



Report of the Executive Board pursuant to §§ 71 section 1 number 8, 186 section 4 sentence 2 AktG concerning Agenda Item 11

Under Agenda Item 11, the Executive Board and Supervisory Board propose that the Company be authorised, pursuant to § 71 section 1 number 8 AktG and in accordance with customary corporate practices, to repurchase its outstanding treasury shares up to a total of 10% of the nominal capital valid on May 6, 2010 when the resolution is adopted or – if this amount is lower – on the date on which the aforementioned authorisation was exercised.

The Executive Board gives a written report on this topic in accordance with §§ 71 section 1 number 8, 186 section 4 sentence 2 AktG. This report is published in full hereafter:

General

The existing authorisation to repurchase treasury shares pursuant to § 71 section 1 number 8 AktG in accordance with the resolution by the Annual General Meeting held on May 7, 2009 expires on November 6, 2010. Hence at the Annual General Meeting on May 6, 2010, a new authorisation is to be adopted and the existing one is to be cancelled.

This proposal for resolution takes into account the possibility of granting an authorisation to repurchase treasury shares for a duration of up to five years (instead of 18 months up to now) given by the ARUG. Hence, the unnecessary requirement to have the reserve authorisation annually renewed by the Annual General Meeting is omitted - as intended by the legislature.

The Supervisory Board may provide that transactions based on these authorisations may only be carried out subject to the approval of the Supervisory Board or one of its committees.

Repurchase

When repurchasing treasury shares, the principle of non-discrimination under § 53a AktG must be observed. The proposed repurchase of shares either via the stock exchange, through a public repurchase offer, through a public invitation to submit sale offers or the issuance of tender rights to shareholders adheres to this principle. If the public offer or public invitation to submit a sale offer is over-subscribed, i. e. in total more shares were offered to the Company for purchase than the Company is to buy, the acceptances must be done on a pro-rata basis. In such case, the ratio of the number of shares offered by individual shareholders is decisive. It is not relevant how many shares a shareholder, who offers shares for sale, is holding in total. Only the offered shares are for sale. In addition, a verification of the entire number of shares of individual shareholders is not practicable. Any rights of tender held by shareholders are partially excluded in such cases. The Company may provide for a preferred acceptance of smaller amounts of shares of up to 50 tendered shares per shareholder as well as a rounding of residual amounts in accordance with general commercial principles in such a case. These prospects are intended to avoid any residual amounts when establishing the percentages to be repurchased and any residual amounts and therefore serve to facilitate and simplify technical settlement. Any tender rights of shareholders are therefore also partially excluded in this case.

Sale and Other Ways of Utilisation

Under the proposed authorisation, the Company's treasury shares, which it has repurchased from its shareholders, may either be redeemed and cancelled or resold through a public offer made to all shareholders in relation to the amount of shares held by them or through transactions on the stock exchange. With respect to the latter two possibilities of selling the repurchased treasury shares, the shareholders' right of non-discrimination will be respected during the sale. In the following cases, however, the Company shall have the possibility of excluding the subscription rights of shareholders or the subscription rights are excluded necessarily in accordance with §§ 71 section 1 number 8, 186 section 3 AktG:

- 1) Firstly, the Executive Board is authorised to exclude residual amounts from the subscription rights in case of an offer to all shareholders in order to achieve an even subscription ratio. Without subscription rights being excluded regarding possible residual amounts, the practical execution of the capital increase and the exercise of the subscription rights would be hindered considerably. The new residual amounts thus excluded from subscription rights of shareholders shall either be sold on the stock exchange or used in any other manner most favourable for the Company.
- 2) Furthermore, in compliance with the statutory regulation set forth in § 71 section 1 number 8 AktG, the proposed authorisation provides that the Executive Board may sell the repurchased treasury shares in a manner other than through a sale on the stock exchange or an offer made to all shareholders if the repurchased treasury shares are sold in exchange for cash payment in accordance with § 186 section 3 sentence 4 AktG at a price that as of the date of sale is not significantly below the stock market price for the Company's shares with the same features. The date of sale shall be considered the date of entering into the assignment agreement, even if such is still subject to the fulfillment of certain conditions. If the assignment is not preceded by a particular assignment agreement, the date of sale shall be the date of the assignment itself. This shall also apply if the assignment agreement specifies the date of assignment as relevant date. The final sales price for treasury shares will be established prior to the sale of the treasury shares. This possibility of selling treasury shares is limited to 10% of the nominal capital taking into account the calculations stipulated in the proposed resolution.

The prospect of selling treasury shares as described above is in the best interest of the Company and the shareholders since the sale of shares to institutional investors, for example, will attract additional domestic and foreign shareholders. In addition, the Company will then be in a position to restructure its own equity capital to meet its respective business needs and to react quickly and flexibly to a more favourable stock market environment. The property interests and voting rights interests of the shareholders will be respected. In view of the small volume of a maximum of 10% of the nominal capital, the shareholders will not suffer any detriment since the shares sold subject to the exclusion of the shareholders' subscription rights may be sold only at a price, which - as of the date of the sale - is not significantly below the stock market price for the Company's shares with the same features. Interested shareholders may, on approximately the same terms and conditions, purchase on the stock exchange the number of shares required to maintain their respective shareholding quota.

- 3) The Company shall also be able to offer its treasury shares as consideration in connection with mergers and (also the indirect) acquisition of companies, parts of companies or participations.

The price at which treasury shares are used in any such case will depend on the corresponding timing and respective circumstances of the individual case. When setting the price, the Executive Board and the Supervisory Board shall act in the best interests of the Company and, if possible, in line with the stock market price.

Historically, the Executive Board has continuously reviewed opportunities for the Company to purchase companies, parts of companies or participations in companies which are involved in the business of producing and selling sports or leisure goods or are otherwise involved in the business of the Company. The purchase of such participations, companies or parts of companies is in the Company's best interest if the purchase expectedly solidifies or strengthens the market position of the Group or allows for or facilitates the access to new business sectors. In order to be able to quickly and flexibly react to a legitimate interest of a seller or of the Company in a (part) payment in the form of shares of the Company for such acquisitions, the Executive Board must – to the extent that Authorised Capital cannot or should not be used – have the authority to grant treasury shares of the Company while excluding the shareholders' subscription rights. Since the volume of treasury shares will be limited and the shares shall be issued at a price that is based on the stock market price, if possible, the interested shareholders will have the opportunity, at about the same time as treasury shares are sold for the aforementioned purposes of acquiring companies, parts of companies or participations and the shareholders' subscription rights are excluded, to purchase additional shares on the stock exchange to a large extent on comparable terms and conditions.

Based on the aforementioned considerations, the Executive Board believes that the proposed authorisation to utilise treasury shares is in the best interest of the Company, which can in any individual case justify the exclusion of the shareholders' subscription rights. The concrete exclusion of subscription rights is decided upon on a case-by-case basis by the Executive Board taking into consideration the Company's interests in any specific transaction, the actual necessity for the (partial) granting of shares and the evaluation of the share and the contribution in kind.

- 4) Furthermore, the Company shall have the opportunity to use its treasury shares as (part) consideration for the transfer of intellectual property rights or intangible property rights of athletes, sports clubs and other persons, such as trademarks, names, emblems, logos and designs, to the Company or one of its subsidiaries for purposes of marketing the products of the Group. In addition, treasury shares shall serve as consideration for the direct or indirect acquisition of (possibly time-limited) rights of use (licences) in such rights by the Company. Moreover, the Company shall also be able to use its treasury shares for purchasing patents and patent licences, the exploitation of which would be in the Company's interest for purposes of marketing and developing existing or new products of the Group.

In the event that athletes, sports clubs or other persons holding rights in such intellectual property rights or intangible property rights are prepared to transfer or licence such rights only in exchange for (partial) granting of shares, or, in case of cash payments, only at significantly higher prices, or if the utilisation of the Company's shares for other reasons is in the interest of the Company in such a case, the Company has to be in a position to react to such a situation in an appropriate way.

This may be the case, for example, whenever the Executive Board negotiates a sponsoring agreement with a sports club in Germany or abroad, which is intended to permit the Company to exploit the known names, emblems and/or logos of such club under a licence in order to help market the products of the Group.

Furthermore, the Executive Board considers it possible that there will be opportunities for the Company, in (partial) exchange for shares of the Company, to directly or indirectly purchase patents or licences for patent rights, the exploitation of which will be in the Company's best interest for the products that the Group currently has, is currently developing or planning to develop in the future.

The purchase of industrial/intangible property rights or of licences for such rights will be carried out either by the Company or by subsidiaries. If necessary, the purchase shall be made from companies or other persons to whom the relevant rights were assigned for exploitation. It is also conceivable that the granted consideration will consist of shares as well as cash (e.g. royalties) and/or other types of consideration.

The evaluation of the industrial/intangible property rights or the licences for such rights to be acquired by the Company directly or indirectly shall be carried out in accordance with market-oriented principles, if necessary, on the basis of an expert valuation. The evaluation of the shares to be granted by the Company shall be conducted taking the stock market price into consideration. Shareholders who wish to maintain their shareholding ratio in the Company may therefore do so through acquiring further shares through the stock exchange at essentially comparable conditions.

The (partial) granting of shares in the aforementioned cases will be in the best interest of the Company if the use and exploitation of the intellectual/intangible property rights or the licences based thereon promises advantages for the Company in the marketing and promotion and/or development of its products and a purchase of such rights in return for cash is not possible or is possible only at a higher price at a disadvantage to the Company's liquidity and cash flow.

Based on the aforesaid considerations, the Executive Board believes that the proposed authorisation for the utilisation of treasury shares is in the best interest of the Company and its shareholders, which can, in any individual case, justify the exclusion of the shareholders' subscription rights. The concrete exclusion of subscription rights is decided upon on a case-by-case basis by the Executive Board taking into consideration the Company's interests in any specific transaction, the actual necessity for the (partial) granting of shares, the proportionality while considering the shareholders' interests and the evaluation of the share and the contribution in kind.

- 5) Thus, the authorisation to repurchase and sell treasury shares in respect of such opportunities mentioned under the above sections 3) and 4) serves the same purposes as the Authorised Capital 2009/II in accordance with § 4 section 3 of the Articles of Association. The Company thus has the possibility of acquiring companies, parts of companies and participations as well as intellectual/intangible property rights or licences for such rights by using treasury shares either previously repurchased by the Company or new shares to be issued from the Company's authorised capital reserve. The Executive Board decides on a case-by-case basis whether to use shares for one of the purposes mentioned and whether to use treasury shares repurchased on the basis of this authorisation or the Authorised Capital 2009/II under § 4 section 3 of the Articles of Association.
- 6) In addition, the Company shall have the opportunity to use its treasury shares to service subscription or conversion rights or obligations or the right to delivery of shares of the Company based on bonds issued by the Company or by any of its direct or indirect subsidiaries based on an authorisation by the Annual General Meeting.

The proposed resolution does not lead to the creation of a new or further authorisation to issue bonds. It merely serves the purpose of enabling the Company to service subscription rights or conversion rights or conversion obligations or the Company's rights to delivery of shares, which will be created on the basis of other authorisations granted by the Annual General Meeting, by using treasury shares instead of using the other intended amounts of Contingent Capital, provided, on a case-by-case basis and upon examination by the Executive Board and the Supervisory Board, such is in the interest of the Company. Subscription or conversion rights or conversion obligations, which are considered appropriate for servicing with treasury shares in accordance with the proposed authorisation, are based on (i) bonds which can be issued on the basis of the authorisation granted by the Annual General Meeting on May 6, 2010 based on the resolution proposed under Agenda Item 10 on the authorisation to grant bonds with warrants and/or convertible bonds in the future as well as on (ii) the bonds with warrants and convertible bonds issued based on a future authorisation by the Annual General Meeting.

- 7) § 87 AktG as amended by ARUG as well as the German Corporate Governance Code provides for variable compensation components for Executive Board members including i. a. also components on a perennial basis. It is recognised and generally common that, in this respect, also share-related components are taken into consideration.

The provision under section 3) of the proposed resolution enables the Supervisory Board to pay out management bonuses in the form of shares. As the authorisation may only be used provided a reasonable level of compensation is ensured (§ 87 section 1 AktG) and further provided that an appropriate legal and economic minimum waiting period is determined and that the shares shall be granted and assigned at the respective current stock market price, it is ensured that the shareholders' subscription right is excluded only to an appropriate extent and in the best interest of the Company. The Executive Board members, who receive shares as compensation on this basis, have an additional interest in achieving an increase in value of the Company expressed by the stock market price. They bear the price risk, as it is not permissible to dispose of or otherwise use the shares within the retention period. Thus, the Executive Board members participate in possible negative developments with their compensation. The same shall apply if the shares as part of the compensation are not immediately assigned but, with regard to the

fact that there is no possibility of selling such shares anyway, are first only promised. Even then, the risk for the further stock market price development is borne by the respective Executive Board member.

At present, there are no concrete plans with regard to the utilisation of shares for a share bonus. It cannot be ruled out that this compensation instrument will be used by the Supervisory Board for the Executive Board in the future.

Further details are determined by the Supervisory Board within the scope of its legal responsibilities. It particularly decides whether, when and to what extent it will use the authorisation (§ 87 section 1 AktG). In view of the statutory distribution of responsibilities, the Supervisory Board, however, does not have the possibility as representative of the Company to acquire shares of the Company itself for the purpose of compensating the Executive Board or to ask the Executive Board to acquire such treasury shares on its behalf.

Herzogenaurach, March 2010

adidas AG
The Executive Board