



## 2012 Report on the Executive Board Compensation System

At its meeting on March 6, 2012, the Supervisory Board passed a new resolution on the variable compensation components of the Executive Board's compensation with effect from January 1, 2012 and, for 2012 as for every year, also established targets for the Performance Bonus. The remaining compensation components, as well as the framework and structure of the compensation system for the Executive Board, remain unchanged. The compensation system for the Executive Board is therefore as follows:

### Principles Behind the Compensation System

The compensation system is geared towards creating an incentive for successful, sustainable corporate development.

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

### Components of the compensation system

In the case of 100 % target achievement, the target annual income of our Executive Board members consists of a fixed compensation component amounting to around one third of the total, and a

variable, i. e. performance-related, compensation component amounting to around two thirds of the total. The compensation consists for the following components:

- **Fixed compensation** consists of the contractually agreed, non-performance-related annual salary that is paid in twelve monthly instalments. Its amount is fixed upon appointment to the Executive Board, and remains unchanged for three years.
- **Variable compensation** consists of a Performance Bonus and a compensation component with a long-term incentive effect (LTIP Bonus), which is based on the Long-Term Incentive Plan 2012/2014 (LTIP 2012/2014) measured over a three-year period. The variable compensation components are designed in such a way that the incentive to achieve the sustainable targets set for granting the LTIP Bonus is significantly higher than the incentive to achieve the Performance Bonus. Corresponding contractual regulations ensure that this weighting will also be maintained in the future. More than 50% of the variable target compensation component is based upon multi-year performance criteria.

The variable compensation components feature the following criteria:

- The **Performance Bonus** serves as compensation for the Executive Board's performance in the past financial year in line with the short-term development of the Group. At the beginning of each financial year, the Supervisory Board determines the amount of the Performance Bonus based on a target achievement of 100% (Bonus Target amount) for each member of the Executive Board, as well as the performance criteria with their respective explicit targets. For the 2012 Performance Bonus, the Supervisory Board determined both the business-related criteria (increase of net income attributable to shareholders and an improvement of working capital) as well as the Executive Board member's individual performance. The target achievement of business-related criteria can be rated with a maximum of 150 %. At the end of the financial year, the Supervisory Board resolves upon a concrete bonus for every Executive Board member depending on the respective degree of target achievement.
- The **LTIP Bonus** serves as compensation for the long-term performance of the Executive Board in line with corporate planning.

When determining the LTIP 2012/2014, the Supervisory Board defined the following performance criteria with different weightings:

- Increase of consolidated net income
- Increase of operating free cash flow
- Establishing NEO, adidas' new young fashion label
- Absolute and relative share price development

When calculating the LTIP Bonus payable following the three-year period, the weighted degrees of target achievement of the performance criteria are accumulated and multiplied by the individual LTIP target amount determined by the Supervisory Board for each Executive Board member when the LTIP 2012/2014 was established. The payout of the LTIP 2012/2014 is limited to a maximum of 150 % of the individual LTIP target amount (Cap). If the overall degree of target achievement lies below 50 %, the Executive Board member is not entitled to the LTIP Bonus. Once the Supervisory Board has resolved upon the amount of the LTIP Bonus to be granted to each Executive Board member, the Bonus will be paid upon approval of the 2014 consolidated financial statements.

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

### **Benefits in case of resignation from office as Executive Board member**

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

#### – Pension commitments

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

come. Pension payment commences upon reaching the age of 65. In the case of occupational disability, or of survivor's benefits in case of death, different provisions apply.

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

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

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

– Commitments to Executive Board members upon premature termination of tenure

In the case of premature termination of tenure by mutual consent and without good cause, the service contracts do not provide for severance payment caps insofar as they have a three-year contractual term; i.e., a compensatory payment is made in the amount of the payment claims for the remaining period of the service contract. If the contractual term exceeds three years, such contract termination provides for a severance payment of a maximum of twice the overall annual compensation (Severance Payment Cap), limited to payment claims for the remaining period of the service contract. In this respect, the overall annual compensation means the overall compensation paid, as outlined in the compensation report, for the last full financial year prior to resignation from the Executive Board while considering the expected total compensation for the current financial year. If the service contract is terminated due to a change of control, a possible severance payment is limited to 150 % of the Severance Payment Cap.

– Commitments to Executive Board members upon regular termination of tenure

In case of regular termination of the service contract, i. e. in case of non-renewal of the service contract or termination due to reaching retirement age, the respective Executive Board member is entitled to a follow-up bonus as individually agreed. The amount of the follow-up bonus is determined for each Executive Board Member individually and varies between 75 % and 125 % of the Performance Bonus granted to the respective Executive Board member for the last full financial year. The follow-up bonus is payable in two tranches, 12 and 24 months following the end of the contract.

**Other benefits and additional commitments**

Furthermore, the Executive Board members receive other, lesser benefits. These may include, for example, contributions to pension insurance as well as non-monetary benefits resulting from the provision of a company car.

adidas AG maintains a consequential loss and liability insurance for Board members of the adidas Group (D&O Insurance). It covers the personal liability in the event of claims raised against Executive Board members for indemnification of losses incurred in connection with their acts and omissions. For cases of damage occurring as of July 1, 2010, there is a deductible in accordance with the statutory provisions and recommendations of the German Corporate Governance Code. This deductible amounts to 10 % of the damage up to a maximum of one and a half times the fixed annual salary for all cases of damage within one financial year.

Herzogenaurach, March 2012

adidas AG  
The Executive Board