), Toronto, Canada, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to the Invesco Canada Holdings Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Invesco Trimark Ltd (formerly AIM Funds Management Inc.), Toronto, Canada, informed the company by letter on March 27, 2009, pursuant to § 21 section 1 WpHG, that on September 30, 2008, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 2.97% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Trimark Ltd in accordance with § 22 section 1 sentence 1 number 6 WpHG.

The notifications of voting rights of March 27, 2009 as listed above are the revisions of the notifications dated October 2, 2008, which had not been disclosed due to concerns of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) regarding formal requirements.

The UBS AG, Zurich, Switzerland, informed the company by letter on April 21, 2009, pursuant to § 21 section 1 WpHG, that on April 15, 2009, their voting interest in adidas AG had exceeded the threshold of 3% and amounted to 3.23% of the voting rights (6,248,659 shares) on this date. 0.39% of these voting rights (749,197 shares) are attributable to UBS AG in accordance with § 22 section 1 sentence 1 number 1 WpHG.

The UBS AG, Zurich, Switzerland, informed the company by letter on April 23, 2009, pursuant to § 21 section 1 WpHG, that on April 20, 2009, their voting interest in adidas AG had fallen below the threshold of 3% and amounted to 0.82% of the voting rights (1,580,086 shares) on this date. 0.39% of these voting rights (758,034 shares) are attributable to UBS AG in accordance with § 22 section 1 sentence 1 number 1 WpHG.

The Euro Pacific Growth Fund, Los Angeles, USA, informed the company by letter on June 11, 2009, pursuant to § 21 section 1 WpHG, that on June 8, 2009, their voting interest in adidas AG exceeded the threshold of 5% and amounted to 5.01% of the voting rights (9,696,414 shares) on this date.

BlackRock Investment Management (UK) Limited, London, United Kingdom, informed the company by letter on December 7, 2009 pursuant to § 21 section 1 as well as § 24 WpHG that:

1) On December 1, 2009, the voting interest of BlackRock Financial Management, Inc., New York, USA, in adidas AG exceeded the threshold of 3% and amounted to 4.74% of the voting rights (9,921,962 shares) on this date. All of these voting rights are attributable to BlackRock Financial Management, Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

2) On December 1, 2009, the voting interest of BlackRock Holdco 2, Inc., New York, USA, in adidas AG exceeded the threshold of 3% and amounted to 4.74% of the voting rights (9,921,962 shares) on this date. All of these voting rights are attributable to BlackRock Holdco 2, Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

3) On December 1, 2009, the voting interest of BlackRock, Inc., New York, USA, in adidas AG exceeded the threshold of 3% and amounted to 4.93% of the voting rights (10,308,916 shares) on this date. All of these voting rights are attributable to BlackRock, Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

BlackRock, Inc., New York, USA, informed the company by letter on January 5, 2010, pursuant to § 21 section 1 WpHG, that on December 9, 2009, their voting interest in adidas AG exceeded the threshold of 5% and amounted to 5.03% of the voting rights (10,521,736 shares) on this date. All of these voting rights are attributable to BlackRock, Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The BlackRock Inc., New York, USA, informed the company by letter on January 28, 2010, pursuant to § 21 section 1 WpHG, that on January 25, 2010, its voting interest in adidas AG had fallen below the threshold of 5% and amounted to 4.99% of the voting rights (10,458,560 shares) on this date. All of these voting rights are attributable to BlackRock, Inc. in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Bank of New York Mellon Corporation, New York, USA, informed the company by letter on February 5, 2010 in accordance with § 21 section 1 sentence 1 WpHG that on February 3, 2010, their voting interest in adidas AG exceeded the threshold of 3% and amounted to 2.99% of the voting rights (6,260,660 shares) on this date. All of these voting rights are attributable to the Bank of New York Mellon Corporation in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

The Bank of New York Mellon Corporation, New York, USA, informed the company by letter on February 12, 2010 in accordance with § 21 section 1 sentence 1 WpHG that on February 9, 2010, their voting interest in adidas AG exceeded the threshold of 3% and amounted to 3.004% of the voting rights (6,284,824 shares) on this date. All of these voting rights are attributable to the Bank of New York Mellon Corporation in accordance with § 22 section 1 sentence 1 number 6 in conjunction with § 22 section 1 sentence 2 WpHG.

### Capital management

The Group's policy is to maintain a strong capital base so as to maintain 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. Following the achievement of the medium-term goal of financial leverage below 50% in 2009, the Group aims to maintain net debt below two times EBITDA. 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 € 917 million by shareholders' equity in an amount of € 3,771 million. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to € 780 million for the fiscal year ending December 31, 2009. The ratio between net borrowings and EBITDA amounted to 1.2 for the fiscal year ending December 31, 2009.

## Reserves

Reserves within shareholders' equity are as follows:

- **Capital reserve:** comprises the paid premium for the issuance of share capital.
- **Cumulative translation adjustments:** this reserve 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.

The dividend for 2008 was € 0.50 per share (total amount: € 97 million), approved by the 2009 Annual General Meeting. The Executive Board of adidas AG will propose to shareholders a dividend payment of € 0.35 per dividend-entitled share for the year 2009 to be made from retained earnings of € 285 million reported as at December 31, 2009. The subsequent remaining amount will be carried forward.

209,216,186 dividend-entitled shares exist as at December 31, 2009, which would lead to a dividend payment of € 73 million.

## Leasing and service arrangements

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### 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 one and fifteen years partly include renewal options and escalation clauses. Rent expenses, which partly depend on net sales, amounted to € 480 million and € 422 million for the years ending December 31, 2009 and 2008, respectively.

Future minimum lease payments for minimum lease durations are as follows:

MINIMUM LEASE PAYMENTS FOR OPERATING LEASES € IN MILLIONS		N° 27	
		Dec. 31, 2009	Dec. 31, 2008
Within 1 year	360	213	
Between 1 and 5 years	619	516	
After 5 years	320	340	
<b>Total</b>	<b>1,299</b>	<b>1,069</b>	

## Finance leases

The Group also leases various premises for administration, warehousing, research and development as well as production, which are classified as finance leases.

The net carrying amount of these assets of € 3 million and € 5 million was included in property, plant and equipment as at December 31, 2009 and 2008, respectively. Interest expenses were € 1 million (2008: € 2 million) and depreciation expenses were € 1 million (2008: € 1 million) for the year ending December 31, 2009.

The minimum lease payments under these contracts over their remaining terms which extend up to 2016 and their net present values are as follows:

MINIMUM LEASE PAYMENTS FOR FINANCE LEASES € IN MILLIONS		N° 27	
		Dec. 31, 2009	Dec. 31, 2008
Lease payments falling due:			
Within 1 year	1	2	
Between 1 and 5 years	1	2	
After 5 years	1	1	
<b>Total lease payments</b>	<b>3</b>	<b>5</b>	
Less: estimated amount representing interest	0	0	
<b>Obligation under finance leases</b>	<b>3</b>	<b>5</b>	
Thereof falling due:			
Within 1 year	1	2	
Between 1 and 5 years	1	2	
After 5 years	1	1	

### 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		N° 27	
		Dec. 31, 2009	Dec. 31, 2008
Within 1 year	42	49	
Between 1 and 5 years	59	48	
After 5 years	—	—	
<b>Total</b>	<b>101</b>	<b>97</b>	

## Additional disclosures on financial instruments

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2009, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES							Nº
€ IN MILLIONS							28
	Category according to IAS 39	Carrying amount Dec. 31, 2009	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2009
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
<b>Financial assets</b>							
Cash and cash equivalents	n.a.	775	775				775
Short-term financial assets	FAHfT	75			75		75
Accounts receivable	LaR	1,429	1,429				1,429
<b>Other current financial assets</b>							
Derivatives being part of a hedge	n.a.	17		17	0		17
Derivatives not being part of a hedge	FAHfT	25			25		25
Other financial assets	LaR	118	118				118
<b>Long-term financial assets</b>							
Other equity investments	FAHfT	79			79		79
Available-for-sale financial assets	AFS	12		12			12
Loans	LaR	0	0				0
<b>Other non-current financial assets</b>							
Derivatives being part of a hedge	n.a.	11		7	4		11
Derivatives not being part of a hedge	FAHfT	14			14		14
Other financial assets	LaR	33	33				33
Assets classified as held for sale	LaR	—	—				—
<b>Financial liabilities</b>							
<b>Short-term borrowings</b>							
Private placements	FLAC	198	198				199
Convertible bond	FLAC	—	—				—
Eurobond	FLAC	—	—				—
Accounts payable	FLAC	1,166	1,166				1,166
Accrued liabilities	FLAC	282	282				282
<b>Other current financial liabilities</b>							
Derivatives being part of a hedge	n.a.	72		72			72
Derivatives not being part of a hedge	FLHfT	9			9		9
Other financial liabilities	FLAC	20	20				20
Finance lease obligations	n.a.	1				1	1

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2009, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ IN MILLIONS

Nº  
28



	Category according to IAS 39	Measurement according to IAS 39					Fair value Dec. 31, 2009
		Carrying amount Dec. 31, 2009	Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	103	103				103
Private placements	FLAC	968	968				1,010
Convertible bond	FLAC	—	—				—
Eurobond	FLAC	498	498				518
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	13		13	—		13
Derivatives not being part of a hedge	FLHfT	12			12		12
Other financial liabilities	FLAC	—	—				—
Finance lease obligations	n.a.	2				2	2
Liabilities classified as held for sale	FLAC	—	—				—
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		193					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—					
thereof: Held for Trading (FAHfT)		193					
Loans and Receivables (LaR)		1,580					
Available-for-Sale Financial Assets (AfS)		12					
Financial Liabilities Measured at Amortised Cost (FLAC)		3,235					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		21					

**CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2008, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES**
**Nº  
28**


€ IN MILLIONS

	Category according to IAS 39	Carrying amount Dec. 31, 2008	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Dec. 31, 2008
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
<b>Financial assets</b>							
Cash and cash equivalents	n.a.	244	244				244
Short-term financial assets	FAHfT	141			141		141
Accounts receivable	LaR	1,624	1,624				1,624
<b>Other current financial assets</b>							
Derivatives being part of a hedge	n.a.	147		146	1		147
Derivatives not being part of a hedge	FAHfT	32			32		32
Other financial assets	LaR	108	108				108
<b>Long-term financial assets</b>							
Other equity investments	FAHfT	77			77		77
Available-for-sale financial assets	AFS	12		12			12
Loans	LaR	7	7				7
<b>Other non-current financial assets</b>							
Derivatives being part of a hedge	n.a.	24		16	8		24
Derivatives not being part of a hedge	FAHfT	10			10		10
Other financial assets	LaR	26	26				26
Assets classified as held for sale	LaR	2	2				2
<b>Financial liabilities</b>							
<b>Short-term borrowings</b>							
Private placements	FLAC	404	404				407
Convertible bond	FLAC	393	393				484
Eurobond	FLAC	—	—				—
Accounts payable	FLAC	1,218	1,218				1,218
Accrued liabilities	FLAC	364	364				364
<b>Other current financial liabilities</b>							
Derivatives being part of a hedge	n.a.	36		36			36
Derivatives not being part of a hedge	FLHfT	21			21		21
Other financial liabilities	FLAC	22	22				22
Finance lease obligations	n.a.	2				2	2



CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2008, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ IN MILLIONS

Nº  
28



	Category according to IAS 39	Carrying amount Dec. 31, 2008	Measurement according to IAS 39		Measurement according to IAS 17	Fair value Dec. 31, 2008
			Amortised cost	Fair value recognised in equity		
Long-term borrowings						
Bank borrowings incl. commercial paper	FLAC	748	748			748
Private placements	FLAC	1,028	1,028			1,047
Convertible bond	FLAC	—	—			—
Eurobond	FLAC	—	—			—
Other non-current financial liabilities						
Derivatives being part of a hedge	n.a.	9		7	2	9
Derivatives not being part of a hedge	FLHfT	14			14	14
Other financial liabilities	FLAC	—	—			—
Finance lease obligations	n.a.	3			3	3
Liabilities classified as held for sale	FLAC	2	2			2
Thereof: aggregated by category according to IAS 39						
Financial assets at fair value through profit or loss		260				
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—				
thereof: Held for Trading (FAHfT)		260				
Loans and Receivables (LaR)		1,767				
Available-for-Sale Financial Assets (AfS)		12				
Financial Liabilities Measured at Amortised Cost (FLAC)		4,179				
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		35				

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 7 AS AT DECEMBER 31, 2009 € IN MILLIONS		Nº 28			
Fair value hierarchy, aggregated by category	Fair value Dec. 31, 2009	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)	193		114	79 <sup>1)</sup>	
Available-for-Sale Financial Assets (AFS)	12		12		
Other financial assets					
Derivatives being part of a hedge	28		28		
<b>Financial assets</b>	<b>233</b>		<b>154</b>	<b>79</b>	
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)	21		21		
Other financial liabilities					
Derivatives being part of a hedge	85		85		
<b>Financial liabilities</b>	<b>106</b>		<b>106</b>		
	Fair value Jan. 1, 2009	gains	losses	Fair value Dec. 31, 2009	
1) This category relates to a 10% investment in FC Bayern München AG of € 79 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments.	77	2	—	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 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 OR (LOSSES) OF FINANCIAL INSTRUMENTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT € IN MILLIONS		Nº 28			
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008			
Financial assets or financial liabilities at fair value through profit or loss	4	(6)			
thereof: designated as such upon initial recognition	—	—			
thereof: classified as held for trading	4	(6)			
Loans and receivables	(44)	(27)			
Available-for-sale financial assets	—	—			
Financial liabilities measured at amortised cost	5	11			

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 7 and the Group Management Report [see Risk and Opportunity Report, p. 140.](#)

### 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 of December 31, 2009, the Group had outstanding currency options with premiums paid totalling an amount of € 6 million (December 31, 2008: € 5 million). The effective part of the currency hedges is directly recognised in hedging reserves and the acquisition costs of secured inventories, respectively, and posted into the income statement at the same time as the underlying secured transaction is recorded. An amount of € 4 million (2008: € 9 million) for currency options and an amount of negative € 41 million (2008: € 85 million) for forward contracts were recorded in hedging reserves. Currency option premiums impacted net income in the amount of € 4 million in 2009 (2008: € 6 million).

The total time value of the currency options not being part of a hedge in an amount of € 3 million (2008: negative € 2 million) was recorded in the income statement in 2009.

The total net amount of US dollar purchases related to product sourcing versus other currencies was US \$ 3.7 billion and US \$ 3.6 billion in the years ending December 31, 2009 and 2008, 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		Nº 28	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Forward contracts	3,118	2,904	
Currency options	532	487	
<b>Total</b>	<b>3,650</b>	<b>3,391</b>	

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		Nº 28	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Forward contracts	2,252	1,732	
Currency options	532	457	
<b>Total</b>	<b>2,784</b>	<b>2,189</b>	

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

FAIR VALUE		Nº 28		
€ IN MILLIONS				
	Dec. 31, 2009		Dec. 31, 2008	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward contracts	22	[74]	163	[43]
Currency options	28	[18]	40	[24]
<b>Total</b>	<b>50</b>	<b>[92]</b>	<b>203</b>	<b>[67]</b>

A total net fair value of negative € 57 million (2008: € 111 million) for forward contracts related to hedging instruments falling under hedge accounting as per definition of IAS 39 was recorded in hedging reserve. The remaining net fair value of € 5 million (2008: € 9 million) mainly related to liquidity swaps for cash management purposes and forward contracts hedging intercompany dividend receivables was recorded in the income statement. The total fair value of € 10 million (2008: € 16 million) for outstanding currency options related to cash flow hedges.

The fair value adjustments of outstanding cash flow hedges for forecasted sales will be reported in the income statement when the forecasted sales transactions are recorded. The vast majority of these transactions are forecasted to occur in 2010. As at December 31, 2009, inventories were adjusted by € 4 million which will be recognised in the income statement in 2010.

In hedging reserve, an amount of negative € 3 million (2008: negative € 3 million) is included for hedges of net investments in foreign entities. This reserve will remain until the investment in the foreign entity is divested.

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.

The fair values of the derivatives were determined applying the "zero method". The "zero method" is a theoretical model for the determination of forward rates based on deposit and swap interest rates. An alternative method is the "par method" which uses actively traded forward rates. A comparison of the fair valuation based on the alternative methods revealed no substantive differences.

#### Financial instruments for the hedging of interest rate risk

Interest rate hedges which were outstanding as at December 31, 2009 and 2008, respectively expire as detailed below:

EXPIRATION DATES OF INTEREST RATE HEDGES		N° 28	☰
€ IN MILLIONS		Dec. 31, 2009	Dec. 31, 2008
Within 1 year	139	23	
Between 1 and 3 years	150	184	
Between 3 and 5 years	—	105	
After 5 years	81	83	
<b>Total</b>	<b>370</b>	<b>395</b>	

The above summary for 2009 includes interest rate and cross-currency interest rate swaps in the amount of € 79 million (2008: € 105 million) which are classified as fair value hedges pursuant to IAS 39. The aim of one cross-currency interest rate swap which was classified as a fair value hedge at December 31, 2009 was to turn the financing into euro while retaining the financing method. The aim of the US dollar interest rate swap which was classified as a fair value hedge was to obtain variable financing for a private placement in US dollar. The total positive fair value of € 4 million (2008: € 7 million) was offset by a total negative fair value change in the hedged private placements in the amount of € 4 million (2008: € 7 million).

The above summary further includes interest rate swaps in the nominal amount of € 279 million (2008: € 279 million), which 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 (2008: € 1 million) and a negative fair value of € 10 million (2008: negative € 6 million). The negative fair value change of € 2 million (2008: negative € 5 million) for interest rate swaps which were classified as cash flow hedges was booked in hedging reserves. A nominal amount of € 129 million for interest rate swaps classified as cash flow hedges relates to private placements which mature in 2010. The remaining interest rate swaps classified as cash flow hedges in a nominal amount of € 45 million and € 105 million secure variable interest payments arising from private placements with maturities in 2011 and 2012, respectively.

## Notes to the Consolidated Income Statement

### Other operating income

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Other operating income consists of the following:

OTHER OPERATING INCOME		N° 29	
€ IN MILLIONS			
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Income from accounts receivable previously written off	2	2	
Income from release of accruals and provisions	31	28	
Gains from disposal of fixed assets	3	10	
Income from the recognition of negative goodwill (see Note 4)	—	21	
Other revenues	64	42	
<b>Total</b>	<b>100</b>	<b>103</b>	

### Other operating expenses

30

Operating expenses include expenses for sales, marketing, research and development, as well as for logistics and central finance and administration. In addition, they include 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 the largest 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. In 2009, marketing working budget accounted for approximately 23% (2008: 26%) of the total other operating expenses.

Total depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) was € 299 million and € 234 million for the years ending December 31, 2009 and 2008, respectively. Thereof, € 5 million and € 6 million were recorded within the cost of sales as they are directly attributable to the production costs of goods sold.

### OTHER OPERATING EXPENSES

N° 30

€ IN MILLIONS

	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Marketing working budget	1,028	1,132
Sales working budget	241	297
Marketing overhead <sup>1)</sup>	348	376
Sales force <sup>1)</sup>	1,296	1,179
Logistics <sup>1)</sup>	582	565
Research and development <sup>1)</sup>	86	81
Central expenses for finance and administration divisions <sup>1)</sup>	809	748
<b>Total</b>	<b>4,390</b>	<b>4,378</b>
Thereof:		
Depreciation and amortisation	294	228

1) Including personnel and administration expenses.

### Cost by nature

31

Expenses are presented by function 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 € 5,546 million and € 5,486 million for the years ending December 31, 2009 and 2008, respectively.

#### Personnel expenses

Personnel expenses were as follows:

### PERSONNEL EXPENSES

N° 31

€ IN MILLIONS

	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Wages and salaries	1,185	1,123
Social security contributions	114	110
Pension expenses	53	50
<b>Personnel expenses</b>	<b>1,352</b>	<b>1,283</b>

Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

## Financial income/financial expenses

32

Financial result consists of the following:

FINANCIAL INCOME € IN MILLIONS	Nº 32	
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Interest income from financial instruments measured at amortised cost	11	30
Interest income from financial instruments at fair value through profit or loss	5	7
Interest income from non-financial assets	—	—
Net foreign exchange gains	—	—
Fair value gains from available-for-sale investments	—	—
Other	3	0
<b>Financial income</b>	<b>19</b>	<b>37</b>

FINANCIAL EXPENSES € IN MILLIONS	Nº 32	
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Interest expense on financial instruments measured at amortised cost	138	178
Interest expense on financial instruments at fair value through profit or loss	—	—
Interest expense on provisions and non-financial liabilities	—	—
Net foreign exchange losses	25	25
Other	6	—
<b>Financial expenses</b>	<b>169</b>	<b>203</b>

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

Other financial expenses include impairment losses on other financial assets amounting to € 5 million for the year ending December 31, 2009.

Also included in other financial expenses are minority interests, which are not recorded in equity according to IAS 32.

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes [▶ see Notes 6, 14, 17 and 28.](#)

## Income taxes

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adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2009 and 2008, respectively, 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 companies, 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 on the balance sheet:

DEFERRED TAX ASSETS/LIABILITIES € IN MILLIONS	Nº 33	
	Dec. 31, 2009	Dec. 31, 2008
Deferred tax assets	412	344
Deferred tax liabilities	(433)	(463)
<b>Deferred tax assets, net</b>	<b>(21)</b>	<b>(119)</b>

The movements of deferred taxes are as follows:

<b>MOVEMENT OF DEFERRED TAXES</b>		N° <b>33</b>	☰
€ IN MILLIONS			
	2009	2008	
<b>Deferred tax assets, net as at January 1</b>	(119)	(135)	
Deferred tax income	43	71	
Change in consolidated companies (☑ see Note 4) <sup>1)</sup>	—	(9)	
Change in deferred taxes on assets classified as held-for-sale (☑ see Note 3) <sup>2)</sup>	(3)	3	
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity(☑ see Note 28)	46	(41)	
Currency translation differences	6	(5)	
Change in deferred taxes attributable to actuarial gains and losses recorded in equity (☑ see Note 23)	6	(3)	
<b>Deferred tax assets, net as at December 31</b>	<b>(21)</b>	<b>(119)</b>	
1) Relates to the acquisition of Ashworth, Inc. and Textronics, Inc. for the year ending December 31, 2008.			
2) Relates to the disposal group Gekko Brands, LLC which was classified as Held-for-Sale for the year ending December 31, 2008 and sold in March 2009.			

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

<b>DEFERRED TAXES</b>		N° <b>33</b>	☰
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Non-current assets	129	88	
Current assets	87	100	
Accrued liabilities and provisions	132	140	
Accumulated tax loss carry-forwards	78	91	
<b>Deferred tax assets</b>	<b>426</b>	<b>419</b>	
Non-current assets	420	444	
Current assets	25	45	
Accrued liabilities and provisions	2	49	
<b>Deferred tax liabilities</b>	<b>447</b>	<b>538</b>	
<b>Deferred tax assets, net</b>	<b>(21)</b>	<b>(119)</b>	

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, and after taking into account the resolution of foreign tax disputes from € 212 million to € 297 million for the year ending December 31, 2009. 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 companies 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:

<b>INCOME TAX EXPENSES</b>		N° <b>33</b>	☰
€ IN MILLIONS			
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Current tax expenses	156	331	
Deferred tax (income)	(43)	(71)	
<b>Income tax expenses</b>	<b>113</b>	<b>260</b>	

The effective tax rate of the Group differs from an assumed tax rate of 30% for the year ending December 31, 2009 as follows:

<b>TAX RATE RECONCILIATION</b>		N° <b>33</b>	☰	
	Year ending Dec. 31, 2009		Year ending Dec. 31, 2008	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	108	30.0	271	30.0
Tax rate differentials	(94)	[26.1]	(72)	[7.9]
Non-deductible expenses	(36)	[10.1]	45	4.9
Losses for which benefits were not recognisable and changes in valuation allowances	119	33.2	2	0.2
Changes in tax rates	4	1.1	1	0.1
Other, net	1	0.3	1	0.1
	<b>102</b>	<b>28.3</b>	<b>248</b>	<b>27.4</b>
Withholding tax expenses	11	3.1	12	1.4
<b>Income tax expenses</b>	<b>113</b>	<b>31.5</b>	<b>260</b>	<b>28.8</b>

For 2009, the line “non-deductible expenses” includes tax benefits of in total € 57 million related to the favourable resolution of foreign tax disputes for prior years.

The line “losses for which benefits were not recognisable and changes in valuation allowances” mainly relates to changes in valuation allowances of the US tax group.

## Earnings per share

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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.

Dilutive potential shares arose under the Management Share Option Plan (MSOP) of adidas AG, which was implemented in 1999. As the required performance criteria for the exercise of the stock options of all tranches of the share option plan have been fulfilled, dilutive potential shares impact the diluted earnings per share calculation [see Note 38](#).

It is also necessary to include dilutive potential shares arising from the convertible bond issuance in October 2003 in the calculation of diluted earnings per share of the financial year 2009 (until conversion) and 2008 as the required conversion criteria were fulfilled at the balance sheet date 2008 [see Note 17](#). As a result, the convertible bond is assumed to have been converted into ordinary shares and the net income is adjusted to eliminate the interest expense less the tax effect.

EARNINGS PER SHARE	№ 34	
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Net income attributable to shareholders (€ in millions)	245	642
Weighted average number of shares	196,220,166	197,562,346
<b>Basic earnings per share (in €)</b>	<b>1.25</b>	<b>3.25</b>
Net income attributable to shareholders (€ in millions)	245	642
Interest expense on convertible bond, net of taxes (€ in millions)	10	13
<b>Net income used to determine diluted earnings per share (€ in millions)</b>	<b>255</b>	<b>655</b>
Weighted average number of shares	196,220,166	197,562,346
Weighted share options	34,369	86,542
Weighted assumed conversion convertible bond	12,983,564	15,684,315
<b>Weighted average number of shares for diluted earnings per share</b>	<b>209,238,099</b>	<b>213,333,203</b>
<b>Diluted earnings per share (in €)</b>	<b>1.22</b>	<b>3.07</b>

## Notes – Additional Information

### Segmental information

35

The Group operates predominately in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products. Due to the Group’s reorganisation in 2009, the Group’s internal management reporting has changed. In accordance with the definition of IFRS 8, 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 first two are reported separately while the other four are aggregated under “Other Businesses” due to their only subordinate materiality. The reportable segments Wholesale and Retail correspond with the presentation in the internal reporting.

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. Rockport and Reebok-CCM Hockey were formerly part of the Reebok segment.

Certain centralised Group functions do not meet the definition of IFRS 8 for a reportable operating segment. This includes functions such as central treasury, worldwide 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.

Information about the Group’s segments, in accordance with Management’s internal reporting structure, is outlined on the following page.

There are no intersegment sales between the reportable segments. Transactions between the segments are based on the dealing-at-arm’s-length principle. Accounting policies applied for reporting segmental information are the same as those used for the adidas Group as described in Note 2.

The results of the operating segments are reported in the line item “Segmental operating profit”.

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

Segmental assets include accounts receivable and inventories. Only these items are reported to the chief operating decision maker on a regular basis. Scheduled depreciation and amortisation 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.

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. In 2009 and 2008, no companies are accounted for by the equity method.



REPORTABLE SEGMENTS € IN MILLIONS							N° 35		☰
	Wholesale		Retail		Other Businesses		Total Segments		
	2009	2008	2009	2008	2009	2008	2009	2008	
Net sales (non-Group)	7,174	7,758	1,906	1,738	1,283	1,285	10,363	10,781	
Segmental operating profit	2,346	2,692	267	326	281	337	2,894	3,355	
Segmental assets	1,943	2,401	429	427	415	578	2,787	3,406	
Segmental liabilities	470	492	37	30	74	64	581	586	
Capital expenditure	24	26	71	137	14	18	109	181	
Scheduled depreciation and amortisation	24	26	88	66	6	5	118	97	
Impairment	0	2	14	3	0	0	14	5	

### Reconciliations

NET SALES € IN MILLIONS	N° 35		☰
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Total net sales (non-Group) for reportable segments	10,363	10,781	
HQ	2	18	
Consolidation	16	0	
<b>Net sales</b>	<b>10,381</b>	<b>10,799</b>	

CAPITAL EXPENDITURE € IN MILLIONS	N° 35		☰
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Capital expenditure of reportable segments	109	181	
HQ/Consolidation	131	199	
<b>Capital expenditure</b>	<b>240</b>	<b>380</b>	

SEGMENTAL OPERATING PROFIT € IN MILLIONS	N° 35		☰
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Segmental operating profit for reportable segments	2,894	3,355	
Segmental operating profit for HQ/Consolidation	41	177	
<b>Marketing working budget</b>	<b>1,028</b>	<b>1,132</b>	
Other operating expenses	1,485	1,419	
Royalty income	86	89	
<b>Operating profit</b>	<b>508</b>	<b>1,070</b>	
Financial income	19	37	
Financial expenses	169	203	
<b>Income before taxes</b>	<b>358</b>	<b>904</b>	

SCHEDULED DEPRECIATION € IN MILLIONS	N° 35		☰
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Scheduled depreciation/amortisation of reportable segments	118	97	
HQ/Consolidation	141	125	
<b>Scheduled depreciation on tangible assets and amortisation on intangible assets</b>	<b>259</b>	<b>222</b>	

IMPAIRMENT € IN MILLIONS	N° 35		☰
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Impairment of reportable segments	14	5	
HQ/Consolidation	21	1	
<b>Impairment of tangible assets and intangible assets</b>	<b>35</b>	<b>6</b>	

<b>TOTAL SEGMENTAL ASSETS</b>		N° 35	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Total segmental assets	2,787	3,406	
Non-segmental accounts receivable and inventories	113	213	
Current financial assets	1,010	672	
Other current assets	575	643	
Non-current assets	4,390	4,599	
<b>Total assets</b>	<b>8,875</b>	<b>9,533</b>	

<b>TOTAL SEGMENTAL LIABILITIES</b>		N° 35	
€ IN MILLIONS			
	Dec. 31, 2009	Dec. 31, 2008	
Total segmental liabilities	581	586	
Non-segmental accounts payable	585	632	
Current financial liabilities	299	876	
Other current liabilities	1,371	1,551	
Non-current liabilities	2,263	2,488	
<b>Total liabilities</b>	<b>5,099</b>	<b>6,133</b>	

### Product Information

<b>NET SALES (NON-GROUP)</b>		N° 35	
€ IN MILLIONS			
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	
Footwear	4,642	4,919	
Apparel	4,663	4,775	
Hardware	1,076	1,105	
<b>Total</b>	<b>10,381</b>	<b>10,799</b>	

### Geographical information

Net sales to third parties are shown in the geographic market in which the revenues are realised. Non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary and consist of tangible assets, goodwill, trademarks, other intangible assets and other non-current assets.

<b>GEOGRAPHICAL INFORMATION</b>		N° 35		
€ IN MILLIONS				
	Net sales (non-Group)		Non-current assets	
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Western Europe	3,262	3,527	1,505	1,563
European Emerging Markets	1,122	1,179	437	469
North America	2,360	2,520	666	813
Greater China	967	1,077	474	485
Other Asian Markets	1,647	1,585	521	546
Latin America	1,006	893	225	222
HQ/Consolidation	17	18	0	0
<b>Total</b>	<b>10,381</b>	<b>10,799</b>	<b>3,828</b>	<b>4,098</b>

With regard to Germany, Western Europe contains net sales amounting to € 587 million and € 601 million as well as non-current assets amounting to € 281 million and € 295 million for the years 2009 and 2008, respectively. With regard to the USA, North America contains net sales amounting to € 2,068 million and € 2,209 million as well as non-current assets amounting to € 547 million and € 692 million for the years 2009 and 2008, respectively.

## Additional cash flow information

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In 2009, the line item "Acquisition of subsidiaries and other business units net of cash acquired" in the consolidated statement of cash flows includes the acquisition of Life Sport Ltd. and Bones in Motion, Inc. [➔ see Note 4.](#)

In 2008, this line item includes the acquisition of Saxon Athletic Manufacturing, Inc., Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.), Textronics, Inc. and Ashworth, Inc. [➔ see Note 4.](#)

Current revolving financial transactions are offset within financing activities.

## Commitments and contingencies

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### 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	Nº 37	
	Dec. 31, 2009	Dec. 31, 2008
Within 1 year	554	386
Between 1 and 5 years	1,403	1,082
After 5 years	594	611
<b>Total</b>	<b>2,551</b>	<b>2,079</b>

Commitments with respect to advertising and promotion maturing after five years have remaining terms of up to 13 years from December 31, 2009.

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 license and distribution agreements as well as competition issues. 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.

## Equity compensation benefits

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### Management Share Option Plan (MSOP) of adidas AG

Under the Management Share Option Plan (MSOP) adopted by the shareholders of adidas AG on May 20, 1999, and amended by resolution of the Annual General Meeting on May 8, 2002, and on May 13, 2004, the Executive Board was authorised to issue non-transferable stock options for up to 1,373,350 no-par-value bearer shares to members of the Executive Board of adidas AG as well as to managing directors/senior vice presidents of its related companies and to other executives of adidas AG and its related companies until August 27, 2004. The granting of stock options took place in tranches not exceeding 25% of the total volume for each fiscal year.

A two-year vesting period and a term of approximately seven years upon their respective issue applies for the stock options.

**MANAGEMENT SHARE OPTION PLAN (MSOP)**

 N°  
**38**

	Share price in €	Tranche I (1999)		Tranche II (2000)		Tranche III (2001)		Tranche IV (2002)		Tranche V (2003)	
		Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €
Originally issued		266,550		335,100		342,850		340,850		88,000	
<b>Outstanding as at Jan. 1, 2008</b>		0	—	0	—	8,650	4.00	19,000	4.00	5,900	4.00
Forfeited during the period		0	—	0	—	600	4.00	850	5.20	0	—
Exercised during the period											
May 2008 <sup>1)</sup>	173.92	0	—	0	—	4,950	4.00	5,150	4.00	1,000	4.00
Aug. 2008 <sup>1)</sup>	154.44	0	—	0	—	0	—	1,800	6.40	300	4.00
Nov. 2008 <sup>1)</sup>	0.00	0	—	0	—	0	—	0	—	0	—
Expired during the period		0	—	0	—	3,100	4.00	0	—	0	—
<b>Outstanding as at Dec. 31, 2008</b>		0	—	0	—	0	—	11,200	6.40	4,600	4.00
Exercisable as at Dec. 31, 2008		0	—	0	—	0	—	11,200	6.40	4,600	4.00
<b>Outstanding as at Jan. 1, 2009</b>		0	—	0	—	0	—	11,200	6.40	4,600	4.00
Forfeited during the period		0	—	0	—	0	—	300	0.00	500	82.60
Exercised during the period											
May 2009 <sup>1)</sup>	0.00	0	—	0	—	0	—	0	—	0	—
Aug. 2009 <sup>1)</sup>	136.48	0	—	0	—	0	—	0	—	4,100	82.60
Nov. 2009 <sup>1)</sup>	0.00	0	—	0	—	0	—	0	—	0	—
Expired during the period		0	—	0	—	0	—	10,900	0.00	0	—
<b>Outstanding as at Dec. 31, 2009</b>		0	—	0	—	0	—	0	—	0	—
Exercisable as at Dec. 31, 2009		0	—	0	—	0	—	0	—	0	—

1) Due to the share split effective May 2006, one option grants the right to purchase four shares. Accordingly, the share price information refers to four shares each.

There are no remaining stock options outstanding at the end of the period.

No stock options were issued during the year under review.

Stock options may only be exercised subject to the attainment of at least one of the following performance objectives:

**(1) Absolute Performance:** During the period between the issuance and exercise of the stock options, the stock market price for the adidas AG share – calculated upon the basis of the “total shareholder return approach” – has increased by an annual average rate of at least 8%.

**(2) Relative Performance:** During the same period, the stock market price for the adidas AG share must have developed by an annual average of 1% more favourably than the stock market prices of a basket of global competitors of the adidas Group and in absolute terms may not have fallen.

The stock options may only be exercised against payment of the exercise price. The exercise price corresponds to the arithmetical mean of the closing price of the adidas AG share over the last 20 trading days of the respective exercise period, less a discount, based on the extent to which the share price at exercise exceeded the absolute and relative performance hurdles outlined above. In any case, the exercise price shall be at least the lowest issue price as stated in § 9 section 1 of the German Stock Corporation Act (AktG), currently € 1.00 (i.e. € 4.00 per option).

Option terms and conditions stipulate that the stock options may be used for existing common shares in lieu of new shares from the contingent capital, or in the place of common shares the discount is paid in cash.

The new shares participate in profits from the beginning of the year in which they are issued.

**Employees**

The average numbers of employees are as follows:

EMPLOYEES	N°	
	Year ending Dec. 31, 2009	Year ending Dec. 31, 2008
Own retail	19,460	16,071
Sales	3,905	4,133
Logistics	5,484	5,395
Marketing	3,375	3,308
Central functions and administration	3,075	3,160
Production	1,892	2,118
Research and development	1,005	1,058
Information technology	875	886
<b>Total</b>	<b>39,071</b>	<b>36,129</b>

**Accountant service fees for the auditor of the financial statements**

Following the formation of KPMG Europe LLP effective October 1, 2007, KPMG LLP (UK) is an affiliated company of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG LLP (UK) relates to services rendered after September 30, 2007.

Effective October 1, 2008, KPMG Switzerland and KPMG Spain are part of KPMG Europe LLP and are thus affiliated companies of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG Switzerland and KPMG Spain relates to services rendered after September 30, 2008.

Effective April 1, 2009, KPMG Belgium is part of KPMG Europe LLP and is thus an affiliated company of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG Belgium relates to services rendered after March 31, 2009.

Effective October 1, 2009, KPMG Netherlands and KPMG Turkey are part of KPMG Europe LLP and are thus affiliated companies of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG Netherlands and KPMG Turkey relates to services rendered after September 30, 2009.

In 2009, adidas AG recorded € 1.8 million (2008: € 1.2 million) as expense for the professional service fee for the auditor of the annual and consolidated financial statements.

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 € 0.3 million (2008: € 0.2 million), € 0.1 million (2008: € 0.0 million) and € 0.0 million (2008: € 0.1 million), respectively.

**Remuneration of the Supervisory Board and the Executive Board of adidas AG****Supervisory Board**

Pursuant to the Articles of Association, the Supervisory Board members' fixed annual payment amounted to € 0.9 million (2008: € 0.9 million). No members of the Supervisory Board were granted loans in 2009.

**Executive Board**

In 2009, the overall compensation of the members of the Executive Board totalled € 10.5 million (2008: € 8.4 million); € 6.8 million thereof relates to short-term benefits (2008: € 7.2 million) and € 3.7 million to long-term benefits (2008: € 1.2 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board) totalled € 0.4 million (2008: € 0.4 million).

In 2009, former members of the Executive Board and their survivors received pension payments totalling € 2.2 million (2008: € 1.7 million).

Pension provisions for pension obligations relating to former members of the Executive Board and their survivors amount in total to € 39.5 million (2008: € 36.4 million).

No members of the Executive Board were granted loans in 2009.

Members of the Executive Board have not been granted any stock options since 2004. In 2009 and 2008, current and former members of the Executive Board did not exercise any stock options. Details of the Management Share Option Plan are also included in these Notes [see Note 38](#).

Further information on disclosures according to § 314 section 1 no. 6a HGB (German commercial law) is provided in the Compensation Report [see Compensation Report, p 38](#).

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

On February 11, 2010, the Executive Board and Supervisory Board of adidas AG issued the updated declaration of conformity in accordance with § 161 of the Stock Corporation Act (AktG). The full text of the Declaration of Compliance is available on the Group's corporate website.

**Group-specific subsequent events****Memorandum of Understanding signed with Pou Sheng International (Holdings) Limited**

In January 2010, adidas (China) Ltd. signed a Memorandum of Understanding for the business activities of the Reebok brand in China with the Chinese sporting goods retailer Pou Sheng International (Holdings) Limited. Both parties intend to enter into an agreement under which Pou Sheng will co-design, manufacture and become key distributor of Reebok branded footwear and apparel in China. A final agreement is expected to be reached in the second quarter of 2010.

**Lawsuit settled**

In January, adidas Group settled a lawsuit. The settlement will have a positive low-double-digit million euro impact on the Group's financial results in 2010.

**Trademark divested**

In January, adidas Group sold a trademark. The divestiture will have a positive low-double-digit million euro impact on the Group's financial results in 2010.

**Date of authorisation for issue**

The Executive Board of adidas AG approved the consolidated financial statements for submission to the Supervisory Board on February 19, 2010. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorisation for issue.

Herzogenaurach, February 19, 2010

**The Executive Board of adidas AG**

## STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS

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I

€ IN MILLIONS

	Goodwill	Trademarks	Software, patents and concessions	Internally generated software	Total intangible assets	Land and buildings/leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fittings	Construction in progress	Total tangible assets
<b>Acquisition cost</b>										
January 1, 2008	1,436	1,291	441	—	3,169	430	115	629	42	1,216
Currency effect	45	75	12	—	131	5	(4)	2	3	7
Additions	0	0	59	1	60	21	17	183	94	316
Increase in companies consolidated	18	27	20	—	65	12	4	8	—	23
Transfers from assets held for sale	—	—	—	—	—	44	—	5	—	49
Transfers to assets held for sale	—	(3)	(0)	—	(4)	(6)	—	(1)	—	(7)
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	(10)	—	(10)	10	14	58	(72)	10
Disposals	—	0	(6)	—	(6)	(27)	(6)	(36)	(2)	(71)
<b>December 31, 2008/January 1, 2009</b>	<b>1,499</b>	<b>1,390</b>	<b>516</b>	<b>1</b>	<b>3,406</b>	<b>489</b>	<b>140</b>	<b>847</b>	<b>66</b>	<b>1,542</b>
Currency effect	(26)	(48)	(7)	—	(81)	(7)	(1)	(3)	(1)	(13)
Additions	1	0	48	0	50	17	4	101	72	195
Increase in companies consolidated	4	—	0	—	4	—	0	6	—	6
Transfers from assets held for sale	—	—	—	—	—	4	2	1	—	7
Transfers to assets held for sale	—	—	—	—	—	(126)	—	—	—	(126)
Decrease in companies consolidated	0	—	—	—	0	—	—	—	—	—
Transfers	—	—	2	1	3	28	28	6	(65)	(3)
Disposals	—	—	(24)	(0)	(25)	(25)	(19)	(82)	(2)	(128)
<b>December 31, 2009</b>	<b>1,478</b>	<b>1,342</b>	<b>535</b>	<b>3</b>	<b>3,358</b>	<b>380</b>	<b>156</b>	<b>876</b>	<b>69</b>	<b>1,480</b>
<b>Accumulated depreciation/amortisation</b>										
January 1, 2008	—	—	247	—	247	92	44	378	—	514
Currency effect	—	—	10	—	10	2	—	7	—	9
Additions	—	—	61	0	61	25	15	124	—	165
Impairment	—	—	—	—	—	1	(0)	5	—	6
Write-ups	—	—	—	—	—	—	—	—	—	—
Increase in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers from assets held for sale	—	—	—	—	—	3	—	2	—	5
Transfers to assets held for sale	—	—	—	—	—	—	—	—	—	—
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	(1)	(3)	4	—	—
Disposals	—	—	(4)	—	(4)	(8)	(6)	(29)	—	(42)
<b>December 31, 2008/January 1, 2009</b>	<b>—</b>	<b>—</b>	<b>313</b>	<b>0</b>	<b>313</b>	<b>116</b>	<b>50</b>	<b>490</b>	<b>—</b>	<b>656</b>
Currency effect	—	—	(6)	—	(6)	(2)	(1)	(6)	—	(9)
Additions	—	0	65	1	66	32	20	147	—	198
Impairment	—	—	19	—	19	6	0	10	—	16
Write-ups	—	—	0	—	0	—	—	(0)	—	(0)
Increase in companies consolidated	—	—	—	—	—	—	—	1	—	1
Transfers from assets held for sale	—	—	—	—	—	2	2	1	—	5
Transfers to assets held for sale	—	—	—	—	—	(20)	—	—	—	(20)
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	0	—	0	(1)	(0)	1	—	(0)
Disposals	—	—	(16)	(0)	(16)	(9)	(16)	(65)	—	(89)
<b>December 31, 2009</b>	<b>—</b>	<b>0</b>	<b>377</b>	<b>0</b>	<b>377</b>	<b>123</b>	<b>55</b>	<b>579</b>	<b>—</b>	<b>757</b>
<b>Net carrying amount</b>										
December 31, 2007	1,436	1,291	194	—	2,922	338	71	251	42	702
December 31, 2008	1,499	1,390	202	2	3,093	373	90	357	66	886
<b>December 31, 2009</b>	<b>1,478</b>	<b>1,342</b>	<b>158</b>	<b>2</b>	<b>2,980</b>	<b>257</b>	<b>101</b>	<b>297</b>	<b>69</b>	<b>723</b>

Rounding differences may arise in percentages and totals.

**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

AT DECEMBER 31, 2009

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Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
<b>Germany</b>					
1 GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG	Herzogenaurach (Germany)	EUR	(510)	directly	90
2 GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH	Herzogenaurach (Germany)	EUR	35	directly	100
3 adidas Insurance & Risk Consultants GmbH <sup>12)</sup> (formerly adidas Versicherungs-Vermittlungs GmbH)	Herzogenaurach (Germany)	EUR	26	directly	100
4 adidas Beteiligungsgesellschaft mbH <sup>12)</sup>	Herzogenaurach (Germany)	EUR	354,103	directly	100
5 Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH	Herzogenaurach (Germany)	EUR	31	directly	100
6 Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG	Herzogenaurach (Germany)	EUR	2,119	directly	100
7 World of Commerce Management GmbH <sup>4)</sup>	Herzogenaurach (Germany)	EUR	–	directly	100
8 World of Commerce GmbH & Co. KG <sup>4)</sup>	Herzogenaurach (Germany)	EUR	–	directly	100
9 Hotel Herzo-Base GmbH & Co. KG <sup>4)</sup>	Herzogenaurach (Germany)	EUR	–	directly	100
10 Herzo-Base Management GmbH <sup>4)</sup>	Herzogenaurach (Germany)	EUR	–	directly	100
11 Factory Outlet Herzo-Base GmbH & Co. KG <sup>4)</sup>	Herzogenaurach (Germany)	EUR	–	directly	100
12 Reebok-CCM Hockey GmbH	Kirchheim-Heimstetten (Germany)	EUR	3,731	105	100
<b>Europe (incl. Middle East and Africa)</b>					
13 adidas sport GmbH	Cham (Switzerland)	CHF	10,738	directly	100
14 Sarragan AG	Cham (Switzerland)	CHF	(2,207)	directly	100
15 adidas Austria GmbH	Klagenfurt (Austria)	EUR	9,745	directly	95.89
				13	4.11
16 Reebok Austria GmbH	Bergheim (Austria)	EUR	912	44	99
				39	1
17 ASL American Sports and Leisure Vertriebs GmbH	Bergheim (Austria)	EUR	7,353	16	100
18 adidas Holding S.A.	Landersheim (France)	EUR	10,859	36	100
19 adidas France S.a.r.l.	Landersheim (France)	EUR	135,389	18	100
20 Reebok France S.A.	Voisins Le Bretonneux (France)	EUR	8,002	19	100
21 Reebok France Retail SARL	Voisins Le Bretonneux (France)	EUR	(2,366)	20	100
22 adidas International B.V.	Amsterdam (Netherlands)	EUR	5,768,350	directly	93.97
				19	6.03
23 adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	567,863	22	100
24 adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	342,878	22	100
25 adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	8,465	22	100
26 adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	8,691	directly	100
27 Reebok International Finance B.V.	Amsterdam (Netherlands)	USD	562	119	100
28 Reebok Europe B.V.	Amsterdam (Netherlands)	EUR	15,843	44	100
29 Rockport (Europe) B.V.	Amsterdam (Netherlands)	USD	2,901	109	100

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas 5) Sub-group Taylor Made UK 6) Company with no active business  
 7) The number refers to the number of the company 8) Sub-group Onfield 9) Sub-group Reebok-CCM Hockey, Inc. 10) Sub-group Sports Holdings Corporation 11) Sub-group Reebok International Limited  
 12) Profit and loss transfer agreement 13) Sub-group Taylor Made Golf Co., Inc. 14) Sub-group adidas Canada 15) Sub-group adidas Brazil



**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

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Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
30 adidas (UK) Limited <sup>1)</sup>	Stockport (Great Britain)	GBP	36,716	36	100
31 adidas (ILKLEY) Limited <sup>1) 6)</sup>	Stockport (Great Britain)	GBP	—	30	100
32 LARA SPORT (UK) Limited <sup>1) 6)</sup>	Stockport (Great Britain)	GBP	—	30	100
33 Sarragan (UK) Limited <sup>1) 6)</sup>	Stockport (Great Britain)	GBP	—	30	100
34 adidas Trefoil Trading (U.K.) Limited <sup>1) 6)</sup>	Stockport (Great Britain)	GBP	—	33	100
35 Three Stripes Limited <sup>1) 6)</sup>	Stockport (Great Britain)	GBP	—	30	50
				31	50
36 Reebok International Limited <sup>11)</sup>	London (Great Britain)	GBP	1,162,451	22	65.1
				119	34.9
37 Reebok Finance Limited <sup>6) 11)</sup>	London (Great Britain)	GBP	—	119	100
38 RBK Holdings Limited <sup>11)</sup>	London (Great Britain)	GBP	—	119	89
				108	11
39 Reebok Sports Limited	London (Great Britain)	USD	1,937	36	100
40 J.W. Foster & Sons (Athletic Shoes) Limited <sup>6) 11)</sup>	London (Great Britain)	GBP	—	36	100
41 The Rockport Company Limited <sup>6) 11)</sup>	London (Great Britain)	GBP	—	36	100
42 Reebok Eastern Trading Limited <sup>6)</sup>	London (Great Britain)	USD	3,112	36	100
43 Reebok Pensions Management Limited <sup>11)</sup>	London (Great Britain)	GBP	—	36	100
44 Reebok Europe Holdings	London (Great Britain)	GBP	72,170	36	100
45 Taylor Made Golf Limited	Basingstoke (Great Britain)	GBP	(9,834)	22	100
46 Ashworth U.K. Ltd. <sup>5)</sup>	Basingstoke (Great Britain)	GBP	—	45	100
47 adidas (Ireland) Limited	Dublin (Ireland)	EUR	(2,098)	22	100
48 adidas International Re Limited	Dublin (Ireland)	EUR	8,586	22	100
49 Reebok Ireland Limited	Dublin (Ireland)	EUR	56	47	100
50 adidas Belgium N.V.	Brussels (Belgium)	EUR	3,105	26	100
51 Reebok Belgium S.A.	Brussels (Belgium)	EUR	251	44	100
52 adidas Espana S.A.	Zaragoza (Spain)	EUR	31,848	4	100
53 Reebok Spain S.A.	Alicante (Spain)	EUR	47,344	119	75
				22	25
54 adidas Italy S.p.A	Monza (Italy)	EUR	45,013	22	100
55 Reebok Italia Srl	Monza (Italy)	EUR	10,458	54	100
56 adidas Portugal - Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	27,759	22	100
57 adidas Business Services Lda.	Maia (Portugal)	EUR	(312)	22	98
				directly	2
58 adidas Norge AS	Lillestrom (Norway)	NOK	34,485	directly	100
59 Reebok Jofa AS	Gressvik (Norway)	NOK	14,129	61	100

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas 5) Sub-group Taylor Made UK 6) Company with no active business

7) The number refers to the number of the company 8) Sub-group Onfield 9) Sub-group Reebok-CCM Hockey, Inc. 10) Sub-group Sports Holdings Corporation 11) Sub-group Reebok International Limited

12) Profit and loss transfer agreement 13) Sub-group Taylor Made Golf Co., Inc. 14) Sub-group adidas Canada 15) Sub-group adidas Brazil

**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

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Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
60 adidas Sverige AB	Stockholm (Sweden)	SEK	62,604	directly	100
61 Nordic Hockey Company AB <sup>10)</sup>	Malung (Sweden)	SEK	187,970	105	100
62 Reebok Jofa AB	Malung (Sweden)	SEK	98,962	61	100
63 adidas Suomi Oy	Helsinki (Finland)	EUR	2,085	22	100
64 Reebok Finland Oy	Forssa (Finland)	EUR	24,649	61	100
65 adidas Danmark A/S	Århus (Denmark)	DKK	12,643	22	100
66 adidas CR s.r.o.	Prague (Czech Republic)	CZK	196,595	directly	100
67 adidas Budapest Kft.	Budapest (Hungary)	HUF	1,259,597	directly	85
68 adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	13,439	directly	100
69 LLC adidas, Ltd.	Moscow (Russia)	USD	450,681	15	100
70 adidas Poland Sp.z.o.o.	Warsaw (Poland)	PLN	64,007	directly	100
71 Reebok Poland S.A.	Warsaw (Poland)	PLN	84,387	119	100
72 adidas Romania S.R.L.	Bucharest (Romania)	RON	27,465	22	100
73 adidas Baltics SIA	Riga (Latvia)	EUR	746	22	100
74 adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	SKK	4,055	directly	100
75 adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	612	directly	100
76 SC adidas-Ukraine	Kiev (Ukraine)	USD	81,835	directly	100
77 adidas LLP	Almaty (Republic of Kazakhstan)	USD	7,010	directly	100
78 adidas Serbia d.o.o.	New Belgrade (Serbia)	RSD	477,105	22	100
79 adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	19,709	22	100
80 adidas Hellas A.E.	Thessaloniki (Greece)	EUR	1,115	directly	100
81 adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	3,216	directly	100
82 adidas Spor Malzemeleri Satis ve Pazartlama A.S.	Istanbul (Turkey)	TRY	200,534	22	100
83 a-RET Tekstil ve Deri Ürünleri Tic. A.S.	Istanbul (Turkey)	TRY	5,430	23	100
84 adidas Emerging Market L.L.C.	Dubai (United Arab Emirates)	USD	42,703	indirectly	51
				19	49
85 adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	272	22	100
86 adidas Levant Limited	Dubai (United Arab Emirates)	JOD	2,240	85	55
87 adidas Levant Limited – Jordan	Amman (Jordan)	JOD	482	86	100
88 adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	869	89	100
89 adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	23,939	22	90
				23	10
90 adidas Egypt Ltd. <sup>4)</sup>	Cairo (Egypt)	USD	(1,831)	directly	100
91 adidas Israel Ltd.	Tel Aviv (Israel)	ILS	8,508	directly	100
92 Life Sport Ltd.	Tel Aviv (Israel)	ILS	30,910	22	51
93 adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	142,990	directly	100

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas 5) Sub-group Taylor Made UK 6) Company with no active business

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12) Profit and loss transfer agreement 13) Sub-group Taylor Made Golf Co., Inc. 14) Sub-group adidas Canada 15) Sub-group adidas Brazil

**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

AT DECEMBER 31, 2009

ATTACHMENT

N°

11

Company and domicile	Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
<b>North America</b>				
94 adidas North America, Inc.	Portland, Oregon (USA)	USD	4,527,457	22 100
95 adidas America, Inc.	Portland, Oregon (USA)	USD	(94,218)	94 100
96 adidas Promotional Retail Operations, Inc.	Portland, Oregon (USA)	USD	(280)	94 100
97 adidas Sales, Inc.	Portland, Oregon (USA)	USD	146,279	94 100
98 adidas Village Corporation	Portland, Oregon (USA)	USD	17,101	94 100
99 adidas International, Inc.	Portland, Oregon (USA)	USD	43,197	94 100
100 adidas Team, Inc.	Portland, Oregon (USA)	USD	(155)	94 100
101 Taylor Made Golf Co., Inc. <sup>13)</sup>	Carlsbad, California (USA)	USD	39,076	94 100
102 Ashworth, LLC. <sup>13)</sup>	Carlsbad, California (USA)	USD	—	101 100
103 The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	11,549	119 100
104 Reebok-CCM Hockey, Inc. <sup>9)</sup>	Wilmington, Delaware (USA)	USD	150,836	119 100
105 Sports Holdings Corp. <sup>10)</sup>	Wilmington, Delaware (USA)	USD	(18,339)	104 100
106 Reebok Aviation, LLC <sup>6)</sup>	Wilmington, Delaware (USA)	USD	13,183	119 100
107 RFC, Inc.	Wilmington, Delaware (USA)	USD	19	119 100
108 Reebok Securities Holdings LLC <sup>2)</sup>	Wilmington, Delaware (USA)	USD	—	119 100
109 The Rockport Company, LLC	Wilmington, Delaware (USA)	USD	233,347	119 100
110 Textronics, Inc.	Wilmington, Delaware (USA)	USD	11,829	99 100
111 Ashworth Acquisition Corp. <sup>13)</sup>	Wilmington, Delaware (USA)	USD	—	102 100
112 Ashworth Store I, Inc. <sup>13)</sup>	Wilmington, Delaware (USA)	USD	—	102 100
113 Ashworth Store II, Inc. <sup>13)</sup>	Wilmington, Delaware (USA)	USD	—	102 100
114 Ashworth EDC, LLC <sup>13)</sup>	Wilmington, Delaware (USA)	USD	—	102 100
115 Sunice Holdings, Inc. <sup>13)</sup>	Wilmington, Delaware (USA)	USD	—	102 100
116 SLM Trademark Acquisition Corp. <sup>6) 9)</sup>	Dover, Delaware (USA)	USD	—	104 100
117 Onfield Apparel Group, LLC <sup>8)</sup>	Dover, Delaware (USA)	USD	—	119 99
				118 1
118 Reebok Onfield, LLC <sup>8)</sup>	Dover, Delaware (USA)	USD	—	119 100
119 Reebok International Ltd. <sup>2)</sup>	Canton, Massachusetts (USA)	USD	(737,707)	94 100
120 Reebok CHC, Inc. <sup>2) 6)</sup>	Stoughton, Massachusetts (USA)	USD	—	119 100
121 Sports Licensed Division of the adidas Group, LLC	Boston, Massachusetts (USA)	USD	111,941	119 99
				108 1
122 RBK Thailand, Inc. <sup>2)</sup>	Boston, Massachusetts (USA)	USD	369	119 100
123 Reebok-CCM Hockey U.S., Inc.	Montpelier, Vermont (USA)	USD	8,733	104 64
				105 36
124 adidas Canada Ltd. <sup>14)</sup>	Concord, Ontario (Canada)	CAD	60,261	directly 100
125 adidas Style Retail Limited <sup>14)</sup>	Concord, Ontario (Canada)	CAD	—	124 100

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas 5) Sub-group Taylor Made UK 6) Company with no active business

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**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

AT DECEMBER 31, 2009

ATTACHMENT

 N°  
II


Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
126 R.C. Investments Ltd.	Montreal (Canada)	CAD	2,209	119	100
127 Reebok Canada Inc.	Montreal (Canada)	CAD	16,993	119	100
128 CCM Holdings (1983) Inc.	Montreal (Canada)	CAD	6,317	130	100
129 Sport Maska Inc.	New Brunswick (Canada)	CAD	52,504	104	100
130 SLM Trademark Acquisition Canada Corporation <sup>6) 9)</sup>	New Brunswick (Canada)	CAD	—	116	100
<b>Asia</b>					
131 adidas Sourcing Ltd.	Hong Kong (China)	USD	183,458	23	100
132 adidas Services Limited	Hong Kong (China)	USD	4,487	22	100
133 adidas Hong Kong Ltd.	Hong Kong (China)	HKD	135,161	directly	100
134 Smedley Industries (Hong Kong) Limited <sup>6) 9)</sup>	Hong Kong (China)	HKD	—	104	100
135 Reebok Trading (Far East) Ltd.	Hong Kong (China)	USD	32,072	119	100
136 Reebok (China) Services Limited	Hong Kong (China)	USD	7,550	135	100
137 RIL Indonesia Services Limited	Hong Kong (China)	USD	1,968	135	100
138 adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	92,742	4	100
139 adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	2,848,955	4	100
140 adidas (China) Ltd.	Shanghai (China)	CNY	32,547	22	100
141 Zhuhai adidas Technical Services Ltd.	Zhuhai (China)	USD	1,080	131	100
142 adidas Japan K.K.	Tokyo (Japan)	JPY	2,721,374	36	100
143 Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	4,433,500	36	100
144 adidas Korea Ltd.	Seoul (Korea)	KRW	78,416,485	directly	100
145 Taylor Made Korea Ltd.	Seoul (Korea)	KRW	17,412,773	directly	100
146 adidas Korea Technical Services Ltd.	Pusan (Korea)	KRW	(5,803,705)	131	100
147 adidas India Private Ltd. <sup>3)</sup>	New Delhi (India)	INR	(380,918)	directly	99
				22	1
148 adidas India Marketing Pvt. Ltd. <sup>3)</sup>	New Delhi (India)	INR	—	147	91.4
				22	8.6
149 adidas Technical Services Pvt. Ltd.	New Delhi (India)	USD	955	131	100
150 Reebok India Company Unlimited	New Delhi (India)	INR	1,207	161	93.15
151 P.T. adidas Indonesia Ltd.	Jakarta (Indonesia)	IDR	9,810,204	22	99
				directly	1
152 adidas (Malaysia) Sdn. Bhd.	Kuala Lumpur (Malaysia)	MYR	26,688	directly	60
				22	40

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas 5) Sub-group Taylor Made UK 6) Company with no active business  
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**SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH**

AT DECEMBER 31, 2009

ATTACHMENT

N°

11

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by <sup>7)</sup>	in %
153 adidas Philippines Inc.	Manila (Philippines)	PHP	163,219	directly	100
154 adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	15,196	directly	100
155 adidas Taiwan Limited	Taipei (Taiwan)	TWD	371,121	22	100
156 adidas Holding (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	(23,488)	indirectly	51
				directly	49
157 adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	545,220	156	50.01
				directly	49.99
158 adidas Australia Pty. Limited	Mulgrave (Australia)	AUD	21,311	22	100
159 adidas New Zealand Limited	Auckland (New Zealand)	NZD	2,983	directly	100
160 adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	(16,812,825)	22	100
161 Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,194	119	99
				103	1
<b>Latin America</b>					
162 adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	133,679	22	95
				4	5
163 Reebok Argentina S.A.	Buenos Aires (Argentina)	ARS	(540)	22	89.99
				23	10
164 adidas do Brasil Ltda. <sup>15)</sup>	Sao Paulo (Brazil)	BRL	318,370	4	100
165 ASPA do Brasil Ltda.	Sao Paulo (Brazil)	BRL	(48,409)	131	100
166 adidas Trading Paraná Ltda. <sup>15)</sup>	Pinhais (Brazil)	BRL	—	164	99.99
167 Reebok Productos Esportivos Brasil Ltda.	Jundiai (Brazil)	BRL	25,985	22	99.99
168 adidas Chile Ltda.	Santiago de Chile (Chile)	CLP	33,091,785	directly	99
				3	1
169 adidas Colombia Ltda.	Bogota (Columbia)	COP	51,050,713	directly	100
170 adidas de Mexico S.A. de C.V. <sup>4)</sup>	Mexico City (Mexico)	MXN	286,876	directly	100
171 adidas Industrial S.A. de C.V. <sup>4)</sup>	Mexico City (Mexico)	MXN	—	directly	100
172 Reebok de Mexico, S.A. de C.V.	Neucalpan de Juarez (Mexico)	MXN	(307,643)	directly	100
173 adidas Latin America, S.A.	Panama City (Panama)	USD	(23,978)	directly	100
174 Concept Sport, S.A.	Panama City (Panama)	USD	793	22	100
175 3 Stripes S.A. (adidas Uruguay) <sup>6)</sup>	Montevideo (Uruguay)	UYU	(436)	directly	100
176 adidas Corporation de Venezuela, S.A. <sup>4)</sup>	Caracas (Venezuela)	VEF	(17)	directly	100
177 adisport Corporation	San Juan (Puerto Rico)	USD	(1,786)	22	100

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## TECHFIT™ PowerWEB™

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09



TECHFIT™ PowerWEB™ is designed to focus muscle energy. Optimally applied pressure speeds up the process by which energy is created in muscles and reduces vibration, resulting in 5.3% more power, a 4.0% higher jump and 1.1% greater speed. In the final, TECHFIT™ PowerWEB™ provided Nikola Karabatic with maximum explosive power, acceleration and endurance in one of the most exhausting matches of the World Championship. Karabatic not only uses TECHFIT™, he swears by it.



NIKOLA  
KARABATIC  
FRANCE



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→ ZAGREB, CROATIA – FEBRUARY 1, 2009

France reaches the final of the World Men's Handball Championship against host nation Croatia. adidas sponsored French national team player Nikola Karabatic is bursting with energy. He leads by example. It's the 53rd minute. Karabatic steps up and throws the 20-18. This two-point lead settles the French team, and with confidence high they dominate the last minutes of the game, winning 24-19.

## TEN-YEAR OVERVIEW

N°  
01

	2009	2008	2007	2006 <sup>1)</sup>	2005	2004	2003	2002	2001	2000
<b>Income Statement Data (€ in millions)</b>										
Net sales <sup>2)</sup>	10,381	10,799	10,299	10,084	6,636	5,860	6,267	6,523	6,112	5,835
Gross profit <sup>2)</sup>	4,712	5,256	4,882	4,495	3,197	2,813	2,814	2,819	2,601	2,528
Royalty and commission income <sup>2)</sup>	86	89	102	90	47	42	42	46	42	43
Other operating income <sup>2)</sup>	100	103	80	55	36	n/a	n/a	n/a	n/a	n/a
Other operating expenses <sup>2)</sup>	4,390	4,378	4,115	3,759	2,573	n/a	n/a	n/a	n/a	n/a
EBITDA <sup>2)</sup>	780	1,280	1,165	1,078	806	716	652	622	620	578
Operating profit <sup>2) 3)</sup>	508	1,070	949	881	707	584	490	477	475	437
Financial result <sup>2) 4)</sup>	(150)	(166)	(135)	(158)	(52)	(59)	(49)	(87)	(102)	(94)
Income before taxes <sup>2) 4)</sup>	358	904	815	723	655	526	438	390	376	347
Income taxes <sup>2)</sup>	113	260	260	227	221	193	167	148	147	140
Minority interests <sup>2) 4)</sup>	0	(2)	(4)	(13)	(8)	(7)	(11)	(14)	(21)	(25)
Net income attributable to shareholders <sup>5)</sup>	245	642	551	483	383	314	260	229	208	182
<b>Income Statement Ratios</b>										
Gross margin <sup>2)</sup>	45.4%	48.7%	47.4%	44.6%	48.2%	48.0%	44.9%	43.2%	42.6%	43.3%
Operating margin <sup>2) 3)</sup>	4.9%	9.9%	9.2%	8.7%	10.7%	10.0%	7.8%	7.3%	7.8%	7.5%
Interest coverage <sup>2)</sup>	3.9	7.4	6.8	5.9	18.4	10.2	8.4	6.4	4.9	4.6
Effective tax rate <sup>2)</sup>	31.5%	28.8%	31.8%	31.4%	33.7%	36.7%	38.0%	37.9%	39.0%	40.3%
Net income attributable to shareholders as a percentage of net sales <sup>5)</sup>	2.4%	5.9%	5.4%	4.8%	5.8%	5.4%	4.2%	3.5%	3.4%	3.1%
<b>Sales by Brand (€ in millions)</b>										
adidas	7,520	7,821	7,113	6,626	5,861	5,174	4,950	5,105	4,825	4,672
Reebok	1,603	1,717	1,831	1,979	—	—	—	—	—	—
TaylorMade-adidas Golf	831	812	804	856	709	633	637	707	545	441
Rockport	232	243	291	293	—	—	—	—	—	—
Reebok-CCM Hockey	177	188	210	202	—	—	—	—	—	—
<b>Balance Sheet Data (€ in millions)</b>										
Total assets <sup>4)</sup>	8,875	9,533	8,325	8,379	5,750	4,434	4,188	4,261	4,183	4,018
Inventories	1,471	1,995	1,629	1,607	1,230	1,155	1,164	1,190	1,273	1,294
Receivables and other current assets	2,038	2,523	2,048	1,913	1,551	1,425	1,335	1,560	1,520	1,387
Working capital <sup>4)</sup>	1,649	1,290	1,522	1,733	2,644	1,336	1,433	1,445	1,485	1,417
Net borrowings	917	2,189	1,766	2,231	(551)	665	1,018	1,498	1,679	1,791
Shareholders' equity <sup>4)</sup>	3,771	3,386	3,023	2,828	2,684	1,544	1,285	1,081	1,015	815

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.



## TEN-YEAR OVERVIEW

N°  
01

	2009	2008	2007	2006 <sup>1)</sup>	2005	2004	2003	2002	2001	2000
<b>Balance Sheet Ratios</b>										
Net borrowings/EBITDA <sup>2)</sup>	1.2	1.7	1.5	2.1	[0.7]	0.9	1.6	2.4	2.7	3.1
Financial leverage <sup>4)</sup>	24.3%	64.6%	58.4%	78.9%	[20.5%]	43.1%	79.2%	138.5%	165.5%	219.6%
Equity ratio <sup>4)</sup>	42.5%	35.5%	36.3%	33.8%	46.7%	34.8%	30.7%	25.4%	24.3%	20.3%
Equity-to-fixed-assets ratio <sup>4)</sup>	85.9%	73.6%	72.2%	63.5%	194.0%	110.4%	91.1%	75.4%	77.8%	66.2%
Asset coverage I <sup>4)</sup>	137.4%	127.7%	136.1%	138.7%	284.1%	194.1%	197.6%	196.9%	209.3%	207.7%
Asset coverage II <sup>4)</sup>	102.9%	89.1%	98.0%	102.0%	150.4%	106.3%	108.3%	107.6%	105.9%	101.3%
Fixed asset intensity of investments	49.5%	48.2%	50.3%	53.2%	24.1%	31.6%	33.7%	33.7%	31.2%	30.7%
Current asset intensity of investments	50.5%	51.8%	49.7%	46.8%	75.9%	68.4%	66.3%	66.3%	68.8%	69.3%
Liquidity I <sup>4)</sup>	30.0%	10.5%	14.5%	15.8%	92.0%	26.8%	20.8%	5.5%	6.1%	7.7%
Liquidity II <sup>4)</sup>	80.4%	55.1%	70.3%	80.4%	148.0%	88.4%	100.8%	99.1%	96.0%	90.4%
Liquidity III <sup>4)</sup>	132.2%	109.8%	132.6%	153.7%	219.4%	156.4%	187.4%	185.3%	187.4%	185.0%
Working capital turnover <sup>4)</sup>	6.3	8.4	6.8	5.8	2.6	4.4	4.4	4.5	4.1	4.1
Return on equity <sup>4) 5)</sup>	6.5%	18.9%	18.2%	17.1%	14.3%	20.4%	20.2%	21.1%	20.5%	22.3%
Return on capital employed <sup>4) 5)</sup>	11.3%	19.8%	20.2%	17.6%	49.3%	27.5%	22.1%	16.8%	16.7%	17.0%
<b>Data Per Share<sup>4)</sup></b>										
Share price at year-end (in €)	37.77	27.14	51.26	37.73	40.00	29.69	22.58	20.58	21.08	16.50
Basic earnings <sup>5)</sup> (in €)	1.25	3.25	2.71	2.37	2.05	1.72	1.43	1.26	1.15	1.00
Diluted earnings <sup>5)</sup> (in €)	1.22	3.07	2.57	2.25	1.93	1.64	1.43	1.26	1.15	1.00
Price/earnings ratio at year-end	31.0	8.8	19.9	16.8	20.7	18.1	15.8	16.3	18.3	16.5
Market capitalisation at year-end (€ in millions)	7,902	5,252	10,438	7,679	8,122	5,446	4,104	3,738	3,823	2,993
Operating cash flow (in €)	6.11	2.52	3.83	3.74	1.88	3.17	3.58	2.94	2.12	[0.06]
Dividend (in €)	0.35 <sup>7)</sup>	0.50	0.50	0.42	0.33	0.33	0.25	0.25	0.23	0.23
Dividend payout ratio (in %)	29.8	15.1	18.0	17.7	17.2	18.9	17.5	19.8	20.0	22.9
Number of outstanding shares at year-end (in thousands)	209,216	193,516	203,629	203,537	203,047	183,436	181,816	181,692	181,396	181,396
<b>Employees</b>										
Number of employees at year-end <sup>2)</sup>	39,596	38,982	31,344	26,376	15,935	14,254	15,686	14,716	13,941	13,362
Personnel expenses <sup>2)</sup> (€ in millions)	1,352	1,283	1,186	1,087	706	637	709	758	695	630

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.

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## Glossary

### AFIRM (Apparel and Footwear International Restricted Substances List Management Working Group)

A centre of excellence comprising experts whose aim it is to reduce the use and impact of harmful substances in the apparel and footwear supply chains.

### 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 Americans to invest in foreign-based companies by buying their shares in the USA instead of through an overseas exchange.

### Basic earnings per share (Basic EPS)

Performance indicator used to gauge a company's earnings per share, based on the number of shares outstanding (excluding stock options, as well as options and conversion rights related to a convertible bond).

Basic EPS = net income / weighted average number of shares outstanding during the year

➔ see also Diluted Earnings Per Share.

### Beta coefficient

Indicates a stock's relative risk. A beta coefficient of more than one indicates that the stock has a higher risk than the overall market. Conversely, a beta coefficient of less than one indicates a lower risk.

### Better Cotton Initiative

The Better Cotton Initiative (BCI) 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 ➔ see [www.bettercotton.org](http://www.bettercotton.org).

### Capital expenditure

Total cash expenditure used for the purchase of tangible and intangible assets, excluding acquisitions and finance leases.

### Classics

Reebok products designed in an authentic heritage style, targeting sports lifestyle consumers who seek trend-setting street wear with authentic origins.

### Clearance sales

Revenues generated outside the course of normal business terms, arising from commercial decisions by management to clear excess stock usually through specific channels and at a significant discount.

### 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 12 months or more.

### Concession corners

Retail space that is fully operated by one brand 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 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.

### Convertible bond

Corporate bond that can be exchanged for a specific number of shares of a company's common stock. Convertible bonds tend to have lower interest rates than non-convertibles because they also accrue value as the price of the underlying stock rises. In this way, convertible bonds reflect a combination of the benefits of stocks and those of bonds.

### 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

Costs of sourcing and manufacturing products. This figure includes costs for raw materials plus costs of production, freight, customs and delivery to the adidas Group's sales organisations.

### Credit default swap

A credit default swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments 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 (fails 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 exposure

Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. 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. In order to minimise this risk, the adidas Group hedges itself on a regular basis ➔ see also Hedging.

### Currency-neutral

Financial figures translated at prior-year exchange rates. This indicates increases or decreases to reported figures by eliminating variances arising from currency translation, thus reflecting the underlying business performance.

### Currency option ➔ see Option

### DAX-30 (DAX)

The DAX (Deutscher Aktienindex – German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

### 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 + 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).

### D&O liability insurance

Directors and Officers (D&O) liability insurance. Protects directors and officers from liability and litigation from actions against them, claiming wrongdoing in connection with the company's business.

**Earnings per share (EPS)**  see Basic earnings per share and Diluted earnings per share

### EBITDA

Earnings before interest, taxes, depreciation and amortisation.

### 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 (excluding Japan, South Korea and Singapore), Eastern Europe, Latin America and Africa.

### Enterprise Resource Planning (ERP)

A business management system that integrates all facets of the business, including planning, manufacturing, sales and marketing.


### Equity ratio

Shows the role of shareholders' equity within the overall financing structure of a company. Equity ratio = shareholders' equity / total assets × 100.

### Equity-to-fixed-assets ratio

Defines the percentage of non-current assets financed by equity. Equity-to-fixed-assets ratio = equity / non-current assets.

### Fair Factories Clearinghouse

The Fair Factories Clearinghouse (FFC) was established in 2004 with the purpose of improving social, environmental and security standards and helping create humane working conditions for workers making consumer goods globally. Membership now includes many sporting and consumer goods companies as well as a wide range of consumer goods suppliers see  [www.fairfactories.org](http://www.fairfactories.org).

### Fair Labor Association (FLA)

The Fair Labor Association (FLA), 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  see also [www.fairlabor.org](http://www.fairlabor.org).

### Fair value

Amount at which assets are traded fairly 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 total borrowings / shareholders' equity) × 100.

### 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 + depreciation and amortisation (incl. goodwill) +/- changes in operating working capital – capital expenditures +/- non-operating components.

### 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 employees 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.

### 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.

### Gross profit

Difference between net sales and the cost of sales. Gross profit = net sales – cost of sales.


### 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 sports 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.

### Hybrids

Golf clubs, cross between a wood and an iron, aggregating typical characteristics of both clubs. Often referred to as “rescues”.

### In-house bank

Internally and centrally managed cash liquidity within the adidas Group network of subsidiaries. Organisation and implementation through the adidas Group’s Treasury department.

### Initial Public Offering (IPO)

First placement of a corporation’s common shares on an organised market.

### 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 investments.

### Interest coverage

Indicates the ability of a company to cover net interest expenses with income before net interest and taxes.

Interest coverage = income before interest and tax / interest × 100.

### International Financial Reporting Standards (IFRS)

Reporting standards (formerly called IAS) which have been adopted 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 which seeks the promotion of internationally recognised human and labour rights [see also 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 or water consumption).

### Key accounts

Wholesalers or retailers which are primary customers and account for a large percentage of sales.

### Licensed apparel

Products which are produced and marketed under a license agreement with a sports organisation (e.g. FIFA, UEFA, IOC), sports league (e.g. NFL, NBA), professional team (e.g. Real Madrid, AC Milan) or university (e.g. UCLA, Notre Dame). If visible, the supplier’s branding is secondary.

### Licensed business

For certain product categories, independent third parties are authorised to use the name of a brand or company to manufacture and distribute products. For the adidas Group, for example, licensed business is comprised of royalty income e.g. for cosmetics, watches and eyewear at adidas and fitness equipment at Reebok.

### Lifestyle business

In the sporting goods industry, business related to sport-inspired casual footwear and apparel.

### Liquidity ratios I – III

Measures the extent to which a company can quickly liquidate assets to cover short-term liabilities.

Liquidity I:  $\frac{\text{sum of cash + short-term financial assets}}{\text{current liabilities}} \times 100$ .

Liquidity II:  $\frac{\text{sum of cash + short-term financial assets + accounts receivable}}{\text{current liabilities}} \times 100$ .

Liquidity III:  $\frac{\text{sum of cash + short-term financial assets + accounts receivable + inventories}}{\text{current liabilities}} \times 100$ .

### Market capitalisation

Total market value of all outstanding shares.

Market capitalisation = number of outstanding shares × current market price.

### Marketing working budget

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.

### Metalwoods

Golf clubs (drivers and fairway woods) which are constructed from steel and/or titanium alloys. The name also pays homage to persimmon wood, which was originally used in the creation of these products. This is the largest product category in terms of sales in the golf market, as well as for TaylorMade-adidas Golf.

### Minority interests

Part of net income which is not attributable to the reporting company as it relates to outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

### MOI (Moment of Inertia)

Measure of an object’s resistance to changes in its rotation rate. Used as a key measurement in the golf club business.

### Mono-branded stores

adidas, Reebok or Rockport branded stores 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](#).

### 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

Portion of gross borrowings not covered by the sum of cash and short-term financial assets. If a negative figure is shown, this indicates a net cash position. Net borrowings = short-term borrowings + long-term borrowings – cash – short-term financial assets.

### 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 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 his balance sheet. Periodic payments are accounted for by the lessee as operating expenses for the period.

### Operating margin

Group operating profit as a percentage of net sales. Measure of the company's profitability after cost of sales and other operating expenses and income. Best indicator of the profitability of operating activities. Operating margin = (operating profit / net sales) × 100.

### Operating overheads

Expenses which are not directly attributable to the products or services sold such as costs for sales, marketing overheads, logistics, research and development, as well as general and administrative costs, but not including costs for promotion and communications.

### Operating profit

Profit from operating activities after cost of sales and operating expenses. Operating profit = gross profit + royalty and commission income + other operating income – sales working budget – marketing working budget – operating overheads.

### Operating working capital

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 cash, 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.

### Other operating expenses

Expenses which are not directly attributable to the products or services sold. Operating expenses are expenses for sales and marketing, research and development, general and administrative costs as well as depreciation of non-production assets.

### Other operating income

Comprises all income from normal operations that is not already included in other income items.

### Own-retail activities

Sales directly generated through a store operated by a brand segment within the adidas Group. Own retail includes Concept Stores (e.g. adidas Sport Performance, Originals and Sport Style) and concession corners as well as factory outlets and e-commerce for the adidas, Reebok and Rockport brands.

### Performance business

In the sporting goods industry, business related to technical footwear and apparel, used primarily in doing sports.

### PGA Tour

Major US men's professional golf tour, featuring 49 golf tournaments.

### 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, for example a product price of US \$ 99.99 instead of US \$ 100.

### Private placement

Placement of debt securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds and foundations.

### Promotional expenditure

Expenses related to promotion partnerships

### 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.

### Regions

The adidas Group distinguishes seventeen markets which are aggregated into six geographies: Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.

### Return on capital employed (ROCE)

Measure of the returns that a company is realising from its capital. ROCE = (income before taxes + financial result + extraordinary income) / (average of shareholders' equity + minority interests + total net borrowings).

### Return on equity (ROE)

Indicator of company profitability related to the shareholders' financing. ROE = net income / shareholders' equity × 100.

### Risk-free rate

Rate of return to be expected on a risk-less investment, e.g. federal bonds.

### 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 = market risk – risk-free rate.

### Royal and Ancient (R&A)

The R&A is the ruling authority of golf everywhere except the United States and Mexico, where this responsibility rests with the United States Golf Association (USGA) 📖 see also United States Golf Association (USGA).

### Sales working budget

Sales working budget expenditures relate to advertising and promotion initiatives at the point of sale as well as store fittings and furniture.

### Segment

Also Business Segment. Units within a company that have profit and loss responsibility. The adidas Group is currently divided into six major business segments: Wholesale, Retail, Taylor-Made adidas Golf, Rockport, Reebok-CCM Hockey and Other centrally managed brands.

### Segmental operating margin

Relation between segmental operating profit and sales of the segment or the group of segments (segmental operating profit/segmental sales).

### Segmental operating profit

The operating profit of a segment or a group of segments, defined as gross profit minus costs directly attributable to the segment or the group of segments before Marketing Working Budget expenditures and operating overhead costs not directly attributable.

### Sell-through

An indicator of how fast retailers are selling a particular product to the consumer.

### Shareholder value

A management concept that focuses strategic and operational decision-making on steadily increasing a company's value for shareholders.

### Shop-in-shop

adidas, Reebok or Rockport area within a larger 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.

### Swaps

A derivative in which two counterparties agree to exchange one stream of cash flows against another stream.

### Tax rate

Indicates the tax rate paid by a company. Calculated by dividing taxes by income before taxes.

### Top- and bottom-line growth

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 mark/TÜV Rheinland Group

The Toxproof mark is a safety mark issued by TÜV Rheinland, especially for testing the quantities of toxins in products.


### United States Golf Association (USGA)

The USGA is the United States' national association of golf courses, clubs and facilities and the governing body of golf for the USA and Mexico  see also Royal and Ancient.


### VOC (Volatile Organic Compounds)

Volatile organic compounds (VOCs) are organic chemical compounds that can vapourise into the air but may also be harmful, causing breathing and health problems. VOCs are by-products of the shoe manufacturing process.

### Weighted average cost of capital

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  see also Beta coefficient.


### 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.

### Working capital turnover

Shows how often a working capital item was used in and replaced by the generation of sales in the period under review. The ratio shows how long working capital is tied up and thus is an indicator of the volume of capital needed to generate sales. The higher the ratio, the more positive it is deemed to be. Working capital turnover = net sales / working capital.

### World Business Council for Sustainable Development (WBCSD)

The WBCSD is a global association of some 200 international companies dealing exclusively with business and sustainable development  see also www.wbcd.org.

### World Federation of the Sporting Goods Industry (WFSGI)

The WFSGI is an independent non-profit organisation association 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

 see also www.wfsgi.org.

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adidas Group is a member of DAI (German Share Institute),  
DIRK (German Investor Relations Association) and NIRI  
(National Investor Relations Institute, USA).

This report is also available in German.  
For further adidas Group publications, please see our corporate website.

### Concept and Design

HunterLebron, Munich



## Financial Calendar 2010

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09



### 2009 Full Year Results

Analyst and press conferences in Herzogenaurach, Germany  
Press release, conference call and webcast

➔ **March 3, 2010**

### First Quarter 2010 Results

Press release, conference call and webcast

➔ **May 4, 2010**

### Annual General Meeting

Fürth (Bavaria), Germany  
Webcast

➔ **May 6, 2010**

### Dividend paid

(Subject to Annual General Meeting approval)

➔ **May 7, 2010**

### First Half 2010 Results

Press release, conference call and webcast

➔ **August 4, 2010**

### Nine Months 2010 Results

Press release, conference call and webcast

➔ **November 4, 2010**

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