GROUP MANAGEMENT REPORT:
Major Sporting Events 2014

Our Group’s most important upcoming sporting events are listed in this calendar.

**JAN 12 – 26**
Men’s EHF Euro 2014, Denmark
adidas Official EHF Partner and Supplier of Balls and Clothing

**JAN 16**
NBA Game Europe, London, UK
adidas Official Sponsor

**FEB 14 – 16**
NBA All-Star Weekend, New Orleans, USA
adidas Official Outfitter of National Basketball Association

**MAR 7 – 9**
IAAF World Indoor Championships, Sopot, Poland
adidas Official Partner

**MAR 29**
World Half Marathon Championships, Copenhagen, Denmark
adidas Official Partner

**APR 21**
Boston Marathon, Boston/Massachusetts, USA
adidas Official Apparel and Footwear Outfitter

**MAY 14**
2014 UEFA Europa League Final, Turin, Italy
adidas Official Supplier Partner

**MAY 24**
2014 UEFA Champions League Final, Lisbon, Portugal
adidas Official Sponsor

**MAY 23**
Amlin Challenge Cup Final, Cardiff, UK
adidas Official Tournament Supplier

**MAY 24 – JUN 8**
French Open, Paris, France
adidas Official Supplier of Roland Garros

**MAY 24**
ERC Heineken Cup Final, Cardiff, UK
adidas Official Tournament Supplier

**MAY 31 – JUN 1**
EHF CL Final 4, Cologne, Germany
adidas Official EHF Partner for Sporting Equipment and Clothing

**JUN 12 – JUL 13**
2014 FIFA World Cup, Brazil
adidas Official FIFA Partner

**SEP 13 – 14**
IAAF Continental Cup, Marrakech, Morocco
adidas Official Partner of the IAAF

**SEP 28**
BMW Berlin Marathon, Berlin, Germany
adidas Main Sponsor

**DEC 7 – 21**
IHF Women’s Handball World Championship, Hungary/Croatia
adidas Official IHF Sponsor
Group Strategy

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

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

Diverse brand portfolio
Consumers want choice. Whether it is the athlete looking for the best possible equipment, or the lifestyle 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 in which we compete. However, we have prioritised our investments based on those markets which offer the best medium- to long-term growth and profitability opportunities. In this respect, we place considerable emphasis on expanding our activities in the emerging markets, particularly China and Russia/CIS, as well as building our market share in underpenetrated markets for the Group, such as the USA.

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

Creating a flexible supply chain
Speed and agility are key to outpacing the competition. We are committed to meeting the full range of customer and consumer needs by ensuring constant product availability in the correct size and colour, providing game-changing technical innovations and also the latest high-end fashion products to the highest quality standards.
A key strategic priority is to enable faster product creation and production by continuously improving our infrastructure, processes and systems. By sharing information from point of sale to source and vice versa, we strive to connect and more closely integrate the various elements of our supply chain, to enable quick reaction to changing consumer trends. To this end, we focus on building maximum flexibility within our supply chain. 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.  

**Shared values**

- **Performance**
- **Passion**
- **Integrity**
- **Diversity**

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

SEE CORPORATE MISSION STATEMENT, P. 24.

**Leading through innovation**

Every adidas Group employee is responsible for driving innovation. Therefore, we foster a culture of challenging convention and embracing change, and require all areas of the Group to generate at least one new innovation or meaningful improvement per year. In particular, we believe that technological evolution and cutting-edge design in our products are essential to achieving sustainable leadership in our industry. SEE RESEARCH AND DEVELOPMENT, P. 99. Beyond this, enhancing services for our customers and implementing more efficient and effective internal processes are other areas where our organisation strives to innovate. SEE GLOBAL OPERATIONS, P. 74.

**Develop a team grounded in our heritage in sport**

Our culture is continuously shaped by influences from the past and the present as well as our future aspirations. We perpetuate the commitment of our founder, Adi Dassler, to the athlete and consumer, pride in what we do, quality and love of sport. We win as a team through open communication, collaboration and our shared values found in sport SHARED VALUES. Therefore, we foster a corporate culture of performance, passion, integrity and diversity by creating a work environment that stimulates innovation, team spirit and achievement based on strong leadership and employee engagement. SEE EMPLOYEES, P. 105.

**Becoming a sustainable company**

Like any global business, the adidas Group must manage wide-ranging commercial and competitive pressure to deliver increased financial returns and growth. At the same time, we are accountable for our employees and have a high degree of responsibility towards the workers in our suppliers' factories and also for the environment. We are committed to striking the balance between shareholder interests and the needs and concerns of employees and workers, as well as the environment, or, in short, to becoming a sustainable company. SEE SUSTAINABILITY, P. 111. We report publicly on the steps we take to have a more positive impact on society and the planet on our website at WWW.ADIDAS-GROUP.COM.
In November 2010, the Group unveiled its 2015 strategic business plan named “Route 2015”, which defines strategies and objectives for the period up to 2015. This plan is the most comprehensive the adidas Group has ever developed, incorporating all brands, sales channels and Group functions globally. Based on our strong brands, premium products, extensive global presence and commitment to innovation and the consumer, we aspire to grow our business significantly until 2015.

According to our plan, total Group sales are targeted to grow 45% to 50% on a currency-neutral basis over the five-year period, thereby outperforming total market growth (both GDP and sporting goods industry). In addition, we aim to grow our bottom line faster than the top line. It is targeted to grow annual earnings at a compound annual growth rate of 15% and to reach an operating margin of 11%.

In December 2013, although acknowledging that the achievement of our goals will be more challenging than originally anticipated, Management confirmed its Route 2015 aspirations for the Group /TABLE 02/. However, given further headwinds from the weakening of several currencies versus the euro since the beginning of 2014, we believe there is now an even higher risk to the achievement of our 2015 aspirations /SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 151/ /SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 180/.

**adidas Group Route 2015 targets**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2015 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>adidas Group net sales</strong></td>
<td>11,990</td>
<td>13,322</td>
<td>14,883</td>
<td>14,492</td>
<td>17,000</td>
</tr>
<tr>
<td>Global Sales</td>
<td>10,570</td>
<td>11,742</td>
<td>12,906</td>
<td>12,546</td>
<td>14,800</td>
</tr>
<tr>
<td>Wholesale</td>
<td>8,181</td>
<td>8,949</td>
<td>9,533</td>
<td>9,100</td>
<td>10,200</td>
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<tr>
<td>Retail</td>
<td>2,389</td>
<td>2,793</td>
<td>3,373</td>
<td>3,446</td>
<td>4,600</td>
</tr>
<tr>
<td>thereof eCommerce</td>
<td>55</td>
<td>89</td>
<td>158</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>Global Brands</td>
<td>10,627</td>
<td>11,807</td>
<td>13,011</td>
<td>12,658</td>
<td>14,800</td>
</tr>
<tr>
<td>adidas</td>
<td>8,714</td>
<td>9,867</td>
<td>11,344</td>
<td>11,059</td>
<td>12,800</td>
</tr>
<tr>
<td>Reebok</td>
<td>1,913</td>
<td>1,940</td>
<td>1,667</td>
<td>1,599</td>
<td>2,000</td>
</tr>
<tr>
<td>Other Businesses</td>
<td>1,420</td>
<td>1,580</td>
<td>1,977</td>
<td>1,946</td>
<td>2,200</td>
</tr>
</tbody>
</table>

| Operating margin     | 7.5%     | 7.2%     | 8.0%     | 8.7%     | 11.0%        |
| Earnings per share   | 2010-2013 growth of 14% | 2013-2015 growth of 15% |

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements. Prior years are not restated.
2) Rounding differences may arise in totals.
3) Excluding goodwill impairment of € 265 million.
4) Excluding goodwill impairment of € 52 million.

In order to reach our Route 2015 strategic goals, we have defined clear strategic priorities. These include:

**Clear brand positioning and prioritisation**: We believe that we have significant growth potential to exploit from our portfolio of brands. The majority of our targeted growth will come from Global Brands, which we anticipate will contribute over 80% of the Group’s expected revenue increase over the period /SEE GLOBAL BRANDS STRATEGY, P. 77/. Areas within the adidas and Reebok brands that have been identified as key contributors to sustainable growth for the adidas Group include:

- **adidas Sport Performance**: gaining sales and market share in the running and basketball categories.
- **adidas Originals & Sport Style**: expanding in the fast-fashion business with the adidas NEO label and maintaining the strong momentum of adidas Originals.
- **Reebok**: establishing Reebok as the leading fitness brand.

**Expand presence in key growth markets**: We have identified North America, Greater China, Russia/CIS, Latin America, Japan and the UK as key growth markets. Of those markets, the three “attacking markets” North America, Greater China and Russia/CIS are expected to contribute around 50% of the total Group growth under the Route 2015 plan, with each market targeting a double-digit compound annual growth rate /SEE GLOBAL SALES STRATEGY, P. 72/. In the USA, the Group’s brands have enormous potential to gain market share by focusing on improved distribution and allowing a higher share of products to be specifically designed for that market. In emerging markets such as China and Russia/CIS, rising standards of living, increasing disposable income, positive demographic trends and growing sports participation should support demand for sporting goods.
**Intensify controlled space focus:** We intend to increase the portion of sales that comes from controlled space initiatives to over 50% of Group sales in the coming years (2013: 48%). This includes new openings of adidas and Reebok own-retail stores, the further extension of our mono-branded franchise store base in markets such as China, as well as new shop-in-shop initiatives with retail partners around the world. In terms of our own retail, we intend to open at least 750 adidas and Reebok stores between 2010 and 2015, as well as grow significantly our eCommerce business, which we project to increase to €500 million by 2015. *See Global Sales Strategy, p. 72.*

**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. At the beginning of 2011, we launched Driving Route 2015 to act as a key enabler to achieve these aspirations. The objectives of Driving Route 2015 are very clear: speed, consistency and consumer focus.
- **Speed** by implementing an organisation that allows faster decision-making.
- **Consistency** by establishing a more aligned and efficient organisation across functions and geographies.
- **Consumer focus** by reducing internal complexity, enabling us to put more of our energy into what really matters – the consumer.

In addition, we have identified several profit levers across the Group to support improvements in profitability. For example, we are targeting improved product margins with initiatives such as range efficiency, where we have the goal to achieve a 25% range reduction by 2015. In wholesale, we are improving our business by sharpening our trade terms policies and reducing our exposure to lower-quality channels of distribution, focusing on higher-quality partners more aligned to where our target consumer is shopping. On our mission to become a best-in-class retailer, we continuously strive to improve the operating margin in our Retail segment. In manufacturing, we are combatting inflation in the supply chain by increasing our investments in automation and new production techniques. Also, our investments in infrastructure such as the new distribution centres near Osnabrueck/Germany and Chekhov/Russia will ensure we increase capacity in a cost-efficient way to service all of our channels, be it Wholesale, Retail or eCommerce. *See Global Operations, p. 94.* Finally, we continue to work on enhancing our planning processes, to further improve profitability and working capital efficiency. *See Internal Group Management System, p. 118.* Therefore, we believe there is significant potential to increase the Group’s operating margin to 11% sustainably by 2015.

**Maintain financial flexibility:** We strive over the long term to maintain a ratio of net borrowings over EBITDA of less than two times. A strong balance sheet increases our flexibility to realise value-generating medium- and long-term opportunities in the best interests of our shareholders as they arise.
Global Sales Strategy

Global Sales aims to drive the commercial performance of the adidas Group by building brand desire, meeting consumer needs at all times and capturing additional consumer potential. Global Sales is responsible for all commercial activities of the adidas and Reebok brands, serving our consumers through three channels: Wholesale, Retail and eCommerce. This channel-focused approach has allowed us to establish strong market positions globally, deepening and expanding our cooperation with leading wholesale partners, operating one of the biggest mono-branded store chains in our industry and becoming a significant e-commerce player with one consistent global platform.

Global Sales strategic priorities until 2015

Global Sales directs all local market organisations responsible for the distribution of the adidas and Reebok brands. On 365 days a year and at more than 140,000 points of sale, the Global Sales team is aiming to create desire for the adidas and Reebok brands and grow market share through wholesale partners, own-retail stores and our e-commerce activities. The strategic business plan Route 2015 outlines our long-term priorities:

- Increasing the share of controlled space to over 50% of Group sales by 2015,
- Driving growth and maximising brand potential in key demographic locations and
- Leveraging cross-channel sales opportunities and range efficiencies, facilitated by our omni-channel approach.

Besides these priorities, we strive for business growth particularly in North America, Greater China, Russia/CIS, our emerging markets in the Middle East and Latin America, in Japan and in our newly created market set-up for Western Europe. Of these markets, the three attack markets North America, Greater China and Russia/CIS are targeted to contribute around 50% of the sales increase we anticipate as part of Route 2015.

Global Sales to drive omni-channel approach

The playing field for Global Sales has undergone fundamental changes over the past few years: Driven by the digitalisation of communication tools, consumers are increasingly informed about product and service offers, they are socially engaged, and they shop wherever and whenever they like, regardless of country borders or opening hours. Reacting to the shift in consumer behaviour, many brick & mortar retailers are harmonising their market approach across channels, and are growing their business across country borders. E-commerce pure players are expanding globally, and vertical retailers are widening their assortment into sporting goods.

With the aim of putting ourselves at the forefront of our industry, Global Sales is currently in the process of evolving its strategy from a channel focus to an integrated omni-channel approach, which will better enable us to achieve a globally consistent product offer, brand communication, availability and service across all channels and consumer touchpoints. This evolution of the strategy will help to align more consistently the delivery of our product concepts globally. An example of this can already be seen with the unveiling of the official FIFA World Cup match ball which was globally launched on December 3 and sold as of December 4 in a synchronised manner across our Wholesale, Retail and eCommerce channels.

With the creation of a separate Global Sales function on the adidas Group’s Executive Board, our commitment to drive more growth opportunities and leverage from our sales processes across channels and country borders has also been reflected structurally. The new organisational set-up integrates all sales activities under one roof. It also includes a new market structure for Western Europe: As of 2014, we will serve the European consumer with one integrated organisation, building on our far-reaching concept store network and our eCommerce platform which is now live in most European markets. The major European retailers will be served by one sales organisation, ensuring market consistency.
Wholesale Strategy

The objective of the Wholesale channel is to deliver sustainable profitable market share growth in collaboration with third-party retailers. We strive to establish long-term partnerships with the most dynamic retailers, which include sporting goods chains, department stores, buying groups, lifestyle retail chains and e-tailers. To achieve this, we have established the Global Wholesale SPORT strategy / DIAGRAM 02.

Toolkit drives market management

In order to drive speed and consistency within our selling processes, we have developed a set of methods and standards that are brought together in a common global toolkit for our sales teams. These enable us to permanently seek and use best practices around the world and help us to continuously improve other methods within the markets. The toolkit supports, for example
/ the complete selling processes to our customers and consumers,
/ the setting of consistent global trade terms,
/ the standardisation of branded POS solutions and
/ the establishment of customer service excellence.

This approach allows us to drive consistent messages and synergies, while leaving flexibility in local markets to react and adapt to specific local consumer and customer needs. By fostering this entrepreneurial spirit, we can rely on highly engaged management teams ensuring local traction and strong on-the-ground relationships.

Wholesale strategic pillars

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outgrow the competition</td>
<td>Selling by developing excellent point-of-sale solutions, best-in-class sales systems and a comprehensive sales process</td>
</tr>
<tr>
<td>Drive speed, simplicity and consistency</td>
<td>Planning by providing analysis, benchmarking and facts to prepare and develop winning plans</td>
</tr>
<tr>
<td>Create and use industry-leading sales tools</td>
<td>Operating on a level that enables us to outperform all competition by enhancing sales performance</td>
</tr>
<tr>
<td>Be the partner of choice</td>
<td>Relationships by building long-term sustainable strategic relationships with our leading and influential customers</td>
</tr>
<tr>
<td>Develop the best teams</td>
<td>Training by developing and rolling out a training programme, PEAK, which trains, develops, rewards and recognises the Global Wholesale sales team</td>
</tr>
</tbody>
</table>
Customer and range segmentation to exploit market potential

As part of our toolkit, our customer and range segmentation initiative is a key enabler to consistent customer relationship management. This facilitates the allocation of tailored product packages to groups of comparable customers. In principle, the segmentation is based on the distinction between sports and lifestyle retailers that have either a brand-driven or a commercial positioning.

People development programme to build the best sales team

Wholesale is facing a changing customer landscape, driven by further consolidation, increased cross-border retail activities and a digital shift in consumer behaviour. We strive to have the best team in our industry, enabling us to react flexibly to all market developments. This means continuous skills development. The Wholesale people development and training framework called PEAK (Performance, Excellence, Activation and Knowledge) sets the expectations for individual excellence and provides tailored training programmes. All Wholesale employees attend at least one training programme per year.

Retail Strategy

Retail plays an increasingly important role for the future of our Group and our brands and is a key driver on our Route 2015 journey. The reasons are manifold:

- To showcase the breadth of our brands and product offering, for example in our adidas Brand Centres, as a benchmark for retail partners.
- To provide consumers access to our products in mono-branded stores in the high streets and malls around the world.
- To create distribution in markets which do not have traditional wholesale distribution.
- To leverage our learnings from direct interaction with consumers through own retail for the entire organisation.
- To provide a clearance channel (i.e. factory outlets).

Our overall vision is to improve our operation KPIs and retail sophistication with the goal of delivering healthy, sustainable growth with outstanding return on investment, executing as a best-in-class retailer. In order to achieve this, we will execute against the four key pillars:

- Focus on the consumer.
- Achieve operational excellence.
- Exploit portfolio of brands.
- Leverage our global presence and scale.

Focusing on customer service

Building on the strong foundation laid over the past years, our Retail strategic initiatives are now structured and prioritised against the principles of growth and efficiency. We want to further simplify our structures and procedures in order to free up resources for all important consumer-facing tasks. This focus on efficiencies will also enable the successful implementation of our growth initiatives, which include:

- Customer Service Model: Deliver and embed a defined Customer Service Model that connects, engages and inspires our consumers during their shopping experience.
- Customer Relationship Management: Develop and implement a tailored CRM programme.
- Further drive product commonality by increasing the global mandatory range share in all our own stores.
- Drive people excellence through improved training and development procedures.
- Omni-channel focus: Create a seamless shopping experience for our consumers by connecting our online and offline touchpoints.
Refreshing and expanding the chain

Although we continue to focus heavily on retail operational topics, another key area of focus is elevating the retail environment to ensure our stores represent fully the image and aspiration of the brands. As such, in 2014, we will commence an ongoing refresh of our core concepts for the adidas brand with the introduction of the Home Court format / PICTURE 05 for Sport Performance and the Neighbourhood concept for Originals. We will also further experiment with single-category stores such as Outdoor, Women and Kids, largely in our key markets China and Russia.

At the end of 2013, the adidas Group had further grown its net store base, operating 2,740 own stores for the adidas and Reebok brands worldwide / SEE RETAIL BUSINESS PERFORMANCE, P. 144. In 2014, we will continue to invest in our worldwide retail network with additional store openings in the emerging markets, particularly in Russia/CIS.

In addition, we will also continue to run our pilot store projects for NEO and Reebok to further test their acceptance with the consumer. In 2014, we will expand the NEO concept to other European countries outside of Germany. In addition, the Reebok FitHub concept will be further expanded and tested / PICTURE 06.
eCommerce Strategy

The success of our eCommerce strategy rests on our ability to attract, convert and retain the consumer in a highly competitive marketplace. Therefore, we will activate our key unique selling proposition by offering broad ranges with high size availability to showcase the depth of our brands. We want to attract consumers by having the right products and the right marketing at the right time through our e-shops. To drive conversion, we consistently improve our site visibility online and how it ranks in online searches.

Consistency in global presence increased

In 2013, we successfully completed the foundational work and roll-out of our own eCommerce business with the execution of our strategic priorities that include:

✓ Establish consistent technical platforms globally.
✓ Implement a new eCommerce distribution policy for our wholesale partners.
✓ Create one consumer destination by integrating brand, shop and customisation sites enabling improved user experiences.

In addition, we finalised the roll-out to the markets including, for example, Latin America, which means we have our own eCommerce platforms now available in every key market around the world for both adidas and Reebok.

Go-to destination for our brands

Our strategic priorities for eCommerce focus on our desire to become the premium online destination for our brands through an innovative shopping experience. Strategic initiatives are concentrated on efforts to:

✓ Ensure relentless site enhancements to evolve the shopping experience across devices.
✓ Leverage the brands to further enlarge the experience and discovery.
✓ Continue to evolve full customisation through mi adidas and YourReebok including simple personalisation in key markets.
✓ Become the “go-to destination” for all adidas and Reebok products in terms of technologies, benefits and heritage.
✓ Deliver personalised experiences at key consumer touchpoints by leveraging the full potential of our evolving CRM/loyalty solutions.

adidas Online Shop
www.shop.adidas.com

Reebok Online Shop
www.reebok.com
Global Brands Strategy

Global Brands is responsible for brand positioning, brand strategy, product creation, innovation and all the product and brand marketing functions of the adidas and Reebok brands. The primary objective of this portfolio strategy is to ensure that our brands seize market share and category opportunities through well-defined and coordinated go-to-market strategies. Each brand is responsible for the execution of its strategic focus by creating a constant stream of innovative and desirable products and generating communication strategies that connect with their target consumer in an engaging and compelling way.

Driving the long-term development of adidas and Reebok
To secure long-term sustainable growth for the Group, Global Brands is focused on driving the development of the adidas and Reebok brands. The overall strategic goal is to achieve qualitative, sustainable growth by building desirable brands in consumers’ perception. Global Brands played a central role in the creation of Route 2015, the adidas Group’s strategic business plan that was unveiled in 2010. The adidas and Reebok brands are expected to deliver more than 80% of the targeted growth for the Group until 2015.

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

✓ Gaining sales and market share in the key global categories running and basketball with adidas Sport Performance.
✓ Expanding adidas Sport Style in fast fashion with the adidas NEO label.
✓ Maintaining adidas Originals’ strong momentum with the fashion-driven lifestyle consumer.
✓ Establishing Reebok as the leading fitness brand.

Global Brands also plays a key role in bringing the efficiency initiatives of Route 2015 to life, by focusing on speed, consistency and consumer focus. Among other things, we are striving to present adidas and Reebok in a more consistent way around the world in terms of ranges and pricing. In the long term, this should lead to range size efficiencies and gross margin optimisation. One example of this is the creation of the “Global Foundation Range” for each brand, which will be mandatory for all of our markets and channels.

Focus on the consumer
The consumer and creating consumer desire for our products is at the heart of everything we do. By constantly developing desirable products and inspiring brand experiences, we can drive sustainable and quality growth, building a strong reputation and loyalty with consumers. Moreover, we also understand that, in order to have credible and authentic connections to create such desirability with our consumers, we must have the right market segmentation strategy. As part of its function, Global Brands has mapped out our target consumer universe, which spans from our roots in sport, the “pure performer”, through to today’s style setters who have embraced sporting goods brands as part of their lifestyle /DIAGRAM 01.

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

- **Fit for life:** Sport is no longer just about competing and winning. Sport is becoming more embedded in consumers’ everyday lifestyles. Motivations and goals are becoming more holistic, fun, socialising and life-enhancing.

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

- **Celebrating individuality:** Consumers increasingly fulfil their desire to differentiate themselves from one another by being more creative – on the one hand mixing and matching products and services they need, and on the other hand seeking personalised offerings tailored for them. The growth in social media continues to fuel more and more opportunities to display individuality, making it even more important.

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

- **Back to basics:** For everyday life, products and services are desired to be simple and authentic, making consumers’ lives easier. There is a growing interest in outdoor activities and minimalistically designed products, reflecting the desire to reconnect and be in tune with nature.

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

- Create the unexpected through product and brand experience.
- Create the highest emotional connection between our brands and the consumer.
- Be prepared for the next generation, anticipating change.
- Simplify to the maximum.
- Show excellence in execution, being consistent in what we do, from idea creation to communication.

**Brand architecture and differentiation**

We believe that our Group’s multi-brand structure gives us an important competitive advantage. Through our brand architecture, we seamlessly cover the consumer segments we have defined, catering to more consumer needs, while at the same time keeping clarity of brand message and values.

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

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

No other brand has a more distinguished history and stronger connection with sport than adidas. adidas is where the best meet the best, such as at the Olympic Games and the FIFA World Cup, but also everywhere else around the world where sports are played, watched, enjoyed and celebrated. As a true global brand with German roots, adidas’ mission is to be the leading and most desired 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.

02  /  adidas Sport Performance

*Supernova Glide Boost running shoe*

**03  /  adidas at a glance**

<table>
<thead>
<tr>
<th>About adidas</th>
<th>adidas is a truly global brand with German roots.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>adidas Sport Performance:</strong></td>
<td>The guiding principle of adidas Sport Performance is to make athletes better by making them faster, stronger, smarter, cooler and more natural. The main focus is on five key categories: football, running, basketball, training and outdoor.</td>
</tr>
<tr>
<td><strong>adidas Originals:</strong></td>
<td>adidas Originals is the authentic, iconic sportswear label for the street, and its philosophy is to &quot;Celebrate Originality&quot;.</td>
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<tr>
<td><strong>adidas Sport Style:</strong></td>
<td>adidas Sport Style includes the labels adidas NEO, Y-3 and Porsche Design Sport.</td>
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</tbody>
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**Brand mission**

To be the leading and most desired sports brand in the world.

**Brand values**

Authentic, passionate, innovative, inspirational, committed, honest

**Brand attitude**

Impossible Is Nothing.

**Key markets**

North America, Russia/CIS, Greater China

**Key strategic pillars**

✓ Gaining sales and market share with key growth categories such as running and basketball within adidas Sport Performance.
✓ Expanding adidas Sport Style in the fast-fashion business with the adidas NEO label.
✓ Maintaining adidas Originals’ strong momentum to serve the needs of the fashion-driven lifestyle consumer.

**Net sales in 2013**

€ 11.060 billion
adidas is mainly targeting competitive sports based on innovation and technology with **adidas Sport Performance**. This sub-brand is the multi-sport specialist. The target consumers range from sports participants at the highest level to those inspired by sport or who simply love sport. While adidas has a pivotal strength with the 20- to 29-year-olds, a clear focus is on strengthening its resonance with next-generation athletes, the 14- to 19-year-olds, in particular the high school athlete. In our view, this target group is also the most influencing consumer group around the world. Everything at adidas Sport Performance reflects the spirit of Adi Dassler, the founder of the company. The main objective is simple: to make athletes better, with innovation at the heart of all adidas Sport Performance products. From a category perspective, football / **PICTURE 05**, running / **PICTURE 02** and basketball are our key strategic categories for growth. However, to underline our credibility as the multi-sport specialist and leverage our brand strength, adidas also supports a wide range of other sports and sports activities such as training / **PICTURE 04**, outdoor, American football, rugby, tennis, baseball, handball, volleyball, badminton, table tennis, boxing and wrestling.

The sub-brands **adidas Originals** and **adidas Sport Style** strive to take the brand’s unique heritage and design leadership to capture further potential in the sports lifestyle and fashion market. Streetwear and lifestyle sports fashion represents a unique opportunity for sporting goods companies. To be successful in this market segment, brand credibility and heritage is an important prerequisite. adidas Originals is regarded as a legitimate sports lifestyle brand. For well over a decade, adidas Originals has been offering a holistic range of products aimed at the 16- to 24-year-old consumer. These consumers are looking for substance and craft and are inspired by passions and stories, which we serve through the iconic trefoil logo and with products such as the Stan Smith / **PICTURE 06**, Superstar, Samba and ZX. To ensure sustainable success, adidas Originals has to keep up to date with and set trends as well as remain committed to serving consumer groups who are constantly looking for more options to express their individuality.
As part of our market segmentation strategy and to increase our addressable market to the lifestyle and fashion consumer, several sub-labels under the banner of adidas Sport Style were established. To increase our appeal to a younger, more price-conscious generation of lifestyle consumers, the adidas NEO label was established to cater specifically to their needs. adidas NEO specifically targets the young fashionable teen, aged between 14 and 19 years, with the 16-year-old as the sweet spot. These teens are “digital natives” and live for now. They are ready to go, discovering their own way and style, and the NEO label is all about them. It is all about being open and engaged with this teenage consumer, enabling them to participate with the label and enjoy experiences that only NEO can provide, such as styling an outfit for Selena Gomez or being part of the NEO collection created especially for the New York Fashion Week. To ensure success, the NEO formula employs a “fast fashion” business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution. In addition, adidas Sport Style also partners with a number of top designers, such as Yohji Yamamoto with the Y-3 brand, and luxury brands, such as Porsche Design. With these sub-brands adidas speaks directly to the most fashion-conscious consumers in the lifestyle market.
Reebok strategic positioning

Reebok is an American-inspired global brand with a deep fitness heritage and the clear objective to become the world’s leading fitness brand. Fitness is who Reebok is and the Fit Generation is Reebok’s target consumer. They are young, either in actuality or in spirit, and fitness is central to their lives – working out multiple times a week. This is a global consumer who enjoys getting fit and staying fit with their friends. They are dynamic, empowered, proud, tenacious and influential and are all united by fitness. Reebok connects with the fitness consumer wherever they are and however they choose to stay fit. In addition, Reebok Classics leverages the brand’s fitness heritage and represents the roots of the brand in the sports lifestyle market.

Understanding the multi-facets of fitness, from running to yoga, Reebok applies a category-specific approach. Five key fitness categories, called “The House of Fitness”, address this diversity: Fitness Training, Studio, Classics, Fitness Running and Walking. Reebok provides specialised products for each of these categories, which allows Reebok to meet and engage with consumers, regardless of how they choose to stay fit. To drive commercial volumes for the brand, Reebok leverages its Royal and Kids offerings across its key performance and lifestyle categories. Royal offers trend-right casual footwear with optimal value for commercial distribution channels, while at the same time providing improved margins and efficiencies as a core global range. Reebok Kids is focused on fun in functionality, driven by key brand product innovation takedowns as well as innovative and style-right kids-only products.

10 / Reebok at a glance

About Reebok

Reebok is an American-inspired sports brand with the clear objective to become the leading fitness brand in the world. Understanding and embracing the multi-facets and lifestyle potential of fitness, Reebok provides consumers with innovative products, experiences and inspirations. Its strong roots and history in fitness allow Reebok to empower consumers to be fit for life.

Brand mission

Empowering you to be fit for life

Brand values

Social, bold, real

Brand attitude

We believe those that are fit for life will be the greatest contributors to our world.

Key markets

North America, Russia/CIS, South Korea, Japan

Key strategic pillars

Expand product offering in key fitness categories.
Establish deeper connection to fitness consumer through grassroots partnerships and digital activities.
Invest in controlled space (FitHub).

Net sales in 2013

€ 1.599 billion

11 / The House of Fitness

Fit for Life

Fitness

Fitness Training  Studio  Classics  Fitness Running  Walking

Kids

Royal
Leadership in product innovation to excite and inspire the consumer

Through Global Brands, we are determined to address every consumer in a specific and unique way – with product initiatives that generate trade and consumer interest. We believe that technological innovation is essential to sustainable leadership in our industry. By leveraging the extensive R&D expertise within the Group, adidas and Reebok continuously challenge the boundaries of functionality and performance. In addition, innovation plays a significant role in differentiating the adidas and Reebok product offerings in the minds of consumers.

At adidas, the brand innovates through its five performance benefits (faster, stronger, smarter, cooler, more natural). The R&D focus is on cushioning and energy solutions, lightweight and digital sports technologies as well as sustainable product innovation. This focus enables the development of clear performance technology platforms, such as Boost, adizero, Springblade / PICTURE 12, Clima and miCoach / PICTURE 14. By serving these core benefits through such scalable technology platforms, adidas aims to remain at the forefront of performance sport and further build on brand image. Additionally at adidas, investments and research emphasis also include areas such as new manufacturing processes and advanced materials, for example machine knitting and 3-D printing. These areas offer potential to increase speed to market, bring new performance and design capabilities and support our position as a sustainability leader in the sporting goods industry.

At Reebok, the innovation focus is on fitness, where the innovation and R&D priorities are on providing functional products in footwear and apparel that cater to evolving fitness activities. Areas of focus include specific products to meet the performance demands of CrossFit and obstacle racing / PICTURE 13 as well as increasing the brand’s capabilities in running and apparel. Reebok is also investing in material development to support fit and comfort as well as expanding its activities in the area of wearable electronics / SEE RESEARCH AND DEVELOPMENT, P. 99.

adidas Sport Performance
Springblade running shoe

Reebok
Spartan Race obstacle racing

adidas Sport Performance
miCoach Smart Run watch
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 for sustaining and improving the brands’ gross margins, making continuous innovation an important enabler for future profitability improvements.

**Marketing and communication leadership**

To be competitive in the sporting goods industry, brands must build clear desirability with their target consumer. To achieve this, adidas and Reebok are focused on creating inspirational and innovative brand marketing campaigns and developing communication techniques that strengthen their positioning, build brand equity and thus 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.

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

To ensure our Group stays at the forefront of these developments, in 2014 both adidas and Reebok will be investing further in the digital space. To bring greater consistency, increase speed and drive higher levels of brand activation online, adidas is establishing digital newsrooms around the globe. This will serve to better coordinate the brands’ online presence as well as leverage and magnify key brand initiatives all year round. Reebok is also creating a global social centre at its headquarters in Canton. This centre and its team will engage the Fit Generation consumer in the social world and enable Reebok to be part of the conversation in real time. In addition, Reebok is also opening the Reebok Production Studios, to enable the brand to become a constant creator of exciting and relevant content.
Activation and validation via a relevant set of promotion partnerships

The utilisation of promotion partners such as federations, teams, leagues, events and individuals is an important part of endorsing brand positioning, and an area to which the Group dedicates significant resources. This not only serves as a vehicle to showcase the credentials of adidas and Reebok products in the performance and fitness arenas, respectively, it also facilitates 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.

In addition, adidas also has a number of strategic partnerships and collaborations with top designers and design studios, such as with Yohji Yamamoto, Stella McCartney, Jeremy Scott and Porsche Design. The brand also has similar relationships with many of the most creative personalities from across the entertainment industry, including Kanye West and Rita Ora, as well as with premium retailers such as Urban Outfitters and Topshop for adidas Originals. These collaborations ensure the 3-Stripes and trefoil have visibility and credibility right through to the most fashion-conscious consumer.

To activate and validate its key concepts, Reebok is partnering with some of the most influential fitness movements and organisations and accomplished people in the fitness industry. Reebok partnerships include those with CrossFit (including the CrossFit Games), Spartan Race, Les Mills / Picture 18 and Color Run. Additionally, Reebok assets include renowned yoga instructor Tara Stiles and pro fitness expert Amy Dixon. In addition, Reebok Classics partners with sports celebrities, musicians and artists to amplify activations and product validation in the lifestyle category, with high-profile ambassadors such as Alicia Keys, Swizz Beatz, Tyga and Shaquille O’Neal.

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 UEFA EURO, the UEFA Champions League, the NBA, the Boston Marathon, the European Rugby Cup and the IAAF (International Association of Athletics Federations). In addition, adidas has an extensive roster of high-profile sports teams, such as the national federations of Spain, Germany, Argentina, Russia, Mexico, Colombia and Japan, as well as top clubs Real Madrid, AC Milan, Chelsea FC and FC Bayern Munich in football, the New Zealand All Blacks and France in rugby, American universities such as UCLA, as well as high-profile individuals such as football stars Lionel Messi / Picture 17, Mesut Özil and Gareth Bale, basketball stars Derrick Rose and Dwight Howard, marathon record holder Wilson Kipsang, athletic stars Jessica Ennis and Yohan Blake, American football quarterback Robert Griffin III, also known as “R03”, and tennis stars Caroline Wozniacki and Andy Murray.
Other Businesses Strategy

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

TaylorMade-adidas Golf Strategy

TaylorMade-adidas Golf’s mission is to build on its status as the world’s leading golf company in terms of sales and profitability. The segment consists of four of the game’s most widely known and respected brands: TaylorMade, adidas Golf, Adams Golf and Ashworth. Its foundation for success is built on the ability to quickly and continuously introduce to the marketplace well-designed, technologically advanced products supported by a broad range of innovative marketing activities and widespread product validation by tour professionals competing on the world’s major professional golf tours. The combination of these elements creates some of the most sought-after products in the golf industry, yielding both high volumes and premium price points. Priorities for long-term growth include leveraging brand equity through the creation and execution of new retail initiatives as well as improving global distribution.

Leveraging the strength of four of golf’s most respected brands

TaylorMade-adidas Golf implements a multi-brand strategy with four well-defined and well-respected golf brands under one roof. TaylorMade is the market leader in the metalwood and iron categories, and is among the leaders in wedges, putters, balls and accessories. adidas Golf creates innovative products targeted at athletic, competitive-minded golfers seeking a performance edge in every piece of equipment they choose, including footwear, apparel and outerwear. Ashworth focuses on classically rooted products that deliver style, comfort and performance to the golf enthusiast, complementing adidas Golf’s athletic high-performance positioning. Together, adidas Golf and Ashworth make TaylorMade-adidas Golf a global leader in golf apparel and one of the top three companies in footwear sales. Adams Golf’s product focus is on clubs for game improvement and on making the game easy. Its broad offering and positioning has significant potential in seniors and women’s, complementing TaylorMade’s focus on the younger and the lower-handicap players.
Focus on design and technologically advanced products

One of TaylorMade-adidas Golf’s core objectives is to create the best performance golf products in the marketplace. This involves a clear and unrelenting commitment to innovation and technology / SEE RESEARCH AND DEVELOPMENT, P. 99. TaylorMade-adidas Golf strives to extend its industry-leading position by introducing at least two major product innovations or evolutions every 12 to 18 months. For example, in 2013, TaylorMade unveiled Speed Pocket technology, which radically increases speed and distance. In November 2013, the first drivers featuring Speed Pocket technology were introduced, called JetSpeed / PICTURE 02. Also launched in 2013, the SLDR driver is the longest driver TaylorMade has ever created. It combines an extremely low-forward centre of gravity and a complete reinvention of the Movable Weight Technology (MWT), with a single weight that slides easily within a track positioned in the sole.

TaylorMade’s priority is to become the leader in each individual golf equipment category. That means strengthening its position as the number one metalwoods (drivers, fairway woods and hybrids) and irons brand and ascending to the top market position in wedges, putters, balls and accessories. From a market share perspective, the latter two categories in particular offer significant market share and growth potential. In balls for example, in 2014 we launched a new golf ball: Project (a). This multi-year R&D project has resulted in a ball which has been specially engineered to promote more shot-stopping spin control for the average amateur. The “a” in Project (a) stands for “amateur”, and the ball launched at the AT&T Pebble Beach National Pro-Am in California, USA, in February 2014 / PICTURE 03. In accessories, e.g. hats, gloves, bags, towels, umbrellas and head covers, of particular interest to TaylorMade is creating new and innovative designs and technologies which can be applied to the accessories category, resulting in better-performing products that capture the golfer’s imagination.
A key component of adidas Golf’s strategy for success includes building on its ultra-lightweight adizero golf footwear franchise, starting with the launch of the adizero One in January 2014. This shoe, which incorporates a variety of cutting-edge technologies, is 10% lighter than the original adizero golf shoe. adidas Golf’s strategy also includes strengthening its year-round apparel offerings by adding to the ClimaWarm+ apparel line, engineered with advanced, hollow-fibre technology to combine insulating warmth with lightweight comfort and by introducing the new ClimaChill line.

Adams Golf’s key strategy for growth is to use its position as the number one hybrid brand on the world’s six major professional golf tours, including the PGA Tour, to become the best-selling hybrid brand worldwide. Recent product introductions, including Tight Lies fairway woods, the Super S hybrid, new Idea hybrid irons and the XTD Series of metalwoods, are examples of the brand’s product strategy to achieve this goal. Tight Lies fairway woods are engineered with a low-profile “upside-down” design that makes it easier to launch the ball. They also feature Cut-Thru Slot technology that increases the speed of the clubface to promote more distance and a tri-level sole design that limits turf interaction. The Idea Super S hybrid is tremendously popular among amateurs for how easy it makes it to hit high, long and soft-landing shots. In 2014, Adams Golf will continue to use the synergies between its R&D department and TaylorMade’s to develop compelling new equipment.

Following several years of re-establishing Ashworth’s reputation as a pure golf brand by rebranding and reinvigorating its footwear and apparel offering, Ashworth’s strategy to accelerate growth includes introducing a line of premium apparel and footwear to its product line-up beginning in 2014.
Tour validation critical to showcasing equipment at the highest level

Golfers of all levels are influenced by the equipment that the world’s best professional players 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 consumer traction. The strength of the TaylorMade-adidas Golf Tour Staff lies in the number and quality of its members, which include global stars such as 2013 U.S. Open champion Justin Rose, Dustin Johnson, Sergio Garcia, Jason Day, Martin Kaymer, Y.E. Yang, Sean O’Hair, Retief Goosen, Johnson Wagner, Justin Leonard, Camilo Villegas, Paula Creamer and Natalie Gulbis. In addition to TaylorMade Tour Staff members, dozens more tour professionals also play TaylorMade metalwoods, helping to make TaylorMade the number one driver brand on the world’s six major tours – the PGA Tour, European Tour, Japan Tour, Champions Tour, Web.com Tour and LPGA Tour. The visibility and credibility that TaylorMade enjoys from this widespread use of its equipment is instrumental to brand and product awareness. Adams Golf likewise maintains a strong Tour Staff, having this year added global star and fan favourite Ernie Els to a team that already includes Robert Garrigus, Aaron Baddeley, Kenny Perry, Tom Watson and Bernhard Langer. Ashworth’s tour presence was bolstered by Justin Rose’s highly successful year, wearing Ashworth from head to toe, en route to winning the 2013 U.S. Open. Major Championship winners on the Ashworth Tour Staff, such as Fred Couples, Justin Rose and Justin Leonard, will continue to be featured in marketing campaigns to validate and promote the brand.

Marketing innovation and excellence in execution

Innovative and effective marketing is critical to TaylorMade-adidas Golf’s success. Great effort is put into creating compelling messages spread widely through a variety of channels. This includes television, print, social media, point of sale, demonstration events, and carefully choreographed activities at professional tournaments. For example, in February 2013, TaylorMade had a promotion called the #OneBucket Challenge to support RocketBlade irons, in which Tour Staff pros and amateurs competing at the AT&T Pebble Beach National Pro-Am were asked to wear bright yellow bucket hats during practice rounds. These hats were also given away to fans. For this challenge, TaylorMade also made a commitment to give US $ 100,000 to charity if any competitor made a hole-in-one on Pebble Beach’s famous 17th hole while wearing a yellow bucket hat during competition. adidas Golf also had special activities and campaigns to call attention to new products in order to generate buzz. At the Open Championship in Scotland, to launch adidas Golf and Gore-Tex waterproof outerwear, adidas Golf created a weather simulator designed to replicate the most adverse climatic conditions. The event, titled “weather the storm”, utilised tour players Martin Laird and Dustin Johnson to demonstrate the product. Following a rebranding at Adams Golf in 2013, including the unveiling of a new logo, Adams Golf stepped up its marketing activities with several online and on-tour activities, including teaming up with Southwest Airlines to give away a million Southwest air miles. The Southwest logo was added to the bags of Adams Golf Tour Staff pros, and a variety of Adams Golf pros were included in a massive Southwest advertising campaign. Ashworth likewise generated excellent attention with its “Pants Petition” promotion, a tongue-in-cheek plea to the PGA Tour to allow pros to wear shorts during competition. On a more serious note, the victorious U.S. team in the 2013 Presidents Cup in Ohio, USA, wore Ashworth apparel, creating invaluable exposure throughout the three days of this globally popular bi-annual event. Original ideas like these and the keen execution of them continue to set TaylorMade-adidas Golf’s marketing efforts apart from the competition.

Effective retail and e-commerce strategy leverages key accounts and assets

TaylorMade-adidas Golf makes it a point to create compelling point-of-sale communications and displays designed to quickly and clearly educate the consumer on product benefits and advantages. Furthermore, TaylorMade-adidas Golf works closely with its key retail partners to ensure a consistent and excellent retail experience for the consumer. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments. TaylorMade-adidas Golf also maintains a close relationship with more than 3,000 golf professionals and assistant golf professionals across the USA, who act as brand ambassadors in their green grass golf shops, selling the products of all four brands and turning golfers into brand loyalists. Additionally, in emerging markets around the world, the company employs established adidas Group infrastructures to distribute products, promote awareness and drive growth. This broad global presence offers significant growth and leverage opportunities in the future, particularly for Adams Golf and Ashworth, where penetration is still low outside of the United States.
Rockport Strategy

Rockport was founded in 1971 on the idea of making fashion footwear comfortable by using the latest in athletic shoe technologies. Today, the brand continues to combine this DNA with the innovation resources of the adidas Group, to design products which deliver uncompromised style with state-of-the-art engineered comfort. With its mission, Rockport aims to become one of the world’s leading leather footwear brands.

Brand promise: “style made comfortable”

Every shoe Rockport creates has to deliver against the brand’s promise to make style comfortable. With visible athletic shoe technologies and new product solutions, Rockport is an innovation leader designing for style and engineering for comfort, with the objective of empowering consumers to do more, be more and live more from weekday to weekend.

Key concepts bring the “style made comfortable” positioning to life

With the metropolitan consumer at the centre of extensive integrated market research and product development efforts, Rockport has evolved its offering propositions and established four core strategic product concepts: truWalkZero, RocSports Lite, Total Motion and Seven to 7. These concepts will serve as key platforms to build long-term recognition and trust for the brand’s product offering with consumers. Each concept is based upon key industry and consumer trends which enable the brand to drive both the innovation and commercial agendas. For example, truWalkZero is minimalist in design and construction to maximise lightness and mimics the foot’s natural walking motion, making it the perfect active casual staple to propel consumers through their day. Total Motion, on the other hand, incorporates premium materials for a glove-like fit and controlled flexibility from its advanced construction technologies.

07 / Rockport at a glance

| About Rockport | Rockport was founded in 1971 on the idea of making fashion footwear comfortable by using the latest in athletic shoe technologies. More than 40 years later, Rockport combines its unique DNA with the innovation resources of the adidas Group and designs products which deliver uncompromised style with state-of-the-art engineered comfort for metropolitan consumers around the world. |
| Brand mission | To become one of the world’s leading leather footwear brands through the innovative combination of contemporary style and engineered comfort. |
| Brand attitude | At Rockport, every shoe is designed for style and engineered for comfort. Each shoe created delivers against this promise, which is at the heart of everything the brand does. Through its industry-leading products, Rockport empowers consumers to do more, be more and live more from weekday to weekend. |
| Key markets | USA, Russia/CIS, Canada, Japan, South Korea |
| Key strategic pillars | Drive product concept recognition, Leverage men’s and women’s opportunity, Evolve point-of-sale experience |
| Net sales in 2013 | € 289 million |

08 / Rockport Total Motion campaign
Maximising men’s and women’s business under one brand roof

Rockport’s heritage of leveraging advanced athletic technologies in casual shoes was originally conceived around men’s footwear. However, the brand’s promise – “style made comfortable” – is also ideally suited to and relevant for women’s shoes. By infusing adidas athletic shoe technologies within a broad range of styles (e.g. heels, boots, wedges), Rockport aims to deliver the “no compromise” combination of style and comfort, which is a true and largely unfulfilled consumer need.

With this strategic approach, Rockport can target the same consumer type in both the men’s and women’s business. With only 24% of Rockport’s total sales in the women’s business, expanding the product offering and distribution reach of this part of the business is the biggest growth opportunity for Rockport. While the brand promise applies equally to both genders, Rockport also understands that both genders have significantly different requirements in terms of product offering, particularly in servicing the higher demands and depth of assortment to be relevant to the female consumer. Therefore, the brand made significant investments in world-class design and development capabilities in 2013 by opening the Rockport Design Studio in the Veneto region of Italy. With this studio, Rockport has access to the best talent and industry knowledge in the field of women’s design, fashion industry know-how and technical shoe development.

Distribution and point-of-sale expansion strategy

After successfully establishing the Rockport brand strategy and positioning over recent years, brand recognition has increased and its positioning appeals to a broad consumer base. The Rockport appearance continues to become more dynamic and focused on product storytelling by emotionalising the brand’s unique product benefits to consumers. To support growth, a high-quality distribution network and strong execution of the brand at the point of sale globally is critical. Therefore, Rockport has a number of key strategic initiatives in place to improve and expand the brand’s representation in the marketplace:

- One global range built with clear channel-specific segmentation and price architecture and supported with aligned operational capabilities and go-to-market strategies to be competitive in each channel.
- Tailored local distribution strategies to maximise the business across all channels and geographies. This includes intensifying relationships with premium retail accounts in key wholesale markets such as the USA as well as expanding the own-retail footprint, to further strengthen the brand’s image in the marketplace.
- Online retail excellence through industry-leading e-commerce and digital capabilities, for both wholesale and retail, driving convergence to the omni-channel strategic vision.
- Elevating presence at the point of sale, through significant investments to further connect with the consumer on an emotional level in both own-retail and wholesale environments.
Reebok-CCM Hockey Strategy

Reebok-CCM Hockey is a leading designer and marketer of ice hockey equipment and related apparel under two of the most recognised ice hockey brand names: Reebok Hockey and CCM. Reebok-CCM Hockey equips more professional NHL hockey players than any other company, including superstars such as Sidney Crosby and John Tavares. Reebok-CCM Hockey is also the official outfitter of high-profile leagues such as the NHL, the AHL and the CHL as well as several NCAA and national teams. Reebok-CCM Hockey’s strategy is to increase market share by leveraging its performance positioning and dedication to innovate for the leading athletes in the sport.

Focus on high-end performance

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

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

Product innovation key to brand positioning

The key priority for Reebok-CCM Hockey is to design and market products that are targeted to be different and better than those of the competition, with a dedication to providing elite athletes with high-performance products. With an emphasis on continued product innovation, products incorporate proprietary and patented technological advances. In 2013, Reebok Hockey launched highly innovative products such as the RibCor sticks and the new 20K Pro Series protective line. CCM’s product innovation stories in 2013 were led by the CCM RBZ skate, the revolutionary CCM RBZ Stage 2 stick powered by TaylorMade and the Extreme Flex goalie line. For more information on these and other products / SEE RESEARCH AND DEVELOPMENT, P. 99.

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 some of the best players in the game validates Reebok-CCM Hockey’s product performance credentials, and both brands are highly visible among professional ice hockey leagues worldwide.

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

/ Reebok-CCM Hockey has formed endorsement partnerships with many of the best athletes in the world. With a significant global presence, the two brands can respond rapidly with customised solutions providing a strong competitive advantage. Evidence of this can be seen by the number of influential pro athletes using Reebok-CCM Hockey products and by the comprehensive product offering in all equipment categories. Reebok Hockey is currently endorsed by NHL players such as Sidney Crosby, Pavel Datsyuk, Roberto Luongo, Dion Phaneuf, Matt Duchene, Marc-André Fleury and Seth Jones. CCM’s roster of player endorsers includes John Tavares, Joe Thornton, Marián Hossa, Patrice Bergeron, Gabriel Landeskog, Ryan Nugent-Hopkins, Vincent Lecavalier, Alex Galchenyuk, Jonathan Drouin, first overall draft choice in 2013 Nathan MacKinnon and 2013 rookie of the year Jonathan Huberdeau.
Key strategic categories to drive growth

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

Skates: The focus in the skate category is to drive market share increases through products addressing critical performance aspects such as fit, weight and durability. Reebok Hockey will launch the new RibCor skate, currently being worn by Sidney Crosby, in 2014. Launched in July 2013, the new CCM RBZ skate is designed according to the concept of “speed”, including a new blade holder that is 4mm higher, to provide the skater with a better angle of attack on the ice.

Sticks: To drive future growth in the sticks category, Reebok-CCM Hockey focuses on developing new technologies that incorporate enhanced power, feel, flexibility and weight. Launched in August 2013, Reebok Hockey’s RibCor sticks feature the highly innovative ribbed shaft for quick puck release. July 2013 marked the launch of the CCM RBZ Stage 2 stick powered by TaylorMade, which includes a SpeedBlade 2 construction for higher puck velocities.

Goalie: To increase market share in the goalie category, 2013 marked the return of the CCM brand to the category with the Extreme Flex equipment line. In 2014, CCM will introduce the new Retro Flex goalie line, which offers goalies unique colour options for their new gear. Reebok Hockey will take the Premier series to the next level with the introduction of the Premier XLT line at retail.

Protective: In 2013, CCM continued to take centre-stage with the highly successful Crazy Light protective series. In 2014, CCM plans to launch the new RBZ protective line, which is the next generation of Crazy Light protective. It features even lighter-weight equipment while maintaining maximum protection. On the Reebok Hockey side, the new 20K Pro series was launched in early 2013 and offers lightweight pro-level protection gear at retail.

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

Pricing strategy mirrors product positioning

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

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

Clearly defined priorities for Global Operations until 2015

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

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

To support our Route 2015 strategic business plan, Global Operations focuses on delivering against five function-specific strategic priorities driven by several key initiatives. TABLE 01. By continuing to deliver on these initiatives, Global Operations will not only enable the Group to achieve its goals, it will also ensure our supply chain remains a competitive advantage in making us the partner of choice for our consumers and customers alike. This continues to be underlined by our strong “On-Time In-Full” (OTIF) KPI, which measures the adidas Group’s delivery performance towards customers (Wholesale) and our own-retail stores. SEE INTERNAL GROUP MANAGEMENT SYSTEM, P. 118. In 2013, the adidas Group delivered 82% of its adidas and Reebok products “on time” and “in full” (2012: 78%). For 2014, Global Operations strives to maintain OTIF at a level of around 80%. It is also planned to roll out OTIF to those markets that are currently not in scope.

<table>
<thead>
<tr>
<th>Strategic priorities</th>
<th>Specific goals</th>
<th>Implemented through strategic initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring cost competitiveness</td>
<td>Reduce product and supply chain costs</td>
<td>/ Increase productivity for footwear and apparel manufacturing through a higher level of automation in the production processes / Optimise product creation through efficient material and colour selection</td>
</tr>
<tr>
<td>Providing industry-leading availability</td>
<td>Enhance existing logistics services to create a flexible and cost-efficient supply chain</td>
<td>/ Develop flexible planning and production models / Plan and manage inventory risk at decoupling points in the supply chain</td>
</tr>
<tr>
<td>Enabling later ordering</td>
<td>Allow customers to order products later, i.e. closer to the point of sale</td>
<td>/ Reduce standard lead times for footwear and apparel to 60 days / Manufacture closer to key markets to deliver and replenish products faster / Grow in-season responsiveness and continuous replenishment models</td>
</tr>
<tr>
<td>Supporting the Group’s growth projects</td>
<td>Support the Group’s Route 2015 and Driving Route 2015 initiatives</td>
<td>/ Build fast-fashion creation, sourcing and supply chain management solutions / Ensure further roll-out of processes and systems to optimise existing operational infrastructure / Expand eCommerce supply chain capabilities and enable customisation</td>
</tr>
<tr>
<td>Modernising the Group’s infrastructure</td>
<td>Build the necessary operational backbone to support the Group’s growth plans</td>
<td>/ Consolidate legacy systems and distribution structures / Build state-of-the-art systems, processes and distribution facilities / Pool supply chain activities for multiple markets / Integrate local sourcing activities into the global structure</td>
</tr>
</tbody>
</table>
Ensuring cost competitiveness

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

In the area of manufacturing excellence for footwear, automation represents the key driver for efficiencies. As part of this initiative, we support the implementation of state-of-the-art machinery and solutions, such as computer stitching, high-frequency cutting and automated production lines across factories, and provide technical competency training to factory floor staff. The resulting improvements in the factories are both visible and tangible. With less manual labour required, manufacturers were able to reduce operating space and energy while increasing their right-first-time rate and optimising their operator utilisation. For apparel, our goal is to use the manufacturing excellence initiative to roll out modular production lines. In addition, we have introduced Global Sewing Data (GSD) – a globally recognised, industry-leading pre-determined motion time system. It is an accurate and consistent way to measure the standard production time or Standard Minute Value (SMV) of a product.

The Profitability Management department assumes a central role in realising cost competitiveness by driving our strategic costing efforts and optimising our buying strategies. Throughout 2013, the team focused on implementing a more data-driven and standardised cost approach for the apparel division which, in turn, enables consistent benefit capture of efficiency initiatives.

In 2014, we will focus on implementing a more data-driven approach for material costing in order to further manage our cost base. In addition to material, we will consolidate product types within the apparel supply chain.

Providing industry-leading availability

Global Operations is building five new supporting system solutions that use SAP as a basis to standardise, automate, bundle and execute market processes and system functionalities. The roll-out of these systems and processes is a prerequisite to enable enhanced value-added services (e.g. labelling, price tags and RFID tags) at our factories and distribution centres. These are also critical for our flexible make-to-stock service, which aims to improve product availability and inventory utilisation by planning and building inventory buffers at different locations further up the supply chain. In 2013, we went live with our make-to-stock solution for the European never-out-of-stock and teamwear business.

In addition, Global Operations is a key contributor to the Group’s Integrated Business Planning (IBP) project. IBP forms part of the Group’s strategic business plan Route 2015 and aims at establishing a coherent end-to-end demand and supply planning process across finance, marketing, operations and sales.

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

Enabling later ordering

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

This initiative for reducing standard lead times focuses on shortening production lead times on footwear and apparel to 60 days. This will allow us to align sales processes across the brands and improve efficiencies. The majority of adidas footwear is already on 60 days. The implementation for apparel started in early 2012, with the goal to transition a third of all styles for all brands to 60 days. We successfully achieved our target for the fall/winter season 2014, where over 50% of forecast volume will be supplied on the shortened lead time of 60 days. For future seasons, we target to supply 90% of forecast volume on the shortened lead time of 60 days.

Further order-to-delivery lead time reductions will be achieved through increased proximity to sourcing countries, which will enable us to manufacture closer to our key markets to deliver and replenish products faster. While 2012 saw the introduction of an in-season response solution for own retail in Russia/CIS and Western Europe, in 2013 Global Operations replenished 5.7 million units of footwear and apparel in-season in Russia/CIS. We will continue to further develop this approach towards almost one third of our Russia/CIS business.
Global Operations in go-to-market process

Global Operations

- Marketing
  - Briefing
- Design
  - Concept
- Product Development
  - Product creation
- Sourcing
  - Manufacturing
- Supply Chain Management
  - Distribution
- Sales Subsidiaries
  - Sales
- Centre of Excellence
  - Processes and infrastructure of the future

Supporting the Group’s growth initiatives

Global Operations supports the Group’s key growth and profit projects outlined in the Route 2015 strategic business plan. The function impacts the following growth projects:

- **adidas NEO label**: The focus in 2013 was to establish a fast in-season creation process. This included expanding the company’s fashion source base and enabling articles on creation-to-shelf timelines of three months and less for all product divisions. In 2013, we produced 1.5 million units based on this new established process. \(\text{SEE GLOBAL BRANDS STRATEGY, P. 77}\).

- **eCommerce and customisation**: Global Operations provides support in further harmonising customisation processes and systems. It has clearly defined supply chain capabilities that enable the demand growth for the customisation business and have supported the evaluation of existing customisation processes for adidas and Reebok footwear. \(\text{SEE GLOBAL BRANDS STRATEGY, P. 77}\).

Modernising the Group’s infrastructure

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

In 2013, Global Operations completed two state-of-the-art, multi-brand warehouses. The first is located near Osnabrueck, Germany, and went live in June, followed by a new distribution centre in Chekhov, Russia, which started to operate in July. During the same month, Global Operations faced capacity and systems challenges in the existing distribution centre in Klimovsk, Russia, which resulted in a backlog of deliveries to stores and consumers for the Russian market. As a result, the decision was made to ramp up capacities of the new distribution centre in Chekhov ahead of plan. Deliveries were stabilised during the course of the fourth quarter and are now fulfilling market demands.

The vast majority of our facilities operate a standardised warehouse management system which continues to be rolled out to all new and existing warehouses in the operations network.

Majority of production through independent suppliers

To minimise production costs, we outsource almost 100% of production to independent third-party suppliers, primarily located in Asia. While we provide them with detailed specifications for production and delivery, these suppliers possess excellent expertise in cost-efficient, high-volume production of footwear, apparel and hardware. The latest list of our suppliers can be found on our website: \(\text{WWW.ADIDAS-GROUP.COM/SUSTAINABILITY}\).
The adidas Group also operates a limited number of own production and assembly sites in Germany (1), Finland (1), the USA (5) and Canada (3). In order to ensure the high quality that 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. 111.

Our Global Operations function manages product development, sourcing and distribution for adidas and Reebok as well as for adidas Golf and Ashworth / DIAGRAM 02. Due to the specific sourcing requirements in their respective fields of business, TaylorMade, Rockport, Reebok-CCM Hockey, Adams Golf and the Sports Licensed Division are not serviced through Global Operations, but instead utilise their own purchasing organisations. 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.

Number of manufacturing partners decreases
In 2013, Global Operations worked with 322 independent manufacturing partners (2012: 337), representing a decrease of 15 versus the prior year. While the number of suppliers in apparel and hardware declined as a result of further rationalisation of the supply base, it remained stable in footwear. Of our independent manufacturing partners, 78% were located in Asia, 14% in the Americas and 7% in Europe. Less than 1% of our manufacturing partners were located in Africa / DIAGRAM 03. 31% of all suppliers were located in China.

Vietnam share of footwear production increases
96% of our total 2013 footwear volume for adidas, Reebok and adidas Golf was produced in Asia (2012: 96%). Production in Europe and the Americas combined accounted for 4% of the sourcing volume (2012: 4%) / DIAGRAM 04. Vietnam represents our largest sourcing country with 35% of the total volume (2012: 31%), followed by China with 31% (2012: 33%) and Indonesia with 24% (2012: 26%). In 2013, our footwear suppliers produced approximately 257 million pairs of shoes (2012: 244 million pairs) / DIAGRAM 05. Our largest footwear factory produced approximately 10% of the footwear sourcing volume (2012: 10%).

Rockport produced approximately 8 million pairs of footwear in 2013, which represents a slight increase versus the prior year. Products were primarily sourced from factories in China (62%), Vietnam (21%), India (14%) and Indonesia (3%).

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

1) Figures include adidas, Reebok and adidas Golf.
China share of apparel production decreases

In 2013, we sourced 84% of the total apparel volume for adidas, Reebok, adidas Golf and Ashworth from Asia (2012: 84%). Europe remained the second-largest apparel sourcing region, representing 10% of the volume (2012: 11%). The Americas accounted for 6% of the volume (2012: 5%) / DIAGRAM 06. China was the largest source country, representing 33% of the produced volume (2012: 37%), followed by Indonesia with 11% (2012: 13%) and Vietnam with 10% (2012: 9%). In total, our suppliers produced approximately 341 million units of apparel in 2013 (2012: 314 million units) / DIAGRAM 07. The largest apparel factory produced approximately 10% of this apparel volume in 2013 (2012: 10%).

In addition, Reebok-CCM Hockey sourced around 3 million units of apparel in 2013. 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 21 million units of apparel and 11 million units of headwear (2012: 25 million and 14 million, respectively). The majority of purchased apparel products were sourced as unfinished goods from Latin America (70%) and Asia (30%), and were subsequently finished in our own facilities in the USA. The majority of headwear sourced were finished products manufactured predominantly in Asia (92%) and the USA (8%).

China share of hardware production declines strongly

In 2013, 98% of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2012: 97%). China remained our largest source country, accounting for 40% of the sourced volume (2012: 51%), followed by Vietnam and Indonesia with 20% each (2012: 21% and 9%). European countries accounted for 2% (2012: 3%) / DIAGRAM 08. The total hardware sourcing volume was approximately 54 million units (2012: 51 million units), with the largest factory accounting for 12% of production / DIAGRAM 09.

TaylorMade sourced 99% of their hardware volumes from Asia (2012: nearly 100%). The vast majority of golf club components were manufactured by suppliers in Asia (China, Vietnam and Taiwan) and assembled in Asia, the USA and Europe.

Reebok-CCM Hockey sourced 86% of their hardware volumes from Asia (2012: 81%). In addition, Reebok-CCM Hockey sourced a portion of hardware products in the Americas.

08 / Hardware production by region

![Diagram showing hardware production by region with 98% Asia and 2% Europe.

09 / Hardware production (in million units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>54</td>
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<tr>
<td>2012</td>
<td>51</td>
</tr>
<tr>
<td>2011</td>
<td>51</td>
</tr>
<tr>
<td>2010</td>
<td>48</td>
</tr>
<tr>
<td>2009</td>
<td>34</td>
</tr>
</tbody>
</table>

*1) Figures include adidas, Reebok, adidas Golf and Ashworth.*
Research and Development

Creating innovative products to meet the needs of professional and everyday athletes and consumers is a prerequisite to strengthening our market position in the sporting goods industry. In a rapidly changing world, our culture and passion for innovation and consistent investment in research and development (R&D) is essential to the development of new product concepts, processes and production methods that are beneficial to our business objectives and our long-term sustainability ambitions. Our R&D teams have diverse professional competencies and backgrounds, and their activities are highly integrated and cross-functional. In 2014, R&D will focus on cushioning solutions, lightweight and digital sports technologies as well as sustainable product innovation. Additionally, investments and research emphasis will also include areas such as new manufacturing processes and advanced materials.

R&D an integral part of the product and user experience creation process

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

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

Our innovation teams analyse new materials, production processes and scientific research to increase the exchange and scope of idea generation. Their scope also extends to areas such as consumer insights and social media. This helps promote a holistic and innovation-focused culture which gives deeper consumer insights, while also fuelling creativity and synergies across the organisation. To identify innovative materials as well as integrate sustainability, cost and production process aspects into the development phase, the innovation team is in close contact with our sourcing and material teams within product development who, in turn, work closely with our suppliers.

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

Selective purchase of external R&D expertise

In addition to its internal R&D efforts, the adidas Group also purchases a limited amount of R&D expertise from well-established research partners. This strategy allows for greater flexibility and faster access to know-how. Moreover, this accelerates the rate at which knowledge is built up internally and across the Group, with synergies and productive skill networks being created that enable deep and long-term relationships with research partners. To increase efficiency and protect research results, collaborations are usually long-term and exclusive. Major adidas relationships exist with the University of Calgary, Canada, the University of Michigan, USA, the University of Loughborough, UK, the University of Erlangen-Nuremberg and the University of Freiburg, Germany.

In November 2013, the adidas Group announced that it has commenced a collaborative initiative called Speedfactory, which is a research project under the umbrella of the German government. It focuses on a new era of manufacturing by combining state-of-the-art information and communication technologies (ICT) with industrial production, innovative products and skill-intensive electronic services. Research topics include production logistics, cognitive basic technologies, human-machine interaction and 3-D industrial applications. For more information on Speedfactory, visit [WWW.ADIDAS-GROUP.COM/EN/GROUP/STORIES/ADIDAS-FUTURE-MANUFACTURING](WWW.ADIDAS-GROUP.COM/EN/GROUP/STORIES/ADIDAS-FUTURE-MANUFACTURING).

In 2013, adidas performed research studies with the University of Freiburg, developing and validating features of the adidas miCoach X_Cell, a digital biometric device that measures heart rate, acceleration, jump height, speed-to-brake reaction times and shifts left or right of the wearer. Usability studies were carried out with the University of Michigan.
adidas also carried out extensive testing of the official match ball for the 2014 World Cup, Brazuca, to evaluate the effect of ball strikes under various conditions and validate extensive scenario modelling. The tests concluded that Brazuca meets and exceeds all required metrics for a FIFA official match ball. Brazuca was tested over a two-and-a-half-year period involving more than 600 of the world’s top players, including Lionel Messi, Zinedine Zidane, Steven Gerrard and Iker Casillas. The ball was also tested with 30 teams in ten countries across three continents, making it the most tested adidas ball ever and ensuring that it is suited to all conditions.

In 2013, Reebok continued its long-term biomechanics research relationships with Arizona State University and the University of Las Vegas. R&D of Reebok hard goods equipment in partnership with Loughborough University also continued in 2013. In addition, Reebok established a research initiative on wearable electronics with the University of Ottawa.

TaylorMade-adidas Golf continued its long-term cooperation with researchers at the University of Calgary in 2013, with extensive joint swing dynamic studies, identifying the influence of club specifications on player performance and perception.

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

Our R&D departments comprise experienced and multi-skilled people from different areas of technical expertise and from diverse cultural backgrounds. All R&D personnel are part of a highly connected and deep knowledge network, both across the Group and with external partners. A significant part of our innovation process, and therefore personnel and skill base, relates to consumer and user insights. Product designers, engineers and sport scientists as well as material engineering experts focus on product development. Process and production specialists also form an essential part of our product development competencies. Other professional backgrounds include software development, electronic engineering, Finite Element Analysis, advanced CAD design and kinesiology.

The number of people employed in the Group’s R&D activities at December 31, 2013, was 1,022, compared to 1,035 employees in the prior year. This represents 2% of total Group employees. In 2014, we expect the number of R&D employees to remain stable.

Initiatives to further streamline product creation process

We aim at improving our ability to adapt to changing consumer preferences more quickly, flexibly and efficiently. We achieve this by facilitating the direct interaction with and involvement of our suppliers in product creation, quality control, product testing and commercialisation. In 2013, we continued to enhance our computer simulation research platform to further reduce the time to market of product innovations. This software system, with its advanced material and design capabilities, allows for more creativity in the design phase and significantly improves the level of product detailing. While increasing speed and reducing the need for physical product samples and testing in the R&D process, the benefits also translate into other Group commercial and efficiency initiatives. Advanced 3-D models contributed to the Group’s cross-functional virtualisation project, where since 2010, when this project began, until year-end 2013 we reduced the number of manufactured physical samples by over 23%. An additional benefit of creating virtual assets is their application in other areas, such as e-commerce, computer games, virtual merchandising and digital communication.

R&D expenses at prior year level

Each year, we invest considerable resources into developing and commercialising new technologies as well as fresh design ideas, in order to offer the best experience for our users. R&D expenses include expenses for personnel and administration, but exclude other costs, for example those associated with the design aspect of the product creation process / SEE NOTE 02, P. 195. In 2013, as in prior years, all R&D costs were expensed as incurred. adidas Group R&D expenses remained stable compared to the prior year at € 128 million (2012: € 128 million). Personnel expenses represent the largest portion of R&D expenses, accounting for more than 72% of total R&D expenses. In 2013, R&D expenses represented 2.1% of other operating expenses (2012: 2.1%). R&D expenses as a percentage of sales remained stable at 0.9% (2012: 0.9%) / TABLE 02.

Successful commercialisation of technological innovations

We believe developing industry-leading technologies and user experiences is only one aspect of being an innovation leader. Even more important is the successful commercialisation of those technological innovations, while consistently increasing our commitment to sustainable product development. The awards we attained in 2013 highlight our technology leadership within the sporting goods industry / TABLE 04.

As in prior years, the majority of adidas Group sales were generated with products newly introduced in the course of 2013. New products tend to have a higher gross margin compared to products which have been in the market for more than one season. As a result, newly launched products contributed over-proportionately to the Group’s net income in 2013. We expect this development to continue in 2014 as our launch schedule includes a full pipeline of innovative products / SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 151.

02 / Key R&D metrics 1)

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</thead>
<tbody>
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<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
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<tr>
<td>R&amp;D expenses (in % of other operating expenses)</td>
<td>2.1</td>
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<td>2.0</td>
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<td>2.6</td>
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<tr>
<td>R&amp;D employees</td>
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<td>1,152</td>
<td>974</td>
<td>1,040</td>
<td>636</td>
<td>595</td>
</tr>
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</table>

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements. Prior years are not restated.
2) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006.
3) Reflects continuing operations as a result of the divestiture of the Salomon business segment.
Successful product launches across all major adidas categories

In 2013, adidas sales were again driven by the latest product offerings, with products launched during the course of the year accounting for 74% of brand sales (2012: 78%). Only 3% of sales were generated with products introduced three or more years ago (2012: 2%).

The adidas brand introduced numerous major product innovations in 2013. These included:

- In partnership with key material supplier BASF, adidas launched a groundbreaking material innovation called Boost. Boost was successfully launched in the running category, with Energy Boost, and over the course of the year was subsequently integrated in other running shoes. Tests conducted by the adidas innovation team (ait.) show that the highly durable Boost material provides the highest energy return in the running industry. The material was also demonstrated to be three times more temperature-resistant, when taken from +40 to -20 degrees Celsius, than standard EVA material. In 2014, Boost will be brought into other sports categories such as basketball and snowboarding.

- The Springblade is the first running shoe designed to help propel the wearer forward using specially designed blades. Each shoe has 16 highly elastic blades that help translate energy forward with each step while providing cushioning and one of the highest returns in the industry. Each blade, built from high-tech polymers, is precisely tuned in geometry, thickness and position for each phase of a runner’s stride to provide support and flexibility and a full range of movement.

- In November 2013, adidas launched miCoach Smart Run, an advanced and intuitive wrist-based running digital device. This smartwatch enables runners of all abilities to track their runs using GPS mapping, monitor their heart rate directly off their wrist, listen to their music and get real-time coaching, all in a single, colour-touchscreen running watch. The device uses no cables, straps or additional sensors. For more information on the adidas miCoach franchise see MICOACH.ADIDAS.COM.

- In football, adidas announced the adidas miCoach Smart Ball, which is designed to improve footballers’ technique, power, spin and accuracy through an automated coaching system. The ball has in-built sensors that track the ball’s movement and feed the information back to the players through an app on their smartphone.

- adidas also unveiled the official match ball for the 2014 World Cup, Brazuca, which features technology incorporated into the bladder and carcass that is identical to the Tango 12 (UEFA EURO 2012), Cafusa (2013 FIFA Confederations Cup) and the UEFA Champions League official match balls. However, a new structural innovation with a unique symmetry of six identical panels alongside a different surface construction provides improved grip, touch, stability and aerodynamics on the pitch.

For more information on these and other products see GLOBAL BRANDS STRATEGY, P. 77.
Reebok introduces new technology platforms
In 2013, Reebok’s latest products continued to generate the majority of Reebok’s sales, with an estimated 59% of footwear sales coming from products launched in 2013 (2012: 67%). Only 12% of footwear product sales relate to products introduced three or more years ago (2012: 14%).

In 2013, Reebok presented several key product introductions. Some of the highlights included:

- The Reebok One Series of fitness footwear was brought to market in 2013 and includes a three-foam midsole to maximise performance and comfort in each phase of the gait cycle. The heel/contact zone contains a soft cushioning foam that provides shock attenuation at impact; the mid-stance zone uses a lightweight compound engineered for a smooth transition, and the propulsive zone contains an ultra-responsive high energy return (rebound) foam that helps propel the wearer through toe-off.
- In training, Reebok expanded its CrossFit Nano technology platform with a new version, the 2.0. The shoe was designed to provide more flexibility and breathability with its mesh upper, while maintaining stability via a full-length, low-profile EVA midsole, for the perfect balance of cushioning and low-to-ground feel.
- In the women’s walking category, Reebok introduced a new technology called Skyscape, borrowing materials and soft moulding processes usually used to create lingerie to produce an all-around comfortable shoe that weighs only 5.0 ounces (approximately 140 grams).
- In 2013, Reebok also introduced CheckLight, a groundbreaking impact indicator for use in contact sports and activities. It has flexible electronics and motion sensors to accurately measure direct accelerations in real time and provide actionable objective measurement of impact force.

For more information on these and other products / SEE TAYLORMADE-ADIDAS GOLF STRATEGY, P. 86.

In addition, TaylorMade presented its SLDR drivers. With extremely low and forward weight distribution, the SLDR driver is able to deliver less spin and a higher launch angle when lofted up, producing significant distance gain for all players.

- The SpeedBlade iron feature in the sole a new slot with variable width, breaking into the cavity and filled with a soft polymer, resulting in more distance consistency and better feel while keeping the noticeable higher trajectory with a steeper angle of descent for soft landing of a slotted iron.

Rockport launches Total Motion
At Rockport, products launched in 2013 accounted for 58% of sales (2012: 61%). The Rockport brand presented several interesting product introductions during 2013. The highlight product launch was the Total Motion collection:

- Rockport’s Total Motion collection provides superior comfort combined with a soft glove-like fit and controlled flexibility. The combination of soft, premium leathers and padding-lined uppers allows consumers a minimum break-in period. Furthermore, the ultra-thin thermal polyurethane (TPU) plate in the outsole helps provide excellent stability and controlled flexibility while dispersing shock. Additionally, adiPrene technology by adidas helps provide all-day comfort.

For more information on these and other products / SEE ROCKPORT STRATEGY, P. 90.

Reebok-CCM Hockey innovates in sticks and skates
At Reebok-CCM Hockey, products launched in 2013 accounted for 53% of sales in North America (2012: 45%). Only 11% of sales were generated with products introduced three or more years ago (2012: 13%).

Reebok-CCM Hockey product launches in 2013 included:

- In July, CCM launched the RBZ hockey skate. With its new SpeedBlade +4.0mm holder and SpeedCore technology, it was CCM’s fastest skate yet.
- CCM strengthened its hockey stick offering with the RBZ Stage II hockey stick, continuing its R&D collaboration with TaylorMade-adidas Golf. The Stage II features a new blade construction with Freak Channels that provide 20% more Coefficient Of Restitution (C.O.R.) than the original RBZ stick, to help maximise puck speed.
- In addition, CCM returned to the goalie market with the launch of the Extreme Flex goalie line, offering a softer, lighter and more flexible tailored line for extremely athletic goalies.
- Reebok Hockey launch highlights in 2013 included the highly innovative and commercially successful RibCor hockey stick. The RibCor’s unique ribbed shaft technology features carbon fibres that are permanently in tension to help the player increase power transfer from their hands directly to the puck.

For more information on these and other products / SEE REEBOK-CCM HOCKEY STRATEGY, P. 92.
Ambitious 2014 R&D targets

Our Group remains committed to maintaining a full and innovative product pipeline, bringing new groundbreaking technologies and evolutions of concepts to the market each year / SEE GROUP STRATEGY, P. 48.

In 2014, cushioning and energy solutions, lightweight and digital sports technologies as well as sustainable product innovation will be at the forefront of adidas R&D activities. Additionally, investments and research emphasis will also include areas such as new manufacturing processes and advanced materials to drive the development of revolutionary products and industry-changing manufacturing approaches as we aim to position the brand as both a technology and sustainability leader in the sporting goods industry.

Reebok’s R&D activities in 2014 will continue to centre on the brand’s strategy to focus on fitness through its proprietary technology pillars, including ZigTech, RealFlex, DMX Moving Air and Pump. Reebok will invest in more significant R&D activities to support the new technology of Skyscape, and its 2014 R&D activities will also expand substantially in the area of wearable electronics.

TaylorMade-adidas Golf’s development efforts will reinforce industry leadership by enhancing golfers’ performance through a focus on technologies which provide improvements in low-forward weight distribution combined with lofting-up in metalwoods. Another area of key progress for TaylorMade will be delivering a new level of distance and increased control with new Speed Pocket technology in its product offering. Finally, developing more advanced balls that help increase spin and give more green side ball control for chip shots around the green will also be a key part of TaylorMade-adidas Golf’s research efforts in 2014.

Rockport will focus in 2014 on further expanding and optimising its successful concepts truWalkZero, RocSportsLite, Total Motion and Seven to 7. At the same time, the brand is investing in research and development to provide an improved foot climate.

Reebok-CCM Hockey R&D efforts will focus on introducing new technologies and, at the same time, advancing existing product platforms with a focus on performance skates and sticks. Reebok-CCM Hockey will also continue its partnership with TaylorMade-adidas Golf and its university research partners.

For more information on 2014 product initiatives / SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 191.

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<td>Energy Boost running shoe</td>
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<td>miCoach Smart Run watch</td>
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<td>miCoach Smart Run watch</td>
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<td>Terrex Fast GTX outdoor shoe</td>
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<td>Terrex Scope GTX outdoor shoe</td>
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<td>Reebok CheckLight</td>
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<td>CCM Crazy Light protective gear</td>
<td>2013 Creative Best of Show Award – Sports Equipment / POPAI – international trade association</td>
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<td>Rockport men’s footwear collection</td>
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Employees

Becoming the leader in the sporting goods industry depends upon the potential, dedication, knowledge and performance of our employees and excellence of our leaders. As such, we place considerable effort into creating a work environment that stimulates innovation, team spirit, engagement and achievement. By unlocking the talent of our workforce, we bring to life our company’s strategy and drive business results.

Supporting the achievement of our Route 2015 targets

In 2013, adidas Group Human Resources continued to drive organisational strategies to facilitate the achievement of Route 2015 strategic priorities. Group HR is committed to the three workstreams “Leadership”, “People” and “Capabilities” / DIAGRAM 01. 2014 activity will focus on embedding and activating existing programmes and concepts.

Commitment to leadership excellence

We continue to focus on elevating our leaders’ strengths, in particular how leaders create the right environment for our employees to be inspired, committed and motivated.

Enabling employees to reach their personal best

To reach their personal best, our Group employees are offered a wide variety of learning opportunities, building on their strengths, improving their skills and overcoming their own challenges. Our highest priority is to match individual employee aspirations with our organisational

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Talent management: The quality of current and future leadership within the adidas Group is key to our success. With specifically designed talent management tools, we identify employees at all management levels of our Group who have the potential to become future leaders within the organisation. In order to prepare them for more complex future roles, they participate in targeted development programmes / DIAGRAM 03. These comprise:

- Executive Development Programme (EDP): a global, cross-functional programme for employees who show potential for the executive level. The programme is centrally managed and executed. In 2013, we had 49 participants in this programme (2012: 49).
- Management Development Programme (MDP): a global programme which is executed regionally. This programme is tailored to employees from different functional areas and brands who show potential for director positions. In 2013, we had 89 employees participating in this programme (2012: 74).
- People Manager Development Programme (PDP): a global programme which is executed locally. The programme targets employees at a professional level who show potential to become team leads or senior managers. In 2013, 114 employees participated in this programme (2012: 121).

In addition, we offer tailored graduate programmes. The Business Management Programme (BMP), a 24-month international, cross-functional and cross-brand programme, is aimed at attracting professionals with MBA degrees and three to five years of work experience. The goal of this programme is to prepare them for future management positions within our Group. At year-end 2013, six employees were participating in the BMP globally (2012: 12).

The Functional Trainee Programme (FTP) is an 18-month programme providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within the adidas Group. The programme comprises six three-month assignments in various departments. At least one of these assignments takes place abroad. At year-end 2013, we employed 57 participants in our global FTP (2012: 62).
Our development programmes are complemented by apprenticeship and internship programmes. The adidas Group apprenticeship offers young people who want to join our Group directly out of school the opportunity to gain business experience in a three-year rotation programme. The programme includes vocational training in retail, industrial management and IT, as well as integrated study programmes. At the end of 2013, we employed 59 apprentices in Germany (2012: 56) and 62 integrated study programme students (2012: 48). Our global internship programme offers students three to six months of work experience within the adidas Group. It plays a key role in our recruiting strategy. At the end of 2013, we employed 532 interns in Germany (2012: 492).

**Performance management:** To further drive a high-performance culture within the adidas Group, in 2013 we rolled out our new performance management approach: The Score. The Score is our overarching concept to bring target setting, employee development and performance appraisal under one common process. While continuing to build on our key values of performance management, The Score also brings more focus, simplicity and alignment in setting team and individual targets and provides clarity for both teams and individuals about how to successfully achieve them. Each employee is evaluated and receives feedback at least twice a year, and employee development planning is further supported by the new process and system solution.

**Succession management:** The adidas Group succession management approach aims to ensure stability and certainty in business continuity. We achieve this through a globally consistent succession plan which covers successors for director level positions and above, including the Board positions of the Group. These positions and the respective potential successors are regularly discussed by senior management and our global HR leadership teams. The succession reviews create a clear picture of the successor readiness and outlines the necessary development actions. Based upon this information, we ensure individual development plans are in place to prepare successors for their potential next steps. We also use the successor information to create dynamic talent pools and hence have a clear understanding of the areas that need immediate or strategic action. All information is consolidated in a succession management risk analysis.

The succession management process is supported by a system solution which is applied in 91% of the adidas Group’s business units and is becoming part of our Integrated Talent Management Process and System through a step-by-step implementation approach.

**Performance-driven remuneration system**

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

**Bonus programme:** In order to allow our employees to participate in the Group’s success, and to reward them for their target achievement, we have implemented a global bonus programme. This programme combines individual performance (measured in the The Score process) and corporate performance (actual financial results measured against such targets as Group, Channel, Brand and/or Market). To further drive a high-performance culture within the adidas Group, we also implemented changes to our bonus programme as of 2013 to support alignment with business targets and put more emphasis on individual targets through the rewarding element of the bonus programme.

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

**Long-term incentive programmes:** In order to encourage sustainable financial results as well as retain our top leadership, the adidas Group offers Long-Term Incentive Programmes (LTIP) for leaders and Executive Board members. We value the contributions of our leadership team and provide this compensatory benefit to encourage continued performance and commitment. Other benefits include our 401(k) retirement plans in the USA and the adidas Group pension plan for our employees in Germany. In 2013, 2,315 employees participated in the latter, which represents 48% of all eligible employees.

Our Group subsidiaries also grant a variety of benefits to employees, depending upon locally defined practices and country-specific regulations and norms.
Online communication platforms to drive employee engagement, collaboration and learning

We believe that a robust and state-of-the-art internal communication platform is essential for driving employee engagement and fostering learning and open collaboration within our organisation. For example, the Group intranet is based on blogs and wikis, allowing departments and teams to quickly build and edit their own internal communication platforms. We actively encourage employees to share knowledge, collaborate and discuss current topics. As an example, we have an “Ask the Management” platform on our intranet, enabling employees to openly address questions to our senior leaders which are then answered promptly. In 2013, we laid the foundation for a brand-new enterprise collaboration platform which will be the adidas Group’s new internal global digital home. It will bring the intranet, online collaboration platforms and important system applications under one roof. The solution will be employee-centric and comes with a high degree of personalisation, empowering and connecting users across departments and locations and turning the adidas Group into a truly networked company. It will be rolled out to all headquarter locations in 2014, with subsequent integration for non-headquarter locations.

In 2013, we also launched a new Learning Management System in headquarter locations and selected key markets to streamline our classroom training registration processes and provide access and reporting around selected training activities. In 2014, the scope will be expanded to further support our Group’s commitment to implement innovative learning tools and approaches.

Creating an attractive work environment

We aim to offer our employees an attractive work environment. In this context, the following aspects play a central role:

Work-life integration: We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees. Our Work-Life Integration Programme includes flexible work time and place, people development and leadership competence related to work-life integration, as well as family-oriented services. The adidas Group is therefore focusing on programmes which give employees the option to combine their careers with private life. In addition to providing flexible working arrangements, teleworking, sabbaticals and parent/child offices, we have had a child-care facility at our company premises in Canton, USA, since 2002, and in 2013 we opened a day-care centre for 110 children at our global headquarters in Herzogenaurach, Germany. The World of Kids started with fully booked places in September 2013 and focuses on healthy nutrition and movement. It is run bilingually (English/German) and caters for children as young as three months until they are of school age.

Online communication platforms to drive employee engagement, collaboration and learning

Diverse sports activities for employees: In addition, we offer our employees a wide range of sports activities at our major sites, in which partly also their partners and family members can participate. Employees in Herzogenaurach, Portland, Canton and at other subsidiaries have access to a company gym and numerous other sports facilities. Our Company Sports department in Herzogenaurach also organises various team and individual sports activities. In 2013, the Company Sports department in Germany offered 309 courses and 41 events, which were attended by more than 6,000 participants (2012: >4,400).

Diverse workforce key to success: As a global company, we understand that it takes people with different ideas, strengths, interests and cultural backgrounds to ensure we achieve our goals. A high degree of diversity is already represented within our workforce. At our Group’s global headquarters, for example, we have employees from more than 70 nations. Our broad international employee population works in over 40 locations outside their “home” countries. As an employer who truly believes in building global career opportunities for employees, we see value in nurturing global perspectives to be more readily able to meet the needs of our global consumers.

Diversity is one of the adidas Group’s four core values. We strongly believe that mixed leadership teams contribute to the strength of our company, and we are committed to bringing this to life. We have joined other DAX-30 companies in an effort to increase the proportion of women in management to between 32% and 35% by 2015 (currently: 28% worldwide). To reach this, we have over-achieved our goal to increase the proportion of women in our leadership development programmes to over 35%. The Supervisory Board of adidas AG has committed to increase the degree of female representation to at least three female members at the next election in 2014, with at least one to be on the shareholders’ side / SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 48. Since 2012, the adidas Group has been an active member of the “Charta der Vielfalt” (“Diversity Charter”) in Germany in order to share our best-practice knowledge regarding awareness of diversity and inclusion in the work environment. Our efforts to develop mixed leadership talent have become increasingly recognised, having been awarded in 2013 (for the third time) the Female Recruiting Award from the Women & Work conference in Bonn, Germany. In our newly established global internal Women Networking Group, women can support, coach and advise other women, to encourage them to go for leadership positions.

In addition, we have regular events highlighting diversity as a key topic, e.g. on the occasion of our 2013 Diversity Day, addressing topics such as “Trends for the future workplace”, “Multicultural teams”, “Why inclusion matters” and “LGBT inclusion@work”. With our participation at the Sticks & Stones Fair in Berlin, we stepped up our support in 2013 for the LGBT community. With this initiative, the foundation was laid to build up an LGBT network in 2014, which will be driven by our employees.

Diverse sports activities for employees:
Maintaining “employer of choice” status: Our “employer of choice” status continues to garner worldwide recognition and enables us to attract, retain and engage industry-leading talent.

In order to sustainably maintain this competitive advantage, we launched a worldwide, comprehensive strategy with five key pillars. These five pillars lay the foundation for how we consistently communicate our strength as a top employer.

Employee engagement measured regularly
Against the background of our Route 2015 aspirations, we need to make sure our workforce is engaged and motivated. Only then can we ensure that we will achieve our ambitious Route 2015 targets. Our Global Human Resources department regularly carries out employee engagement surveys, in order to measure the engagement and motivation of our employees. The results of these surveys are an important non-financial KPI for our Group. They enable us to develop the right focus and future people strategies across our organisation.

The adidas Group conducted its second Global Employee Engagement Survey in 2013. The comprehensive set of over 80 questions garnered valuable employee feedback related to all areas of daily work life within our organisation, and it monitors opinions about how to make our environment an even more engaging one. Results have been communicated across the Group, first by addressing our overall results and then cascading the results by business area. Globally coordinated Results to Action teams (R2A) have been formed across all departments in order to address our employees’ feedback. The results of our first two global engagement surveys, conducted in 2010 and 2013, were stable.
at a rate comparable to the average engagement level of our provider’s client database. Improvements were made in specific scores relating to performance management and learning and development opportunities. We have set ourselves ambitious targets to improve the overall engagement score in our 2015/2016 employee engagement survey.

### Global employee base increases strongly

On December 31, 2013, the Group had 50,728 employees, which represents an increase of 10% versus 46,306 in the previous year. This development is primarily related to the expansion of the Group’s own-retail store base, particularly in European Emerging Markets.

On a full-time equivalent basis, our Group had 43,537 employees on December 31, 2013 (2012: 40,168). 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.


At the end of 2013, 23% of our Group’s staff were employed in Western Europe (2012: 24%), 33% in European Emerging Markets (2012: 30%), 25% in North America (2012: 25%), 3% in Greater China (2012: 4%), 9% in Other Asian Markets (2012: 10%) and 7% in Latin America (2012: 7%).

As a global company with less than 11% of our employees located in Germany, we actively encourage global mobility and offer our employees the opportunity to experience international assignments. To support adidas Group professionals and their families moving to new living and working environments, we provide, among other services, relevant language and cultural training as well as relocation assistance.
Sustainability

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

Engaging with a variety of stakeholders

At the adidas Group, we openly engage with numerous stakeholders, involving them in key social and environmental decisions that shape day-to-day operations. Through active participation in, for example, the Better Cotton Initiative, the Sustainable Apparel Coalition, the Leather Working Group and the AFIRM Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organisations such as the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA). In addition, we build awareness, capacity and knowledge of laws and rights among factory management and workers by partnering with leading providers such as the EHS Academy in China and Better Work. For example, inspired by a Better Work initiative, we launched a strategic, industry-wide project to improve communication between factory management and workers in our supply chain.

We recognise that open and honest communication enhances the transparency of our business and demonstrates our commitment to being accountable. Since 2007, the adidas Group has disclosed its global supplier factory list on the corporate website. In 2013, we disclosed the list of factories manufacturing 2014 FIFA World Cup Brazil products. The same was done for the 2010 FIFA World Cup South Africa as well as for the London 2012 Olympic Games, when the adidas Group became the first Olympic partner to disclose its supply chain for the Olympic Games.

With our regular sustainability reports, we publicly report back on our achievements and openly communicate where we have met targets and when we have fallen short.

More information online

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

- Our Group’s sustainability approach
- Supply chain management
- Stakeholder engagement
- Products and sustainability
- Reporting and performance data
- Our Group’s environmental approach

Workplace Standards set rules in the supply chain

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

To illustrate how suppliers should implement our Standards, we have created a set of detailed guidelines for use in factory settings, which demonstrate our expectations for fair, healthy, safe workplace conditions and environmentally sound factory operations. The guidelines are updated on a regular basis by our Social and Environmental Affairs (SEA) team and are publicly available. They are also used to determine suppliers’ compliance with our Standards and to advise and train our suppliers in improving their social and environmental performance.
Careful supplier selection
To improve working conditions throughout our supply chain, Global Operations works closely with our SEA team on supplier selection. The SEA team assesses all potential new suppliers, and orders can only be placed with a new supplier if SEA approval has been granted.

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

Training to achieve sustainable compliance
As part of the adidas Group’s continuous efforts to achieve more effective and sustainable practices within its supply chain, the Group has initiated a system of multi-level and cross-functional training sessions together with its global supplier network. 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 as well as detailed training on effective health, safety and environmental practices. Furthermore, we promote the establishment of structures that actively involve workers and management of our suppliers, as well as local employee associations and non-governmental organisations (NGOs). In order to strengthen personnel capacities throughout our company, our SEA team also organises workshops for licensees, agents and adidas Group business entities. In this way, the consideration of acceptable working conditions becomes a routine part of our business activities. In 2013, the SEA team conducted 148 training sessions and workshops (2012: 172) / Diagram 01.

Monitoring and rating our factories
The SEA team assesses compliance with the 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. A KPI rating tool helps us evaluate six fundamental elements of social compliance covering management commitment, the quality of management systems in place, worker-management communication, training delivered, transparent reporting and measurement of compliance activities. According to the results, suppliers are assessed with a compliance rating (C rating) score between 1 and 5 (with 5 being the best rating) / Table 03. The latest results show that, in 2012, 58% of our direct suppliers achieved a 3C (good) or better rating (2011: 39%).

Our target for 2015 is to have 60% of our direct suppliers meet a 3C (good) rating or better under our social compliance KPI rating. With this approach we encourage our suppliers to take responsibility for their own performance including reporting of key social and health and safety indicators. These ratings are an important non-financial KPI for our Group / See Internal Group Management System, P. 116. They also enable us to precisely determine training needs at our suppliers’ factories. During 2013, we conducted 1,489 factory visits (2012: 1,564 visits) involving management and worker interviews, document reviews, facility inspections and training sessions at different levels in our supply chain / Diagram 02.
In addition to our own monitoring activities, we value independent and unannounced assessment by third parties to demonstrate the credibility of and provide verified information about our programme to stakeholders. As a member of the Fair Labor Association (FLA), the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. In 2005, the monitoring programme of the adidas Group was accredited by the FLA for the first time; re-accreditation took place in 2008. 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 300 independent assessments have been conducted at adidas Group suppliers.

**Warning-letter system to enforce compliance**

Where a manufacturing supplier is performing poorly in terms of Workplace Standards compliance, we work closely with them to find solutions. However, when we find ongoing and serious instances of non-compliance as well as 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. Overall, three warning letters result in a termination. In 2013, we terminated our business relationship with 9 suppliers for compliance reasons (2012: 10 terminations).

<table>
<thead>
<tr>
<th>Grade</th>
<th>KPI score band</th>
<th>Performance description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1C</td>
<td>0 – 29%</td>
<td>There are numerous severe non-compliance issues and no compliance management and compliance practices in place. The factory has been given notice that business will be terminated unless there is immediate improvement.</td>
</tr>
<tr>
<td>2C</td>
<td>30 – 59%</td>
<td>There are some non-compliance issues and no compliance management systems. However, there are some effective compliance practices being delivered.</td>
</tr>
<tr>
<td>3C</td>
<td>60 – 79%</td>
<td>There are minor non-compliance issues. The factory has compliance management systems and some effective compliance practices in place.</td>
</tr>
<tr>
<td>4C</td>
<td>80 – 89%</td>
<td>Generally, there are no non-compliance issues. The factory has compliance management systems in place, and most of the components are effective.</td>
</tr>
<tr>
<td>5C</td>
<td>90 – 100%</td>
<td>There are no non-compliance issues and all of the factory’s management systems and practices are well delivered and effective.</td>
</tr>
</tbody>
</table>

**Strategic approach to driving environmental progress and tackling climate change**

Tackling climate change poses a number of challenges for the adidas Group and its manufacturing partners. As a result of an analysis of our environmental impacts in different areas of operation, we have put our Environmental Strategy in place, which is targeted to substantially improve our environmental footprint. It follows a clear vision and sets specific targets to be reached by 2015. These targets cover corporate and brand-related processes – reaching from product design and creation to sourcing and manufacturing through to our stores and all other points of sale. The focus is on energy resources, water conservation and discharge, waste and chemicals, and on becoming more thoughtful and efficient in using resources as well as helping reduce operational costs. Our approach is to manage environmental issues as an integral part of our daily operations, positively contributing to the adidas Group’s overall business performance. More details on our Environmental Strategy can be found on our website at: [WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/PLANET/ENVIRONMENTAL-APPROACH](http://WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/PLANET/ENVIRONMENTAL-APPROACH).

**Improving our environmental footprint at own sites**

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

We have set Group-wide and site-specific 2015 targets related to carbon emissions, savings in energy, water and paper consumption as well as sourcing green energy. One of the key goals within the Green Company initiative is to operate certified environmental management systems at major sites of the adidas Group. Overall, by 2015, we aim to reduce the relative carbon emissions at our own sites by 30%. By the end of 2013, 12 major sites of the adidas Group had certified environmental management systems in place. Around 20% of the adidas Group’s workforce is located at these sites. Read more about the Green Company programme and our performance achievements on our website at: [WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/PLANET/GREEN-COMPANY](http://WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/PLANET/GREEN-COMPANY).
Sustainable materials

One key goal of our Environmental Strategy is to reduce the overall environmental impact of materials used in our products. We aim to find materials that reduce waste or have less of an impact throughout their whole life cycle. The adidas Group has various initiatives in place that help to achieve its goal to increase the usage of recycled and sustainable materials.

One example is our commitment to use 100% “sustainable cotton” (Better Cotton, certified organic cotton or any other form of sustainably produced cotton that is currently available or might be in future) in all our products by 2018. More information about sustainable cotton can be found on our website at www.adidas-group.com/en/sustainability/products/materials.

Another initiative is the adidas brand’s sustainable product programme “Better Place”, which creates sustainable products within the adidas Sport Performance and Originals & Sport Style ranges. The product creation process includes the utilisation of sustainable materials, environmental design and innovative manufacturing techniques. The first adidas “Better Place” products were introduced globally in 2009 in response to increasing consumer demand for sustainable apparel and footwear. These products have been a part of the adidas brand product offering ever since.

The number of adidas products that either reached or exceeded the baseline “Better Place” criteria has grown continuously in recent years. This growth is supported by ongoing innovation in the area of sustainable product construction and manufacturing techniques, such as the revolutionary DryDye technology or the low-waste initiative. DryDye is a polyester fabric dyeing process that uses no water, 50% fewer chemicals and 50% less energy than the traditional fabric dyeing process. The low-waste initiative produces footwear and sports apparel with fewer parts, recycled materials and maximum pattern efficiency, aiming to reduce material waste.

Furthermore, at the adidas Group, we now increasingly use virtual technologies to reduce the quantity of physical samples required to design and sell new products. Virtualising processes saves energy and materials, and reduces waste. As well as being innovative, virtualisation is also quick and efficient. It helps us save resources and money by reducing material waste, transportation and distribution costs. And with fewer samples being transported by airfreight, we are also reducing our carbon emissions.

In 2013, we focused on increasing the use of sustainable materials such as recycled polyester, organic and Better Cotton and bio-based materials in our products. These environmentally preferred materials have replaced conventional materials in many of our footwear and apparel products. In addition to increasing the use of environmentally preferred materials, we strive to continuously increase the range of more sustainable products by developing sustainable product solutions and using innovative materials.

Driving environmental improvements in our supply chain

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

The majority of our footwear sourcing volume is produced in factories which are OHSAS 18000 and/or ISO 14001 certified. The remaining part of our footwear sourcing volume is produced in factories that have management systems in place but have not yet been certified. All footwear factories are regularly assessed against the adidas Group’s standards on environment and workplace health and safety. We use “Environmental Key Performance Indicators” to track the progress of environmental efforts undertaken by our strategic suppliers. Furthermore, we have established a database to collect environmental data from the factories of our core suppliers. A range of other activities have been implemented to reduce our carbon footprint in the supply and distribution chain. Examples of these are in the areas of transportation and energy use. In the transportation of our products, our policy is to minimise the impacts, in particular from airfreight shipments, through improved order and production planning tools.

Control and monitoring of restricted substances

We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety. These standards are mandatory for all business partners and are updated regularly based on findings in our ongoing dialogue with scientific organisations. They cover all general requirements for eco-labels and green seals (e.g. Oeko-Tex Standard 100, Toxproof TÜV Rheinland, etc.) for footwear, apparel and hardware products. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected.
Furthermore, it is the adidas Group’s goal to work with suppliers and the chemical industry on reducing and eliminating the discharge of hazardous chemicals in our sphere of influence as far as possible. Besides our mature policies that ban or restrict chemicals in our products, we have also specified substances that cannot be used during the manufacturing process because they can affect workers’ health.

Reducing VOC emissions

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

By applying innovative and environmentally sound bonding and priming technologies and following the adidas Group’s guidelines on the use of chemicals, it has been possible for our athletic footwear suppliers to reduce the use of VOCs from well above 100 grams per pair down to less than 20 grams.

Strong sustainability track record reflected in index memberships

Interest from the financial community in sustainability management is steadily increasing. We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment (SRI) analysts. Each year, we respond to numerous enquiries from socially responsible investors, fund managers and financial analysts. They evaluate our efforts through in-depth analysis of our sustainability programme, including document review as well as interviews with employees and management. As a result, adidas AG has been included in a variety of high-profile sustainability indices. For the 14th consecutive time, in 2013, adidas AG was selected to join the Dow Jones Sustainability Indexes (DJSI), the world’s first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. In the category “Clothing, Accessories & Footwear”, adidas AG was rated as industry leader in sustainability issues and corporate responsibility for the tenth time.

adidas AG in sustainability indices

/ Dow Jones Sustainability Index World
/ Dow Jones Sustainability Index Europe
/ FTSE4Good Europe
/ Euronext Vigeo Eurozone 120
/ Euronext Vigeo Europe 120
/ Euronext Vigeo World 120
/ Ethibel Sustainability Index Excellence Europe
/ ECPI Euro Ethical Index
/ ECPI EMU Ethical Index
/ STOXX Global ESG Leaders

For more information / SEE OUR SHARE, P. 58.
"Hi, my name is Paul and I am privileged to be part of the team that recently launched the most innovative wrist-based running device on the market – miCoach Smart Run. Clean and simple, the miCoach Smart Run tracks everything a runner wants from the user’s wrist, including their heart rate, removing the necessity of chest straps. And it also delivers an advanced and intuitive blend of coaching and performance data, designed to help runners maximise their training every time they lace up their shoes."

For the love of sport.
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**GROUP MANAGEMENT REPORT:**
Internal Group Management System

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

Operating cash flow as Internal Group Management focus

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

Operating margin as important KPI of operational progress

Operating margin (defined as operating profit as a percentage of net sales) is our Group’s key focus measure to drive and improve our operational performance. It highlights the quality of our top line and operational efficiency. The primary drivers central to enhancing operating margin are as follows:

/ 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.
/ Minimising clearance activities.
/ Increasing the quality of distribution, with a particular focus on controlled space.
/ Over-proportionate growth in emerging markets.
/ Realising supply chain efficiency initiatives.

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

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

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

Our Group also puts a high priority on the optimisation of non-operating components such as financial result and taxes, as these items strongly impact the Group’s cash outflows and therefore the Group’s free cash flow. Financial expenses are managed centrally by our Group Treasury department. See Treasury, p. 135. The Group’s current and future tax expenditure is optimised globally by our Group Taxes department.

Tight operating working capital management

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

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

Capital expenditure targeted to maximise future returns

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

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

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

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

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

Cost of capital metric used to measure investment potential

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

In addition to the Group’s financial KPIs to assess the current performance and operational success of the adidas Group, we have identified a set of non-financial KPIs that help us track our progress in areas that are critical for our long-term success but are, however, not directly reflected in the Group’s financial statements. These non-financial KPIs are assessed on a regular basis and managed by the respective Group functions. Key non-financial KPIs include market share and consumer insight tracking, our customer delivery performance (On-Time In-Full), our employee engagement and a set of KPIs in the area of our sustainability performance.

Market share: 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 regions. Therefore, mainly on a market and category level, we invest in primary qualitative and quantitative research such as trend scouting, consumer surveys and market share data to determine brand and category strength. Measures that are regularly tracked include market shares, brand awareness, likeability and purchase intent. These efforts are supported by global market research and consumer insight teams / SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 180.

Backlogs and sell-through data: To manage demand planning and anticipate our future performance, backlogs comprising orders received up to nine months in advance of the actual sale are used as a key indicator. However, due to the growing share of own retail in our business mix as well as fluctuating order patterns among our wholesale partners, our order books are less indicative of anticipated revenues compared to the past. Therefore, qualitative feedback from our retail partners on the sell-through success of our collections at the point of sale as well as data received from our own-retail activities are becoming even more important / SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 151.

On-Time In-Full (OTIF): “On-Time In-Full” (OTIF) measures the adidas Group delivery performance towards customers (Wholesale) and our own-retail stores. Managed by our Global Operations function, OTIF assesses to what degree customers received what they ordered and if they received it on time. It helps our Group to investigate improvement potential in the area of order book management and logistics processes. It therefore also helps us to improve our delivery performance, which is a major aspect when it comes to customer satisfaction. The OTIF assessment covers both the adidas and Reebok brands for our two biggest channels, Wholesale and Retail, in most of our key markets / SEE GLOBAL OPERATIONS, P. 94.

Employee engagement: The adidas Group regularly carries out employee engagement surveys to measure the level of engagement and motivation of all our employees. The survey aims to provide key insight into how well as a company and as leaders we are doing in engaging our employees. It thus enables us to develop the right focus and future people strategies across our organisation. In 2013, the adidas Group conducted its second global Employee Engagement Survey, gathering responses from over 40,000 employees. This represents a participation rate of 85% / SEE EMPLOYEES, P. 105.

Sustainability performance: We have a strong commitment to enhance the social and environmental performance of our Group. By doing so, we firmly believe we will not only improve the Group’s overall reputation, but also increase our economic value. We have therefore implemented a comprehensive sustainability programme / SEE SUSTAINABILITY, P. 111 under which we regularly review our performance. We closely monitor our 2015 sustainability targets and have set ourselves clear milestones for each year. A key focus lies on monitoring and rating our factories with regard to compliance with our Workplace Standards and rating the effectiveness of compliance systems. A KPI rating tool helps us evaluate six fundamental elements of social compliance. The results of these ratings are an important non-financial KPI for our Group / SEE SUSTAINABILITY, P. 111. We have a strong track record in sustainability reporting, with our Sustainability Progress Report being an integral part of this. All our social and environmental publications, which include more details and additional data, are provided on our corporate website at: / WWW.ADIDAS-GROUP.COM/EN/SUSTAINABILITY/ REPORTING-POLICIES-AND-DATA/SUSTAINABILITY-REPORTS.
**Structured performance measurement system**

We have developed an extensive performance measurement system, which utilises a variety of tools to measure the performance of the adidas Group. The Group’s key financial metrics are monitored and compared against budget as well as a rolling forecast on a monthly basis. The focus is on operating cash flow, CACC, net sales, operating margin, operating working capital and net cash development. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimise the development of the Group’s operating performance. We also benchmark the Group’s financial results with those of our major competitors on a regular basis.

To assess current sales and profitability development, management analyses sell-through information from our own-retail activities as well as short-term replenishment orders from retailers.

Taking into account year-to-date performance as well as opportunities and risks, the Group’s full year financial performance is forecasted on a quarterly basis. In this respect, backlogs, sell-through data, feedback from own-retail stores and retail partners are assessed as available. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

To ensure an effective performance measurement process at all times, in 2012 we introduced a new Group-wide management reporting system, enabling automated and standardised management reporting, thereby combining backward- and forward-looking information from different data sources. Having laid the foundation in 2012, the core system implementation started in 2013. The platform is used as a major reference point on a global level, across all markets, functions and brands. It consolidates and harmonises different reporting tools and systems within the adidas Group and enables fact-based decision-making on a senior management level. In 2014, the new reporting system will see further enhancement, with additional data sources and functionalities being added.

**Enhanced integrated business planning and management approach**

In order to further optimise profitability and working capital efficiency as well as operating cash flow development, in 2013 we continued the Group-wide Integrated Business Planning initiative (IBP). This initiative focuses on developing and forming an enhanced forecasting approach by aligning processes and timelines of major business functions such as marketing, sales and operations at a market and global level. The centre-point of this approach is to improve the reliability of future business planning, leading to a new efficiency level of order book building and conversion. This, in turn, is expected to lead to improving full-margin business.

The whole process is set up in a rhythm and timeframe to facilitate full cross-functional alignment and forecasting clarity in advance of important business decision processes – in particular those related to product pricing, range building, material purchasing or production capacity fixing. To create a seamless flow between achieving our strategic objectives and implementing operational plans, we follow a rolling two-year time horizon. This ensures more focus on the mid-term perspective, while at the same time highlighting relevant information around short-term business events and volatilities. All target-setting is fully embedded into the integrated planning process and communicated in advance of all relevant business milestones. While the process roll-out was successfully finalised in 2012, 2013 saw important system changes and data restructuring, initiated to make the approach sustainable and integrated in the Group’s overall value chain. With the start of 2014, transparency on the effectiveness of IBP will increase, as specific KPIs with a direct link to business performance have been identified and are being monitored.
Group Business Performance

In 2013, the adidas Group delivered a solid financial performance, despite macroeconomic challenges in many regions, especially Western Europe. Currency-neutral Group sales increased 3% as a result of growth in Retail and Other Businesses. In euro terms, adidas Group revenues decreased 3% to € 14.492 billion from € 14.883 billion in 2012. The Group’s gross margin increased 1.5 percentage points to 49.3% (2012: 47.7%), driven by the positive impact from a more favourable pricing, product and regional sales mix as well as a larger share of higher-margin Retail sales. The Group’s gross profit rose 1% to € 7.140 billion in 2013 versus € 7.103 billion in 2012. In 2013, the adidas Group incurred goodwill impairment losses of € 52 million (2012: € 265 million). These one-off expenses were non-cash in nature and did not affect the adidas Group’s liquidity. Excluding goodwill impairment losses, the Group’s operating profit grew 6% to € 1.254 billion compared to € 1.185 billion in 2012, representing an operating margin of 8.7%, up 0.7 percentage points. This was primarily due to the increase in gross margin, which more than offset the negative effect from higher other operating expenses as a percentage of sales. Net income attributable to shareholders excluding goodwill impairment losses was up 6% to € 839 million (2012: € 791 million). Basic and diluted earnings per share excluding goodwill impairment losses grew 6% to € 4.01 from € 3.78 in 2012.

Economic and Sector Development

Global economy expands 2.4% in 2013

In 2013, according to the World Bank, global GDP growth moderated slightly to 2.4%, compared to 2.5% in the prior year. The emerging markets outperformed developed economies, growing 4.8% and 1.3%, respectively. Relatively stable inflationary pressures and increases in real disposable incomes supported consumption and GDP growth, particularly in many emerging markets, albeit at a slightly lower rate than that seen in previous years. Despite improvements in economic activity and sentiment, many developed markets continued to face economic challenges in 2013, particularly in the euro area, where low growth and even recession in many mature economies remained as significant negative pressure for the global economy.

In Western Europe, GDP growth was flat in 2013, which was an improvement from the contraction of 0.3% in the prior year. This reflects the overall stabilisation of the region. However, within the region, the euro area remained in recession, with some of the union’s major economies, such as Italy and Spain, contracting in 2013. This was largely due to high unemployment levels and austerity measures inhibiting investment, spending and confidence. These developments offset modest growth in the euro area’s largest economies, Germany and France, where a recovery in consumer demand and spending helped drive moderate growth.

European emerging markets recorded positive GDP growth of around 2.2%, albeit at lower levels than in recent years (2012: 2.7%). This was fuelled by robust industrial and export activity in most of the region’s markets. Russia, the world’s largest energy exporter, was negatively impacted by lower growth in global demand for oil and natural gas, as well as relatively high inflationary pressures which resulted in a deceleration in consumer and investment spending.

<table>
<thead>
<tr>
<th>Regional GDP development</th>
<th>Global</th>
<th>Western Europe</th>
<th>European emerging markets</th>
<th>USA</th>
<th>Asia</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>6</td>
<td>3</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>2012</td>
<td>6</td>
<td>3</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>3</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

1) Real, percentage change versus prior year; 2011 and 2012 figures restated compared to prior year.
3) Source: HSBC.
4) Source: U.S. Federal Reserve.
5) Asia also includes Japan and Area Pacific.
The US economy grew modestly in 2013, with GDP, according to the Federal Reserve, expanding 2.3% compared to 1.8% in 2012. Low inflation and a recovery in the real estate market helped drive consumer confidence and spending, particularly in the second half of the year. Additionally, robust export and industrial activity contributed positively to economic growth. However, sizeable austerity measures, higher federal taxes and disruptions from the partial shutdown of many federal agencies adversely impacted growth.

Asia recorded positive GDP growth of around 4.3% (2012: 4.2%). Excluding Japan, most Asian markets continued to post the highest global GDP growth rates, increasing 6.0% (2012: 6.0%). China was the region’s top-performing economy, expanding its GDP by 7.7% (2012: 7.7%), with steady momentum in its manufacturing and service sectors. This compared to growth of 1.7% in Japan, where, despite a slight slowdown in the third quarter, the economy continued to rebound. This was fuelled by a substantial government stimulus programme and the relatively low value of the yen, which assisted a recovery in export activity. Most other Asian economies also posted healthy GDP growth, with strong wage increases across most of the region helping to drive domestic demand.

In Latin America, GDP increased 2.0% (2012: 2.5%), with growth supported by low unemployment rates, credit incentives, a recovery in industrial production and solid domestic consumption, albeit weaker than in recent years. Investment in the urban infrastructure in preparation for the 2014 FIFA World Cup also fuelled activity in Brazil. However, increases in inflation, particularly in Argentina, negatively impacted economic expansion.

Positive momentum in the global sporting goods industry

In 2013, the global sporting goods industry recorded solid growth, primarily driven by rising consumer spending in the emerging markets, which more than offset subdued private spending in many Western European markets. The e-commerce channel continued to see rapid expansion across the industry, with a wide diversity of strategies being implemented to leverage commercial opportunities through digital, social media and, particularly, mobile technologies. The industry also witnessed a large number of fitness-tracking devices and fitness mobile apps coming to the market during the year. From a category perspective, basketball remained strong, with both performance and lifestyle performing well. Running posted a solid performance, with lightweight and technical running continuing to record strong growth. However, sales trends in the lifestyle running category were low. The build-up to the 2014 FIFA World Cup supported the football category, especially towards year-end. The outdoor category, in both footwear and apparel, faced some headwinds at retail during the year.
Modest growth of Europe’s sporting goods industry
In Europe, despite high unemployment and low consumer confidence in many markets, the sporting goods industry grew modestly. The sector faced challenging comparisons to the prior year, which had been buoyed by the major sporting events of the London 2012 Olympic and Paralympic Games as well as the UEFA EURO 2012. Nonetheless, the industry gained momentum towards year-end due to the build-up to the 2014 FIFA World Cup in Brazil, which helped drive sales of federation jerseys and football-related products. In European emerging markets, slower disposable income growth rates negatively impacted consumer sentiment and spending, resulting in lower retail traffic in 2013, especially in Russia.

Robust retail activity drives North American sporting goods industry
In the USA, the sporting goods industry posted a robust performance, with relatively low inflation and slight improvements in consumer confidence helping drive consumer spending. We estimate that sales in the sporting goods sector increased at a mid- to high-single-digit rate, driven by improvements in product mix as retailers focused on premium and highly innovative products. Strong retail trends in basketball, high-performance running and sporting lifestyle apparel more than offset slight contractions in the lifestyle running, outdoor and golf categories. Digital presence and e-commerce continued to see rapid expansion across the industry in 2013. Cold weather in the USA towards year-end encouraged consumers to go online and, in conjunction with discounting, added momentum to this increasingly important channel. US sports footwear sales are estimated to have increased at a mid- to high-single-digit rate in 2013, driven in particular by increases in the basketball and high-performance running categories. Highly innovative performance products also fuelled growth in US sporting apparel sales, which are estimated to have increased at a high-single-digit rate.

Asian sporting goods industry continues to expand
Strong wage increases and rising consumer spending, albeit lower than in recent years, fuelled increases in Asia’s sporting goods industry, which we estimate grew at a low- to mid-single-digit rate in 2013. The region’s industry expansion continues to be driven by international brands. In China, this trend was particularly evident, with many domestic brands remaining focused on inventory clearance and store network consolidation. In Japan, economic progress helped support improvements in consumer spending and a recovery in retail and sporting goods sales, particularly in the second half of the year.

Latin America’s sporting goods industry records strong momentum
In Latin America, low unemployment levels and higher wages supported healthy retail and sporting goods sales. However, high inflationary pressures lessened the robust expansion of the sector during the year. Due to the importance of football for the region, the sporting goods sector also benefited, principally in the second half of 2013, from sales relating to the build-up to the 2014 FIFA World Cup, which is being hosted by Brazil.

adidas Group and competitors outperform economic environment
adidas Group currency-neutral revenues and profitability, as well as that of many competitors and retailers, increased in 2013. In most regions, sales of our Group and other major sporting goods companies grew at a higher rate than GDP and overall consumer spending.

<table>
<thead>
<tr>
<th>Exchange rate development 1) (€ 1 equals)</th>
<th>Average rate 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
<th>Average rate 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>1.2862</td>
<td>1.2805</td>
<td>1.3080</td>
<td>1.3505</td>
<td>1.3791</td>
<td>1.3283</td>
</tr>
<tr>
<td>GBP</td>
<td>0.8115</td>
<td>0.8456</td>
<td>0.8572</td>
<td>0.8361</td>
<td>0.8337</td>
<td>0.8492</td>
</tr>
<tr>
<td>JPY</td>
<td>102.65</td>
<td>120.87</td>
<td>129.39</td>
<td>131.78</td>
<td>144.72</td>
<td>129.58</td>
</tr>
<tr>
<td>RUB</td>
<td>39.951</td>
<td>39.802</td>
<td>42.783</td>
<td>43.682</td>
<td>45.137</td>
<td>42.298</td>
</tr>
<tr>
<td>CNY</td>
<td>8.1137</td>
<td>8.0817</td>
<td>8.0817</td>
<td>8.3029</td>
<td>8.4082</td>
<td>8.1674</td>
</tr>
</tbody>
</table>

1) Spot rates at quarter-end.

<table>
<thead>
<tr>
<th>Oil price development 1) (in US $ per barrel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>120</td>
</tr>
<tr>
<td>80</td>
</tr>
</tbody>
</table>

Income Statement

adidas Group currency-neutral sales grow 3%

In 2013, Group revenues grew 3% on a currency-neutral basis, as a result of sales increases in Retail and Other Businesses. Currency-neutral Wholesale revenues remained stable compared to the prior year. The development of Group sales is below initial Management expectations of a mid-single-digit Group sales increase. Currency translation effects had a negative impact on sales in euro terms. Group revenues decreased 3% to €14.492 billion in 2013 from €14.883 billion in 2012 / DIAGRAM 07.

Group sales increase driven by growth in Retail and Other Businesses

In 2013, currency-neutral Wholesale revenues remained stable. While sales at Reebok grew at a low-single-digit rate, revenues at adidas remained at the prior year level. Currency-neutral Retail sales increased 8% versus the prior year, as a result of sales growth at both adidas and Reebok. Revenues in Other Businesses were up 5% on a currency-neutral basis, driven by sales increases at TaylorMade-adidas Golf, Reebok-CCM Hockey and Rockport. Currency translation effects had a negative impact on segmental sales in euro terms. Wholesale revenues decreased 5% to €9.100 billion from €9.533 billion in 2012. Retail sales rose 2% to €3.446 billion versus €3.373 billion in the prior year. Sales in Other Businesses declined 2% to €1.946 billion (2012: €1.977 billion).

Currency-neutral sales increase in nearly all regions

In 2013, currency-neutral adidas Group sales grew in all regions except Western Europe. Revenues in Western Europe decreased 6% on a currency-neutral basis, mainly due to sales declines in the UK, Italy and Spain. In European Emerging Markets, Group sales increased 4% on a currency-neutral basis as a result of sales growth in most of the region’s major markets. Sales for the adidas Group in North America grew 2% on a currency-neutral basis, due to sales increases in both the USA and Canada. Sales in Greater China increased 7% on a currency-neutral basis. Currency-neutral revenues in Other Asian Markets grew 5%, driven by strong increases in India, South Korea and Australia. In Latin America, sales grew 19% on a currency-neutral basis with double-digit increases in most of the region’s major markets, in particular Argentina, Colombia and Mexico. Currency translation effects had a negative impact on regional sales in euro terms / TABLE 11.
Group sales up in footwear and hardware

In 2013, Group sales grew in most product categories on a currency-neutral basis. Currency-neutral footwear sales increased 4% in 2013. This development was mainly driven by double-digit growth in the running and outdoor categories. Action Sports as well as the adidas NEO label also grew at a double-digit rate. Apparel revenues decreased 3% on a currency-neutral basis, as growth in running, football and basketball was more than offset by declines in categories closely related to prior year events, such as Olympic sports. Currency-neutral hardware sales increased 15% compared to the prior year, primarily due to strong growth in the football category. In addition, the first-time consolidation of Adams Golf at the end of the second quarter of 2012 positively contributed to this development. Currency translation effects had a negative impact on sales in euro terms / TABLE 12.

Cost of sales decreases

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 2013, cost of sales was € 7.352 billion, representing a decrease of 5% compared to € 7.780 billion in 2012. This development was driven by the reduction of input costs as a result of lower raw material prices at the time of sourcing. In addition, currency effects contributed to the decline in cost of sales.

Group gross margin increases 1.5 percentage points

The gross margin of the adidas Group increased 1.5 percentage points to 49.3% in 2013 (2012: 47.7%) / DIAGRAM 15, above our initial expectations of between 48.0% and 48.5%. This development was due to a more favourable pricing, product and regional sales mix as well as a larger share of higher-margin Retail sales, which more than offset the negative effect from a less favourable hedging rate. Gross profit for the adidas Group grew 1% in 2013 to € 7.140 billion versus € 7.103 billion in the prior year / DIAGRAM 14.

Royalty and commission income declines

Royalty and commission income for the adidas Group decreased 1% to € 104 million in 2013 from € 105 million in the prior year. On a currency-neutral basis, royalty and commission income was also down 1%, mainly as a result of lower licensee sales at adidas.
Other operating income increases

Other operating income includes items such as gains from the disposal of fixed assets and releases of accruals and provisions as well as insurance compensation. In 2013, other operating income increased 13% to € 143 million (2012: € 127 million) / SEE NOTE 29, P. 227. This was mainly due to the release of other operational provisions / SEE NOTE 19, P. 211.

Other operating expenses as a percentage of sales up 1.0 percentage points

Other operating expenses, including depreciation and amortisation, consist of items such as sales working budget, marketing working budget and operating overhead costs. In 2013, other operating expenses remained virtually unchanged at € 6.133 billion (2012: € 6.150 billion) / DIAGRAM 17, as a decrease in marketing expenses was offset by higher expenditure related to the expansion of the Group’s own-retail activities / SEE NOTE 30, P. 227. Other operating expenses as a percentage of sales increased 1.0 percentage points to 42.3% in 2013 from 41.3% in 2012 / DIAGRAM 18.

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements. Prior years are not restated.
Sales working budget as a percentage of sales increases
Sales working budget consists of expenses to support the Group’s sell-through development. Expenditures relate to advertising and promotion initiatives at the point of sale as well as store furniture and fixtures. As sales working budget expenses are channel specific, they are allocated to the Group’s operating segments. In absolute terms, sales working budget expenditure increased 12% to € 340 million in 2013 from € 304 million in the prior year. This development was mainly a result of higher expenditure related to the expansion of the Group’s own-retail activities. By brand, adidas sales working budget increased 15% to € 253 million compared to € 220 million in the prior year. Sales working budget for Reebok grew 7% to € 53 million at year-end (2012: € 50 million). The Group’s sales working budget as a percentage of sales increased 0.3 percentage points to 2.3% (2012: 2.0%) / DIAGRAM 20.

Marketing working budget as a percentage of sales stable
Marketing working budget consists of items such as expenses for promotion partnerships, advertising and public relations. As marketing working budget expenses are not distribution channel specific, they are not allocated to the segments. In absolute terms, marketing working budget decreased 3% to € 1.457 billion in 2013 (2012: € 1.502 billion) due to lower expenditure at both adidas and Reebok. By brand, the adidas marketing working budget decreased 1% to € 1.147 billion from € 1.157 billion in 2012. Marketing working budget of the Reebok brand was down 20% to € 150 million (2012: € 188 million). The Group’s marketing working budget as a percentage of sales remained stable at 10.1% (2012: 10.1%) / DIAGRAM 21.

Operating overhead expenses as a percentage of sales increase 0.7 percentage points
Group operating overheads include overhead costs related to marketing, logistics, sales and R&D as well as central administration. Almost half of the operating overhead expenses are related to personnel costs. In absolute terms, operating overhead expenses remained stable at € 4.336 billion in 2013 versus € 4.344 billion in 2012. This was primarily a result of a decrease in marketing costs, partly offset by an increase in logistics and warehouse costs. As a percentage of sales, operating overhead expenses grew 0.7 percentage points to 29.9% (2012: 29.2%).
Number of Group employees up 10%
At the end of December 2013, the Group employed 50,728 people. This represents an increase of 10% versus the prior year level of 46,306. New hirings related to the expansion of the Group’s own-retail store base, in particular in European Emerging Markets, were the main driver of this development. On a full-time equivalent basis, the number of employees increased 8% to 43,537 at the end of 2013 (2012: 40,168) / SEE EMPLOYEES, P. 105.

EBITDA grows 5%
The Group’s earnings before interest, taxes, depreciation and amortisation as well as impairment losses/reversal of impairment losses on property, plant and equipment and intangible assets (EBITDA) increased 5% to € 1.523 billion in 2013 (2012: € 1.445 billion) / DIAGRAM 22. Depreciation and amortisation expense for tangible and intangible assets (excluding impairment losses/reversal of impairment losses) increased 9% to € 286 million in 2013 (2012: € 263 million). This development is mainly due to an increase in property, plant and equipment. In accordance with IFRS, intangible assets with indefinite useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. In this connection, impairment of intangible assets with unlimited useful lives was incurred in 2013.

Goodwill impairment in an amount of € 52 million
As a result of the annual impairment test, the adidas Group has impaired goodwill and recorded a € 52 million pre-tax charge as at December 31, 2013 (2012: € 265 million). Within the wholesale cash-generating unit Iberia, goodwill impairment losses of € 23 million were recognised. Within the retail cash-generating unit North America, goodwill impairment losses of € 29 million were recognised. The goodwill of these two cash-generating units is completely impaired. The impairment losses were mainly caused by adjusted growth assumptions and an increase in the country-specific discount rates. In 2012, the wholesale cash-generating unit North America was impaired by € 106 million, Latin America by € 41 million, Brazil by € 15 million and Iberia by € 11 million. The impairment loss in 2012 was mainly the result of adjusted growth assumptions for the Reebok brand, especially in North America, Latin America and Brazil, and an increase in the country-specific discount rates as a result of the euro crisis. In addition, in 2012 goodwill of € 68 million allocated to Reebok-CCM Hockey was completely impaired and € 24 million allocated to Rockport was partially impaired. These impairment losses were primarily the result of the re-evaluation of future growth prospects and, with regard to Rockport, also due to an increase in the discount rate. The impairment losses in both years were non-cash in nature and do not affect the adidas Group’s liquidity / SEE NOTE 02, P. 195.

Operating margin excluding goodwill impairment improves to 8.7%
Group operating profit increased 31% to € 1.202 billion in 2013 versus € 920 million in 2012. The operating margin of the adidas Group improved 2.1 percentage points to 8.3% (2012: 6.2%). Excluding the goodwill impairment losses, operating profit grew 6% to € 1.254 billion from € 1.185 billion last year / DIAGRAM 23, representing an operating margin of 8.7%, up 0.7 percentage points (2012: 8.0%) / DIAGRAM 25. This is below our initial expectations of an operating margin approaching 9.0%. The improvement in the operating margin was primarily due to the positive effects from the increase in gross margin, which more than offset other operating expenses as a percentage of sales.

Financial income down 28%
Financial income decreased 28% to € 26 million in 2013 from € 36 million in the prior year, mainly due to a decrease in interest income / SEE NOTE 32, P. 228.

Financial expenses decrease 11%
Financial expenses declined 11% to € 94 million in 2013 (2012: € 105 million) / DIAGRAM 26. The decrease in interest expenses was the main contributor to the decline / SEE NOTE 32, P. 228.

Income before taxes excluding goodwill impairment up 6%
Income before taxes (IBT) for the adidas Group increased 33% to € 1.134 billion from € 851 million in 2012. IBT as a percentage of sales improved 2.1 percentage points to 8.3% (2012: 6.2%). Excluding the
Group Business Performance / Income Statement

27 / **Income before taxes** ![€ in millions]

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,186</td>
<td>1,116</td>
<td>869</td>
<td>806</td>
<td>358</td>
</tr>
</tbody>
</table>

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2) Excluding goodwill impairment of € 52 million.
3) Excluding goodwill impairment of € 265 million.

31 / **Diluted earnings per share** ![in €]

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.01</td>
<td>3.78</td>
<td>2.93</td>
<td>2.71</td>
<td>1.22</td>
</tr>
</tbody>
</table>

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2) Excluding goodwill impairment of € 52 million.
3) Excluding goodwill impairment of € 265 million.

28 / **Income before taxes by quarter** ![€ in millions]

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q4 2013</th>
<th>Q4 2012</th>
<th>Q3 2013</th>
<th>Q3 2012</th>
<th>Q2 2013</th>
<th>Q2 2012</th>
<th>Q1 2013</th>
<th>Q1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>81</td>
<td>12</td>
<td>442</td>
<td>479</td>
<td>236</td>
<td>235</td>
<td>427</td>
<td>389</td>
</tr>
</tbody>
</table>

1) Excluding goodwill impairment of € 52 million.
2) Excluding goodwill impairment of € 265 million.

32 / **Diluted earnings per share by quarter** ![in €]

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q4 2013</th>
<th>Q4 2012</th>
<th>Q3 2013</th>
<th>Q3 2012</th>
<th>Q2 2013</th>
<th>Q2 2012</th>
<th>Q1 2013</th>
<th>Q1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.20</td>
<td>(0.03)</td>
<td>1.51</td>
<td>1.64</td>
<td>0.82</td>
<td>0.79</td>
<td>1.47</td>
<td>1.38</td>
</tr>
</tbody>
</table>

1) Excluding goodwill impairment of € 52 million.
2) Excluding goodwill impairment of € 265 million.

29 / **Net income attributable to shareholders** ![€ in millions]

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>839</td>
<td>791</td>
<td>613</td>
<td>567</td>
<td>245</td>
</tr>
</tbody>
</table>

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2) Excluding goodwill impairment of € 52 million.
3) Excluding goodwill impairment of € 265 million.

30 / **Net income attributable to shareholders by quarter** ![€ in millions]

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q4 2013</th>
<th>Q4 2012</th>
<th>Q3 2013</th>
<th>Q3 2012</th>
<th>Q2 2013</th>
<th>Q2 2012</th>
<th>Q1 2013</th>
<th>Q1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>42</td>
<td>(7)</td>
<td>316</td>
<td>344</td>
<td>172</td>
<td>165</td>
<td>308</td>
<td>289</td>
</tr>
</tbody>
</table>

1) Excluding goodwill impairment of € 52 million.
2) Excluding goodwill impairment of € 265 million.

goodwill impairment losses, IBT was up 6% to € 1.186 billion from € 1.116 billion in 2012 / **Diagram 27** and, as a percentage of sales, grew 0.7 percentage points to 8.2% from 7.5% last year.

Net income attributable to shareholders excluding goodwill impairment up 6%
The Group’s net income attributable to shareholders increased to € 787 million in 2013 from € 526 million in 2012. This represents an increase of 49% versus the prior year level. Excluding the goodwill impairment losses, net income attributable to shareholders increased 6% to € 839 million (2012: € 791 million) / **Diagram 29**. The Group’s tax rate decreased 8.0 percentage points to 30.4% in 2013 (2012: 38.4%), mainly due to lower non-tax-deductible goodwill impairment losses. Excluding the goodwill impairment losses, the effective tax rate improved 0.3 percentage points to 29.0% from 29.3% last year / **See Note 33, P. 229**.

Earnings per share excluding goodwill impairment reach € 4.01
In 2013, basic and diluted earnings per share amounted to € 3.76 (2012: € 2.52), representing an increase of 49%. Excluding the goodwill impairment losses, basic and diluted earnings per share were up 6% to € 4.01, which is below our initial projections of € 4.25 to € 4.40 (2012: € 3.78) / **Diagram 31**. The weighted average number of shares used in the calculation was 209,216,186 / **See Note 34, P. 231**.

Accounting policy
The Group’s consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU. In 2013, new standards and interpretations and amendments to existing standards and interpretations were applicable. The changes mainly require additional disclosures in the Group’s financial statements / SEE NOTE 01, P. 194.

33  /  Structure of statement of financial position1) (in % of total assets)

<table>
<thead>
<tr>
<th>Assets (€ in millions)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>13.7%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>15.6%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Inventories</td>
<td>22.7%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>35.7%</td>
<td>35.5%</td>
</tr>
<tr>
<td>Other assets</td>
<td>12.3%</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 186.

34  /  Structure of statement of financial position1) (in % of total liabilities and equity)

<table>
<thead>
<tr>
<th>Liabilities and equity (€ in millions)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term borrowings</td>
<td>5.9%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>15.7%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>5.6%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>25.5%</td>
<td>26.5%</td>
</tr>
<tr>
<td>Total equity</td>
<td>47.3%</td>
<td>45.3%</td>
</tr>
</tbody>
</table>

1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 186.
Assets

At the end of December 2013, total assets remained virtually unchanged at € 11,599 billion versus € 11,651 billion in the prior year / DIAGRAM 35. The share of current assets and non-current assets within total assets remained unchanged at 59% and 41% at the end of December 2013 (2012: 59% and 41%).

Total current assets remained virtually unchanged at € 6,857 billion at the end of December 2013 compared to € 6,877 billion in 2012. Cash and cash equivalents decreased 5% to € 1,587 billion at the end of December 2013 from € 1,670 billion in the prior year, as net cash generated from operating activities was more than offset by net cash used in investing and financing activities. Negative currency effects also contributed to this development. Group inventories increased 6% to € 2.634 billion at the end of December 2013 versus € 2.486 billion in 2012 / SEE NOTE 08, P. 206. On a currency-neutral basis, inventories were up 13% as a result of the Group’s expectations for growth in the coming quarters as well as higher inventories in Russia/CIS due to distribution centre issues during the second half of 2013 / DIAGRAM 36. Short-term financial assets declined 84% to € 41 million at the end of December 2013 from € 265 million in 2012 / SEE NOTE 05, P. 205. This development was driven by the decrease in short-term cash investments. Group receivables increased 7% to € 1,809 billion at the end of December 2013 (2012: € 1,688 billion) / SEE NOTE 06, P. 205. On a currency-neutral basis, receivables were up 17%, reflecting the growth of our business during the fourth quarter of 2013 / DIAGRAM 37. Other current financial assets declined 5% to € 183 million at the end of December 2013 from € 192 million in 2012 / SEE NOTE 07, P. 206. This development was driven by a decrease in security deposits as well as a decrease in the fair value of financial instruments. Other current assets increased 4% to € 506 million at the end of December 2013 from € 489 million in 2012, mainly due to the increase in prepayments / SEE NOTE 09, P. 206.

Total non-current assets decreased 1% to € 4,742 billion at the end of December 2013 from € 4,774 billion in 2012. Fixed assets remained stable at € 4,144 billion at the end of December 2013 versus € 4,139 billion in 2012. Fixed assets include property, plant and equipment, goodwill, trademarks and other intangible assets as well as long-term financial assets. Additions in an amount of € 492 million were primarily related to the continued expansion of our own-retail activities, the construction of the European Distribution Centre near Osnabrueck, Germany, investments into the Group’s IT infrastructure as well as the further development of the Group’s headquarters in Herzogenaurach. Additions were offset by depreciation and amortisation of € 291 million, negative currency effects of € 132 million, the goodwill impairment of € 52 million and disposals of € 12 million. The majority of goodwill is primarily related to the acquisition of the Reebok business in 2006. At the end of December 2013, goodwill decreased 6% to € 1,204 billion from € 1,281 billion in the prior year. The decrease is mainly related to goodwill impaired of € 52 million, of which € 23 million is related to the Wholesale segment and € 29 million is related to Retail segment / SEE NOTE 02, P. 195 / SEE NOTE 12, P. 207. Other non-current financial assets grew 41% to € 30 million at the end of December 2013 from € 21 million in 2012, driven by an increase in the fair value of financial instruments / SEE NOTE 15, P. 209.
Liabilities and equity

Total current liabilities increased 8% to € 4.732 billion at the end of December 2013 from € 4.374 billion at the end of December 2012. Accounts payable were up 2% to € 1.825 billion at the end of December 2013 versus € 1.790 billion at the end of 2012 / DIAGRAM 39. On a currency-neutral basis, accounts payable increased 5%, which is in line with the increase in inventories. At the end of December 2013, other current financial liabilities increased 37% to € 113 million from € 83 million in 2012, primarily as a result of the increase in the negative fair value of financial instruments / SEE NOTE 18, P. 211. Short-term borrowings more than doubled to € 681 million at the end of December 2013 (2012: € 280 million). The increase was mainly due to a reclassification of long-term borrowings to short-term borrowings, as a result of the Group’s Eurobond, which will mature in July 2014. Other current provisions were down 20% to € 450 million at the end of 2013 versus € 563 million at the end of 2012. This primarily relates to a decrease in provisions for returns and allowances, provisions for personnel as well as other operational provisions. In addition, currency effects contributed to the decline in other current provisions / SEE NOTE 19, P. 211. Current accrued liabilities increased 6% to € 1.147 billion at the end of 2013 from € 1.084 billion in 2012, mainly due to an increase in accruals for customer discounts as well as for outstanding invoices / SEE NOTE 20, P. 212. Other current liabilities were down 8% to € 276 million at the end of 2013 from € 299 million in 2012, mainly due to a decrease in tax liabilities other than income taxes / SEE NOTE 21, P. 212.

Total non-current liabilities decreased 30% to € 1.386 billion at the end of December 2013 from € 1.896 billion in the prior year. Long-term borrowings declined 46% to € 653 million at the end of December 2013 from € 1.207 billion in the prior year. This development was mainly due to a reclassification of long-term borrowings to short-term borrowings, as a result of the Group’s Eurobond, which will mature in July 2014 / SEE NOTE 17, P. 209.

Shareholders’ equity increased 3% to € 5,489 billion at the end of December 2013 versus € 5,304 billion in 2012 / DIAGRAM 39. The net income generated during the last twelve months was the main contributor to this development, partially offset by negative currency translation effects of € 312 million, the dividend paid to shareholders of € 282 million for the 2012 financial year as well as a decrease in hedging reserves of € 13 million / SEE NOTE 25, P. 217. The Group’s equity ratio at the end of December 2013 improved to 47.3% compared to 45.5% in the prior year.

Operating working capital

Operating working capital increased 10% to € 2.618 billion at the end of December 2013 compared to € 2.384 billion in 2012 / DIAGRAM 40. This was due to the increase in inventories related to the Group’s expectations for growth in the coming quarters as well as higher inventories in Russia/CIS following distribution centre issues during the second half of 2013. Higher receivables reflecting the growth of our business during the fourth quarter of 2013 also contributed to the increase in operating working capital. As a result, average operating working capital as a percentage of sales increased 0.9 percentage points to 20.9% (2012: 20.0%), above our initial guidance of a moderate increase / DIAGRAM 41.

40  /  Operating working capital (€ in millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Year 2013</th>
<th>Year 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2013</td>
<td>2,618</td>
<td>2,384</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>2,618</td>
<td>2,384</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>2,618</td>
<td>2,384</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>2,618</td>
<td>2,384</td>
</tr>
</tbody>
</table>

41  /  Average operating working capital (1) (in % of net sales)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Operating Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>20.9</td>
</tr>
<tr>
<td>2012</td>
<td>20.0</td>
</tr>
<tr>
<td>2011</td>
<td>20.4</td>
</tr>
<tr>
<td>2010</td>
<td>20.8</td>
</tr>
<tr>
<td>2009</td>
<td>24.3</td>
</tr>
</tbody>
</table>

1) 2011 restated according to IAS 8 in the 2012 consolidated financial statements. Prior years are not restated.
Investment analysis
Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions). Group capital expenditure increased 10% to € 479 million in 2013 (2012: € 434 million). Capital expenditure in property, plant and equipment amounted to € 427 million and was thus above the prior year level of € 376 million. The Group invested € 52 million in intangible assets, representing a 10% decrease compared to the prior year (2012: € 58 million). Depreciation and amortisation excluding impairment losses/reversal of impairment losses of tangible and intangible assets increased 9% to € 286 million in 2013 (2012: € 263 million).

The majority of the Group’s capital expenditure was recorded in HQ/Consolidation, accounting for 52% (2012: 58%), and was mainly related to investments in the Group’s logistics infrastructure and deployment of IT systems. The Retail segment accounted for 29% of the Group’s capital expenditure (2012: 24%). Investments primarily related to the expansion of our store base for the adidas and Reebok brands, particularly in Russia/CIS. Expenditure in the Wholesale segment accounted for 13% of total capital expenditure (2012: 12%). Capital expenditure in Other Businesses accounted for 6% of total expenditure (2012: 6%). From a regional perspective, capital expenditure in Western Europe accounted for 41% (2012: 45%) of the Group’s capital expenditure, followed by European Emerging Markets with 17% (2012: 15%), North America with 16% (2012: 11%) and Greater China with 13% (2012: 9%).

Liquidity analysis
In 2013, net cash generated from operating activities decreased 33% to € 634 million (2012: € 942 million), primarily due to higher working capital requirements. Net cash used in investing activities increased 12% to € 243 million (2012: € 217 million). The majority of investing activities in 2013 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of stores in our Retail segment as well as investments in the Group’s logistics infrastructure and IT systems. These were partly offset by the sale of short-term financial assets. Net cash used in financing activities totalled € 439 million (2012: net cash generated from financing activities of € 42 million). Cash used in financing activities mainly related to dividends paid to shareholders of € 282 million for the 2012 financial year as well as the repayment of short-term borrowings of € 221 million. Exchange rate effects negatively impacted the Group’s cash position by € 35 million in 2013 (2012: € 3 million). As a result of all these developments, cash and cash equivalents decreased € 83 million to € 1,587 billion at the end of December 2013 compared to € 1,670 billion at the end of December 2012.
Net cash at December 31, 2013 amounted to € 295 million, compared to net cash of € 448 million at the end of December 2012, representing a decrease of € 153 million. Higher working capital requirements as well as the dividend payment and capital expenditure in 2013 were the primary drivers of this development. Currency translation had a positive effect of € 3 million. The Group’s ratio of net borrowings over EBITDA amounted to –0.2 at the end of December 2013 (2012: –0.3).

Operating cash flow, as described in the Internal Group Management System, decreased 2% to € 827 million in 2013 from € 841 million in the prior year. The decrease was mainly due to higher working capital requirements and higher capital expenditure, which more than offset the increase in operating profit.

Off-balance sheet items
The Group’s most significant off-balance sheet items are commitments for promotion and advertising as well as operating leases, which are related to own-retail stores, offices, warehouses and equipment. The Group has entered into various operating leases as opposed to property acquisitions in order to reduce exposure to property value fluctuations. Minimum future lease payments for operating leases were € 1.669 billion at December 31, 2013, compared to € 1.798 billion at the end of December 2012, representing a decrease of 7%.

At the end of December 2013, financial commitments for promotion and advertising increased 1% to € 3.791 billion in 2013 (2012: € 3.768 billion).

Treasury

Group financing policy
In order to be able to meet the Group’s payment commitments at all times, the major goal of our financing policy is to ensure sufficient liquidity reserves, while at the same time minimising the Group’s financial expenses. The operating activities of our Group segments and markets and the resulting cash inflows represent the Group’s main source of liquidity. Liquidity is planned on a rolling monthly basis under a multi-year financial and liquidity plan. This comprises all consolidated Group companies. Our in-house bank concept takes advantage of any surplus funds of individual Group companies to cover the financial requirements of others, thus reducing external financing needs and optimising our net interest expenses. By settling intercompany transactions via intercompany financial accounts, we are able to reduce external bank account transactions and thus bank charges. Effective management of our currency exposure and interest rate risks are additional goals and responsibilities of our Group Treasury department.

Treasury system and responsibilities
Our Group’s Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, financing arrangements and liquidity/asset management, currency and interest risk management as well as the management of intercompany cash flows. Responsibilities are arranged in a three-tiered approach:

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Group’s Treasury Policy and provide strategic guidance for managing treasury-related topics. Major changes to our Treasury Policy are subject to the prior approval of the Treasury Committee.
- The Group Treasury department is responsible for specific centralised treasury transactions and for the global implementation of our Group’s Treasury Policy.
- On a subsidiary level, where applicable and economically reasonable, local managing directors and financial controllers are responsible for managing treasury matters in their respective subsidiaries. Controlling functions on a Group level ensure that the transactions of the individual business units are in compliance with the Group’s Treasury Policy.
Centralised treasury function

In accordance with our Group’s Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Group Treasury department. Portions of those lines are allocated to the Group’s subsidiaries and backed by adidas AG guarantees. As a result of this centralised liquidity management, the Group is well positioned to allocate resources efficiently throughout the organisation. The Group’s debt is generally unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the Group and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor’s or an equivalent rating by another leading rating agency. Only in exceptional cases are Group companies authorised to work with banks with a lower rating / SEE RISK AND OPPORTUNITY REPORT, P. 158. To ensure optimal allocation of the Group’s liquid financial resources, subsidiaries transfer excess cash to the Group’s headquarters in all instances where it is legally and economically feasible. In addition, Group Treasury is currently rolling out a global standardisation and consolidation of cash management and payment processes, including the set-up of automated, cross-border cash pools, a payment factory and a new in-house bank concept. While 2013 has seen the core implementation of standardised and consolidated cash management and payment processes, these functionalities will be further rolled out in the course of 2014.

Group financial flexibility

The adidas Group’s financial flexibility is ensured by the availability of unutilised credit facilities in an amount of € 2.026 billion at the end of 2013 (2012: € 2.304 billion). These include a committed syndicated loan facility of € 500 million as well as bilateral credit lines at different banks of € 1.526 billion (2012: € 1.804 billion). The syndicated loan facility has a remaining time to maturity of four years and incorporates two one-year extension options. We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

Bilateral credit lines decrease

At the end of 2013, bilateral credit lines declined 11% to € 1.652 billion compared to € 1.863 billion in the prior year. Credit lines decreased in line with lower financing needs and growing cash surpluses. Committed and uncommitted credit lines represent approximately 22% and 78% of total short-term bilateral credit lines, respectively (2012: 20% and 80%) / DIAGRAM 49.
Standard financial covenants
In the case of our committed credit facilities, we have entered into various covenants. These covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants. If we failed to meet any covenant and were unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2013, 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 fully confident we will continue to be compliant with these covenants going forward. See Subsequent Events and Outlook, p. 161. We believe that cash generated from operating activities, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs.

Gross borrowings decrease
Following the repayment of a US private placement, gross borrowings decreased 10% to € 1.334 billion at the end of 2013 from € 1.487 billion in the prior year. Bank borrowings amounted to € 126 million compared to € 59 million in the prior year. Private placements decreased 48% to € 248 million in 2013 (2012: € 480 million). Convertible bonds outstanding increased 3% to € 460 million from € 449 million in the prior year, as a result of accruing the debt component. At issuance in 2012, the convertible bond was split – after deducting the issuance costs – into the equity component amounting to € 55 million and the debt component amounting to € 441 million. The debt component is accrued to its nominal value amounting to € 500 million until 2017 by use of the effective interest method. The total amount of bonds outstanding at the end of 2013 was € 960 million (2012: € 948 million). As in the prior year, no commercial paper was outstanding at the end of 2013.

Euro dominates currency mix
The majority of our Group’s gross borrowings are denominated in euros and US dollars. At the end of 2013, gross borrowings denominated in euros accounted for 76% of total gross borrowings (2012: 68%). The share of gross borrowings held in US dollars decreased to 14% (2012: 29%).

Stable debt maturity profile
Over the course of 2013, the Group’s financing maturity profile remained stable. In 2014, assuming unchanged maturities, debt instruments of € 681 million will mature. This compares to € 280 million which matured during the course of 2013.
Interest rate improves
The weighted average interest rate on the Group’s gross borrowings decreased to 3.8% in 2013 (2012: 4.4%) / DIAGRAM 54. This development is mainly due to the repayment of a fixed-rate US private placement as well as a reduction in local borrowings which carry higher interest rates. Fixed-rate financing represented 91% of the Group’s total gross borrowings at the end of 2013 (2012: 96%). Variable-rate financing accounted for 9% of total gross borrowings at the end of the year (2012: 4%).

Net cash position of € 295 million
The Group ended the year with a net cash position of € 295 million, compared to a net cash position of € 448 million at the end of the prior year, representing a decrease of € 153 million / DIAGRAM 52. Higher working capital needs were the main driver of this development. Currency effects had a positive impact of € 3 million on net cash development.

Effective currency management a key priority
As a globally operating company, the adidas Group is exposed to currency risks. Therefore, effective currency management is a key focus of Group Treasury, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cashflows. In this regard, hedging US dollars is a central part of our programme. This is a direct result of the Group’s Asian-dominated sourcing, which is largely denominated in US dollars / SEE GLOBAL OPERATIONS, P. 14. In 2013, Group Treasury managed a net deficit of around US $ 5.2 billion related to operational activities (2012: US $ 5.1 billion). Thereof, around US $ 2.6 billion was against the euro (2012: US $ 2.7 billion). As governed by the Group’s Treasury Policy, we have established a rolling 12- to 24-month hedging system, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. As a result, we have almost completed our anticipated hedging needs for 2014 as of year-end 2013 and have already started hedging our exposure for 2015. In 2014, the positive effect from a more favourable EUR/USD conversion rate will be more than offset by less favourable conversion rates in emerging markets and Japan. The use or combination of different hedging instruments, such as forward contracts, currency options and swaps, protects us against unfavourable currency movements. The use of currency options allows the Group to benefit from future favourable exchange rate developments / SEE RISK AND OPPORTUNITY REPORT, P. 158.
Financial Statements and Management Report of adidas AG

adidas AG is the parent company of the adidas Group. It includes operating business functions, primarily for the German market, as well as corporate headquarter functions such as Global Marketing, Group Treasury, Taxes, Legal and Finance. It also administers the shareholdings of the company.

Operating activities and capital structure of adidas AG

The majority of the operating business of adidas AG consists of the sale of merchandise to retailers and own-retail activities.

In addition to its own trading activities, the results of adidas AG are significantly influenced by its holding function for the adidas Group. This is reflected primarily in currency effects, transfer of costs for services provided, interest result and income from investments in affiliated companies.

The opportunities and risks as well as the future development of adidas AG largely reflect those of the adidas Group. SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 151. SEE RISK AND OPPORTUNITY REPORT, P. 158.

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the Group. For example, 52% of total assets in 2013 related to financial assets, which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 28% of total assets and 45% of total liabilities and equity as at December 31, 2013.

Preparation of accounts

Unlike the consolidated financial statements of the adidas Group, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2013, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

Income Statement

Statement of income in accordance with HGB (Condensed) ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,954</td>
<td>2,004</td>
</tr>
<tr>
<td>Total output</td>
<td>1,954</td>
<td>2,004</td>
</tr>
<tr>
<td>Other operating income</td>
<td>1,165</td>
<td>1,270</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>(532)</td>
<td>(574)</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(357)</td>
<td>(343)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(81)</td>
<td>(71)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(1,981)</td>
<td>(2,055)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>168</td>
<td>231</td>
</tr>
<tr>
<td>Financial result</td>
<td>43</td>
<td>350</td>
</tr>
<tr>
<td>Taxes</td>
<td>(111)</td>
<td>(77)</td>
</tr>
<tr>
<td>Net income</td>
<td>100</td>
<td>504</td>
</tr>
<tr>
<td>Profit brought forward</td>
<td>324</td>
<td>103</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>424</td>
<td>607</td>
</tr>
</tbody>
</table>

Net sales decline 2%

Sales of adidas AG comprise external revenues from adidas Germany, external revenues from Y-3 products as well as Group internal revenues from foreign subsidiaries. Reported revenues also include royalty and commission income, mainly from affiliated companies, and other revenues. In 2013, adidas AG net sales decreased 2% to € 1.954 billion (2012: € 2.004 billion). This decline is mainly attributable to a decrease in royalty income from affiliated companies and to slightly lower sales at adidas Germany. TABLE 59.

adidas AG net sales ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalty and commission income</td>
<td>1,088</td>
<td>1,111</td>
</tr>
<tr>
<td>adidas Germany</td>
<td>701</td>
<td>722</td>
</tr>
<tr>
<td>Foreign subsidiaries</td>
<td>103</td>
<td>102</td>
</tr>
<tr>
<td>Y-3</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Other revenues</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>1,954</td>
<td>2,004</td>
</tr>
</tbody>
</table>
Other operating income down 8%
In 2013, other operating income of adidas AG decreased 8% to € 1.165 billion (2012: € 1.270 billion). This was primarily due to a decline in income from currency conversion.

Other operating expenses decrease 4%
In 2013, other operating expenses of adidas AG declined 4% to € 1.981 billion (2012: € 2.055 billion). This decrease was largely due to a decline in losses from currency translation and lower legal and consultancy expenses, which more than offset an increase in expenditure, in particular for marketing.

Depreciation and amortisation increases 14%
Depreciation and amortisation for adidas AG rose 14% to € 81 million in 2013 (2012: € 71 million), mainly as a result of the depreciation and amortisation of software.

Profit from operations declines
In 2013, profit from operations decreased 27% to € 168 million (2012: € 231 million). This was mainly due to the decline in other operating income as well as the increase in depreciation and amortisation and personnel expenses.

Financial result decreases
The financial result of adidas AG declined 88% to € 43 million in 2013 from € 350 million in 2012. This strong decrease is attributable to lower profit transfers from affiliated companies under profit and loss transfer agreements. In 2013, profit transfers decreased € 330 million to € 6 million (2012: € 336 million). Income from investments in affiliated companies increased 19% to € 102 million in 2013 (2012: € 86 million).

Net interest expense of adidas AG declined 14% to € 42 million in 2013 (2012: € 72 million). This development was mainly due to lower interest paid to affiliated companies.

Net income down
Income from ordinary activities declined 64% to € 211 million in 2013 from € 581 million in 2012. This development is attributable to the decline in the financial result and the lower profit from operations. Net income for the year after taxes of € 111 million was € 100 million (2012: € 504 million).

Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>148</td>
<td>152</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>304</td>
<td>265</td>
</tr>
<tr>
<td>Financial assets</td>
<td>3,476</td>
<td>3,480</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>3,928</td>
<td>3,897</td>
</tr>
<tr>
<td>Inventories</td>
<td>29</td>
<td>33</td>
</tr>
<tr>
<td>Receivables and other assets</td>
<td>1,928</td>
<td>1,976</td>
</tr>
<tr>
<td>Cash and cash equivalents, securities</td>
<td>736</td>
<td>1,048</td>
</tr>
<tr>
<td>Current assets</td>
<td>2,693</td>
<td>3,057</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>Total assets</td>
<td>6,694</td>
<td>7,030</td>
</tr>
</tbody>
</table>

| Equity and liabilities |              |              |
| Shareholders’ equity | 2,489        | 2,672        |
| Provisions            | 393          | 361          |
| Liabilities and other items | 3,812     | 3,997        |
| Total equity and liabilities | 6,694     | 7,030        |

Total assets decline 5%
At the end of December 2013, total assets decreased 5% to € 6.694 billion compared to € 7.030 billion in the prior year. This was mainly a result of a decrease in cash and cash equivalents, which declined € 312 million.

Shareholders’ equity down 7%
Shareholders’ equity declined 7% to € 2.489 billion at the end of December 2013 compared to € 2.672 billion in the prior year. This decrease was mainly due to lower net income in 2013 compared to the dividend payout for 2012. Taking into account the dividend distribution from the prior year retained earnings and net income generated for the year, the equity ratio remained relatively stable at 37%.

Provisions up 9%
Provisions increased 9% to € 393 million at the end of 2013 (2012: € 361 million).
Liabilities and other items down 5%
Liabilities and other items decreased 5% to €3.812 billion at the end of 2013 (2012: €3.997 billion). This decline primarily resulted from a reduction in accounts payable to affiliated companies.

Cash inflow from operating activities reflects net income
adidas AG generated a positive cash flow from operating activities of €89 million (2012: €665 million). The change versus the prior year was mainly a result of lower net income and lower payables to affiliated companies. Net cash outflow from investment activities was €115 million (2012: €128 million). This is largely attributable to capital expenditure for tangible and intangible fixed assets of €116 million. Financing activities resulted in a cash outflow of €287 million (2012: cash inflow of €128 million). The net cash outflow from financing activities relates to the dividend payment of €282 million. As a result of all these developments, cash and cash equivalents of adidas AG decreased €312 million to €736 million at the end of December 2013 compared to €1.048 billion at the end of December 2012.

adidas AG has a committed syndicated loan facility of €500 million, which was unutilised at year-end 2013 / SEE TREASURY, P. 136.

adidas AG is able to meet its financial commitments at all times.

Disclosures pursuant to § 315 Section 4 and § 289 Section 4 of the German Commercial Code

Composition of subscribed capital
The nominal capital of adidas AG amounts to €209,216,186 (as at December 31, 2013) and is divided into the same number of registered no-par-value shares with a pro-rata amount in the nominal capital of €1 each (“shares”). As at December 31, 2013, adidas AG does not hold any treasury shares / SEE NOTE 25, P. 217. Pursuant to § 4 section 8 of the Articles of Association, shareholders’ claims to the issuance of individual share certificates are, in principle, excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations.

In the USA, we have issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one share / SEE OUR SHARE, P. 58.

Restrictions on voting rights or transfer of shares
We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct of adidas AG, however, particular lock-up periods do exist for members of the Executive Board with regard to the purchase and sale of adidas AG shares. These lock-up periods are connected with the publication of quarterly and full year results. Such lock-up periods also exist for employees who have access to yet unpublished financial results.

In addition, restrictions of voting rights may exist pursuant, inter alia, to §136 German Stock Corporation Act (Aktiengesetz – AktG) or for treasury shares pursuant to §71b AktG as well as due to capital market regulations, in particular pursuant to §§21 et seq. German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

Shareholdings in share capital exceeding 10% of voting rights
We have not been notified of, and are not aware of, any direct or indirect shareholdings in the share capital of adidas AG exceeding 10% of the voting rights.

Shares with special rights
There are no shares bearing special rights. In particular, there are no shares with rights conferring powers of control.
Voting right control if employees have a share in the capital
Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association.

Executive Board appointment and dismissal
Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO as well as four further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years.

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or CEO for good cause, such as gross negligence of duties or a vote of no confidence by the Annual General Meeting. As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal requires a majority of at least two thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, the Mediation Committee has to present a proposal which, however, does not exclude other proposals. The appointment or dismissal is then made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which, however, the Chairman of the Supervisory Board has two votes.

Furthermore, the Fuert, Germany, local court shall, pursuant to § 85 section 1 AktG, in urgent cases, make the necessary appointment upon application by any party involved, if the Executive Board does not have the required number of members.

Amendments to the Articles of Association
Pursuant to § 179 section 1 sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution passed by the Annual General Meeting. Pursuant to § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the nominal capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority of voting rights or capital, this is applicable. When it comes to amendments solely relating to the wording, the Supervisory Board is, however, authorised to make these modifications in accordance with § 179 section 1 sentence 2 AktG in conjunction with § 10 section 1 of the Articles of Association.

Authorisation of the Executive Board to issue shares
The authorisations of the Executive Board are regulated by §§ 76 et seq. AktG in conjunction with § 7 of the Articles of Association. The Executive Board is responsible, in particular, for managing the company and represents the company judicially and extra-judicially.

The authorisation of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions:

Authorised Capital
- Until June 30, 2016, 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 2013/II).
- Until June 30, 2018, 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 2013/II).
- Until June 30, 2018, 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 2013/III).

Subject to Supervisory Board approval, shareholders’ subscription rights may be excluded in certain cases for each of the above-mentioned authorisations. / SEE NOTE 25, P. 217.

Contingent Capital
- Based on the resolution of the Annual General Meeting of May 6, 2010, the Executive Board is authorised, subject to Supervisory Board approval, to issue bonds with warrants and/or convertible bonds by the company or affiliated companies once or several times in the total amount of up to € 1.5 billion, with or without a limited term, against contributions in cash and to accept guarantee of such bonds issued by affiliated companies until May 5, 2015. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to grant to bondholders or bond creditors subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds.

For this purpose, the nominal capital was conditionally increased by up to € 36,000,000 (Contingent Capital 2010). The Executive Board is authorised, subject to Supervisory Board approval, to exclude shareholders’ subscription rights for fractional amounts. The authorisation also provides for excluding shareholders’ subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of bonds already issued before are entitled. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to also exclude shareholders’ subscription rights if the issue price of the bonds is not significantly below the market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. The issuance of new shares or the use of treasury shares must be taken into account when calculating the limit of 10% in certain specific cases.
On March 14, 2012, following the approval of the Supervisory Board, the Executive Board issued a convertible bond, excluding shareholders’ subscription rights, thus making partial use of the authorisation granted by the Annual General Meeting on May 6, 2010. For the issuance of shares to bondholders, the Contingent Capital 2010 may be utilised. However, the shares will only be issued insofar as bondholders make use of their conversion rights. The total number of shares to be issued to bondholders in case of full conversion currently amounts to up to 6,016,954 shares.

**Authorisation of the Executive Board to repurchase shares**

The authorisations to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorisation granted by the Annual General Meeting on May 6, 2010.

- Until May 5, 2015, the Executive Board is authorised to repurchase adidas AG shares of up to an amount totalling 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilisation of the authorisation) for any lawful purpose and within the legal framework. The authorisation may be used by the company but also by its subsidiaries or by third parties on account of the company or its subsidiaries or third parties assigned by the company or one of its subsidiaries.

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

The purposes for which adidas AG shares repurchased based on this authorisation may be used are set out in Item 11 of the Agenda for the Annual General Meeting held on May 6, 2010. The shares may in particular be used as follows:

- They may be sold via the stock exchange, through a public share purchase offer made to all shareholders or sold otherwise against cash (limited to 10% of the nominal capital taking into account certain offsets) at a price not significantly below the stock market price of shares with the same features.
- They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies or participations in companies or within the scope of company mergers.
- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licences relating to such rights, also through subsidiaries.
- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company’s right to delivery of shares arising from bonds with warrants and/or convertible bonds.
- They may be cancelled without the cancellation, or the execution thereof, requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be assigned to members of the Executive Board as compensation by way of a stock bonus subject to the provision that resale by the Executive Board members shall only be permitted following a retention period of at least three years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of utilisation of shares for the above-mentioned purposes, except for the cancellation of shares, shareholders’ subscription rights are excluded.

The Supervisory Board may determine that transactions based on this authorisation may only be carried out subject to the approval of the Supervisory Board or one of its committees.

In the scope of the authorisation resolved by the Annual General Meeting on May 6, 2010, the Executive Board is furthermore authorised to conduct the share buyback also by using equity derivatives which are arranged with a financial institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of call and put options or other equity derivatives if the option conditions ensure that these shares are only delivered if they were purchased in compliance with the equality principle. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilisation of the authorisation). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 5, 2015. The authorisation furthermore sets out the lowest and highest nominal value that may be granted in each case.

For excluding subscription rights as well as for the use and cancellation of shares purchased using equity derivatives, the general provisions adopted by the Annual General Meeting [set out above] are applicable accordingly.

**Change of control/compensation agreements**

Material agreements entered into by adidas AG containing a change-of-control clause relate to financing agreements. In the case of a change of control, these agreements, in accordance with common practice, entitle the creditor to termination and early calling-in of any outstanding amounts.

No compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a takeover bid.
Business Performance by Segment

The adidas Group has divided its operating activities into Wholesale, Retail and Other Businesses. The Wholesale segment comprises the adidas and Reebok business activities with retailers. The Retail segment comprises the own-retail and e-commerce activities of the adidas and Reebok brands. The financial results of TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands, which comprise brands such as Y-3 and Five Ten, are aggregated under Other Businesses.

Wholesale Business Performance

Wholesale full year results

In 2013, sales in the Wholesale segment remained stable on a currency-neutral basis. While revenues at Reebok grew at a low-single-digit rate, sales at adidas remained virtually unchanged versus the prior year. Currency translation effects negatively impacted segmental revenues in euro terms. Sales in the Wholesale segment decreased 5% to € 9.100 billion from € 9.533 billion in 2012. /TABLE 01/.

Wholesale gross margin increased 2.4 percentage points to 42.7% from 40.3% in 2012, driven by a more favourable pricing, product and regional sales mix. By brand, the adidas wholesale gross margin grew 2.1 percentage points to 44.2% (2012: 42.1%). The wholesale gross margin of the Reebok brand increased 4.8 percentage points to 31.0% versus 26.2% in the prior year. Wholesale gross profit grew 1% to € 3.884 billion from € 3.840 billion in 2012. /TABLE 01/.

Segmental operating expenses as a percentage of sales decreased 0.4 percentage points to 8.8% (2012: 9.2%). Segmental operating expenses in Wholesale primarily relate to sales working budget expenses as well as expenditure for sales force, administration and logistics. In euro terms, segmental operating expenses were down 8% to € 802 million versus € 875 million in 2012. This was primarily due to lower expenditure for sales administration and logistics.

Segmental operating profit improved 4% to € 3.082 billion versus € 2.965 billion in the prior year. Segmental operating margin increased 2.8 percentage points to 33.9% (2012: 31.1%) /TABLE 01/, as a result of the gross margin increase as well as the positive effect of lower segmental operating expenses as a percentage of sales.

Wholesale at a glance (€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>€ 9,100</td>
<td>€ 9,533</td>
<td>(5%)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>€ 3,884</td>
<td>€ 3,840</td>
<td>1%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>42.7%</td>
<td>40.3%</td>
<td>2.4pp</td>
</tr>
<tr>
<td>Segmental operating profit</td>
<td>€ 3,082</td>
<td>€ 2,965</td>
<td>4%</td>
</tr>
<tr>
<td>Segmental operating margin</td>
<td>33.9%</td>
<td>31.1%</td>
<td>2.8pp</td>
</tr>
</tbody>
</table>

Wholesale net sales by region (€ in millions)

<table>
<thead>
<tr>
<th>Region</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>Change (currency-neutral)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>€ 2,941</td>
<td>€ 3,257</td>
<td>(10%)</td>
<td>(9%)</td>
</tr>
<tr>
<td>European Emerging Markets</td>
<td>€ 545</td>
<td>€ 545</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>North America</td>
<td>€ 1,633</td>
<td>€ 1,744</td>
<td>(6%)</td>
<td>(3%)</td>
</tr>
<tr>
<td>Greater China</td>
<td>€ 1,403</td>
<td>€ 1,322</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Other Asian Markets</td>
<td>€ 1,348</td>
<td>€ 1,493</td>
<td>(8%)</td>
<td>5%</td>
</tr>
<tr>
<td>Latin America</td>
<td>€ 1,210</td>
<td>€ 1,172</td>
<td>3%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>€ 9,100</strong></td>
<td><strong>€ 9,533</strong></td>
<td>(5%)</td>
<td>0%</td>
</tr>
</tbody>
</table>

1) Rounding differences may arise in totals.
Wholesale development by region
In 2013, currency-neutral sales for the Wholesale segment increased in all regions except Western Europe and North America. Currency-neutral revenues in Western Europe decreased 9%, mainly due to sales declines in the UK, Italy and Spain. Currency-neutral sales in European Emerging Markets rose 8%, as a result of growth in most of the region’s major markets. Currency-neutral Wholesale sales in North America were down 3% due to declines in the USA. Revenues in Greater China increased 7% on a currency-neutral basis. Sales in Other Asian Markets grew 5% on a currency-neutral basis, driven by strong increases in South Korea, India and Australia. In Latin America, currency-neutral sales were up 16%, supported by double-digit sales growth in most of the region’s major markets. Currency translation effects had a negative impact on regional sales in euro terms. /TABLE 02./

Wholesale development by brand
In 2013, adidas Sport Performance wholesale revenues grew 1% on a currency-neutral basis. Growth was mainly a result of sales increases in the training, running, football and outdoor categories, partly offset by declines in categories closely related to prior year major sporting events, such as Olympic sports. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance sales decreased 4% to € 5.917 billion from € 6.187 billion in the prior year.

Currency-neutral adidas Originals & Sport Style wholesale revenues grew 2% in 2013. This increase was driven by double-digit sales growth at the adidas NEO label. Currency translation effects had a negative impact on revenues in euro terms. adidas Originals & Sport Style sales decreased 2% to € 2.156 billion (2012: € 2.193 billion).

In 2013, Reebok wholesale revenues increased 1% on a currency-neutral basis, mainly due to growth in the classics, fitness training and studio categories. This development was partly offset by the negative impact of the discontinuation of the NFL licence agreement. Currency translation effects had a negative impact on revenues in euro terms. Reebok sales were down 5% to € 1.050 billion (2012: € 1.109 billion).
Retail Business Performance

Retail full year results

In 2013, Retail revenues increased 8% on a currency-neutral basis as a result of high-single-digit sales growth at adidas. Currency-neutral sales at Reebok grew at a low-single-digit rate. Concept stores, factory outlets and concession corners were all up versus the prior year. eCommerce grew 64% on a currency-neutral basis. Currency translation effects negatively impacted segmental revenues in euro terms. Sales grew 2% to € 3.446 billion from € 3.373 billion in the prior year. /TABLE 08. Currency-neutral comparable store sales decreased 1% versus the prior year, as growth in most regions was more than offset by sales declines in Russia/CIS. This development was mainly due to a challenging consumer environment in Russia/CIS as well as distribution centre issues during the year.

Gross margin in the Retail segment increased 1.3 percentage points to 62.2% from 60.9% in 2012. The positive effect from a more favourable pricing and product mix contributed to the margin increase. By brand, the adidas gross margin was up 1.0 percentage points to 63.1% (2012: 62.1%) and Reebok's gross margin increased 2.3 percentage points to 57.4% (2012: 55.1%). Retail gross profit rose 4% to € 2.143 billion from € 2.055 billion in 2012. /TABLE 08.

Segmental operating expenses as a percentage of sales grew 3.0 percentage points to 42.5% (2012: 39.5%). Segmental operating expenses in Retail primarily relate to personnel and rent expenses as well as the sales working budget. Segmental operating expenses increased 10% to € 1.465 billion from € 1.331 billion in 2012. This was mainly a result of higher expenses related to the expansion of the Group's store base, particularly in European Emerging Markets.

Segmental operating profit decreased 6% to € 678 million versus € 724 million in the prior year. Segmental operating margin decreased 1.8 percentage points to 19.7% (2012: 21.5%) /TABLE 08. This was a result of higher segmental operating expenses as a percentage of sales, which more than offset the increase in gross margin.

Retail development by region

Currency-neutral Retail sales increased in all regions. Retail revenues in Western Europe grew 8% on a currency-neutral basis, mainly due to double-digit sales increases in Germany, the UK and Italy. Sales in European Emerging Markets rose 2% on a currency-neutral basis, as a result of growth in most of the region's major markets. Currency-neutral Retail sales in North America grew 10% due to double-digit growth in the USA and Canada. Retail revenues in Greater China increased 11% on a currency-neutral basis. Sales in Other Asian Markets grew 8% on a currency-neutral basis, mainly driven by growth in South Korea, Japan and Australia. In Latin America, currency-neutral Retail sales grew 31%, with double-digit sales increases in most of the region's major markets, in particular Brazil, Argentina and Colombia. Currency translation effects had a negative impact on regional sales in euro terms /TABLE 09.

Retail development by brand

In 2013, adidas Group Retail sales increased at both adidas and Reebok. Currency-neutral adidas Sport Performance revenues grew 7% in the
period, mainly due to double-digit growth in the training, running and basketball categories. adidas Originals & Sport Style sales rose 12% on a currency-neutral basis, driven by double-digit sales increases at adidas Originals. Currency-neutral Reebok sales were 3% higher compared to the prior year. Comparable store sales for the adidas brand remained stable on a currency-neutral basis, while Reebok comparable store sales were down 3% on a currency-neutral basis. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance own-retail sales increased 1% to € 1.868 billion from € 1.848 billion in 2012, adidas Originals & Sport Style own-retail sales were up 6% to € 1.020 billion from € 958 million in 2012. Own-retail sales of Reebok branded products declined 2% to € 549 million (2012: € 558 million).

Retail store development
At December 31, 2013, the adidas Group Retail segment operated 2,740 stores. This represents a net increase of 294 stores or 12% versus the prior year-end level of 2,446. Of the total number of stores, 1,557 were adidas and 404 were Reebok branded (December 31, 2012: 1,353 adidas stores, 363 Reebok stores). In addition, the adidas Group Retail segment operated 779 factory outlets (December 31, 2012: 730). During 2013, the Group opened 534 new stores, 240 stores were closed and 127 stores were remodelled.

Retail development by store format
Concept store revenues include sales from adidas Sport Performance, adidas Originals & Sport Style and Reebok concept stores. In 2013, concept store revenues grew 6% on a currency-neutral basis. Sales increased at mid-single-digit rates at both adidas and Reebok. Currency-neutral comparable concept store sales were down 2%. In 2013, the Group opened 349 new concept stores, 125 concept stores were closed. As a result, the number of concept stores increased by 224 to 1,661 at the end of 2013 (2012: 1,437), of which 1,357 were related to the adidas brand and 304 to the Reebok brand. Currency translation effects had a negative impact on sales in euro terms. Concept store sales remained stable at € 1.573 billion from € 1.575 billion in 2012.
Business Performance by Segment / Other Businesses Performance

Other Businesses Performance

Other Businesses full year results

In 2013, revenues of Other Businesses grew 5% on a currency-neutral basis, driven by sales growth at TaylorMade-adidas Golf as well as at Reebok-CCM Hockey. Sales at Rockport and Other Centrally Managed Brands also increased. Currency translation effects negatively impacted revenues in euro terms. Sales of Other Businesses declined 2% to € 1.946 billion (2012: € 1.977 billion) / TABLE 17.

Gross margin decreased 1.7 percentage points to 41.0% (2012: 42.8%). The positive effect from higher product margins at Rockport and Reebok-CCM Hockey was more than offset by lower product margins at TaylorMade-adidas Golf related to inventory clearance activities as a result of the challenging golf market in 2013. Other Businesses gross profit was down 6% to € 799 million versus € 845 million in 2012 / TABLE 17.

Segmental operating expenses as a percentage of sales decreased 0.5 percentage points to 14.9% (2012: 15.4%). Segmental operating expenses in Other Businesses primarily relate to expenditure for sales force and administration as well as sales working budget expenses for TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands. In euro terms, segmental operating expenses decreased 5% to € 290 million from € 304 million in 2012. This was driven in particular by lower expenditure for sales administration at TaylorMade-adidas Golf and Reebok-CCM Hockey.

Other Businesses segmental operating profit decreased 6% to € 508 million versus € 541 million in the prior year. Segmental operating margin was down 1.3 percentage points to 26.1% from 27.4% in 2012 / TABLE 17. This was a result of the gross margin decrease, which more than offset the positive impact from lower segmental operating expenses as a percentage of sales.

Other Businesses Performance

Other Businesses full year results

In 2013, revenues of Other Businesses grew 5% on a currency-neutral basis, driven by sales growth at TaylorMade-adidas Golf as well as at Reebok-CCM Hockey. Sales at Rockport and Other Centrally Managed Brands also increased. Currency translation effects negatively impacted revenues in euro terms. Sales of Other Businesses declined 2% to € 1.946 billion (2012: € 1.977 billion) / TABLE 17.

Gross margin decreased 1.7 percentage points to 41.0% (2012: 42.8%). The positive effect from higher product margins at Rockport and Reebok-CCM Hockey was more than offset by lower product margins at TaylorMade-adidas Golf related to inventory clearance activities as a result of the challenging golf market in 2013. Other Businesses gross profit was down 6% to € 799 million versus € 845 million in 2012 / TABLE 17.

Segmental operating expenses as a percentage of sales decreased 0.5 percentage points to 14.9% (2012: 15.4%). Segmental operating expenses in Other Businesses primarily relate to expenditure for sales force and administration as well as sales working budget expenses for TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands. In euro terms, segmental operating expenses decreased 5% to € 290 million from € 304 million in 2012. This was driven in particular by lower expenditure for sales administration at TaylorMade-adidas Golf and Reebok-CCM Hockey.

Other Businesses segmental operating profit decreased 6% to € 508 million versus € 541 million in the prior year. Segmental operating margin was down 1.3 percentage points to 26.1% from 27.4% in 2012 / TABLE 17. This was a result of the gross margin decrease, which more than offset the positive impact from lower segmental operating expenses as a percentage of sales.
Other Businesses development by region

Currency-neutral sales of Other Businesses increased in all regions except Greater China. Revenues in Western Europe were up 3% on a currency-neutral basis due to sales growth at Other Centrally Managed Brands and TaylorMade-adidas Golf. Sales at Reebok-CCM Hockey and Rockport declined at a high-single-digit rate. Sales in European Emerging Markets increased 1% on a currency-neutral basis. Strong growth at Rockport was partly offset by sales declines at Reebok-CCM Hockey. Revenues at TaylorMade-adidas Golf grew at a low-single-digit rate. Currency-neutral sales in North America rose 6%, driven by growth at Reebok-CCM Hockey and TaylorMade-adidas Golf, where revenues grew at a double-digit rate and mid-single-digit rate, respectively. Sales at Rockport also increased, while revenues at Other Centrally Managed Brands were below the prior year level. Revenues in China decreased 12% on a currency-neutral basis as a result of sales declines at TaylorMade-adidas Golf. Sales in Other Asian Markets grew 5% on a currency-neutral basis, driven by double-digit increases at Rockport. Revenues at TaylorMade-adidas Golf increased at a low-single-digit rate. In Latin America, currency-neutral sales rose 2%, as a result of growth at TaylorMade-adidas Golf, which more than offset revenue declines at Rockport. Currency translation effects had a negative impact on regional sales in euro terms / TABLE 20.

Other Businesses development by segment

In 2013, TaylorMade-adidas Golf revenues increased 3% on a currency-neutral basis. Growth was mainly due to the first-time consolidation of Adams Golf starting in the second quarter of 2012. adidas Golf also contributed to this development, with double-digit growth in footwear. Currency translation effects negatively impacted TaylorMade-adidas Golf sales in euro terms. Revenues decreased 4% to €1.285 billion from €1.344 billion in the prior year.

18 / Other Businesses net sales by region

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
<th>Change (currency-neutral)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,091</td>
<td>1,067</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Other Asian Markets</td>
<td>432</td>
<td>478</td>
<td>(10%)</td>
<td>5%</td>
</tr>
<tr>
<td>Latin America</td>
<td>21</td>
<td>22</td>
<td>(4%)</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>1,946</td>
<td>1,977</td>
<td>(2%)</td>
<td>5%</td>
</tr>
</tbody>
</table>

1 Rounding differences may arise in totals.

Rockport revenues increased 6% on a currency-neutral basis, mainly due to sales growth related to Rockport’s lightweight concepts. Currency translation effects negatively impacted sales in euro terms. Revenues in the Rockport segment increased 1% to €289 million (2012: €285 million).
Currency-neutral Reebok-CCM Hockey sales were up 11%. This increase is partly due to the low comparison basis resulting from the NHL lockout during the third and fourth quarter of 2012. Currency translation effects negatively impacted sales in euro terms. Reebok-CCM Hockey revenues increased 7% to € 260 million from € 243 million in 2012.

Other Centrally Managed Brands revenues grew 9% on a currency-neutral basis, primarily driven by growth at Y-3 as well as Porsche Design Sport. Currency translation effects negatively impacted sales in euro terms. Revenues in Other Centrally Managed Brands increased 8% to € 112 million (2012: € 104 million).

### Other Businesses net sales by quarter (€ in millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2013</td>
<td>493</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>424</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>403</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>486</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>502</td>
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<tr>
<td>Q2 2012</td>
<td>550</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>548</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>517</td>
</tr>
</tbody>
</table>

### Other Businesses gross margin by quarter (in %)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2013</td>
<td>39.4</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>38.5</td>
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<tr>
<td>Q3 2013</td>
<td>35.3</td>
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<tr>
<td>Q3 2012</td>
<td>42.7</td>
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<td>Q2 2013</td>
<td>43.4</td>
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<tr>
<td>Q2 2012</td>
<td>45.3</td>
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<tr>
<td>Q1 2013</td>
<td>44.6</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>43.7</td>
</tr>
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</table>

### Other Businesses segmental operating profit by quarter (€ in millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Operating Profit</th>
</tr>
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<tbody>
<tr>
<td>Q4 2013</td>
<td>128</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>95</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>70</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>127</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>140</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>171</td>
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<tr>
<td>Q1 2013</td>
<td>172</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>148</td>
</tr>
</tbody>
</table>
Subsequent Events and Outlook

In 2014, despite a high degree of economic uncertainty particularly in the emerging markets, we expect the global economy and consumer spending to increase, providing a positive backdrop for the continued growth and expansion of the sporting goods industry. Through the extensive pipeline of new and innovative products at all brands and the positive effects from major sporting events including the 2014 FIFA World Cup, we project top- and bottom-line improvements in our Group’s financial results in 2014. We forecast adidas Group sales to increase at a high-single-digit rate on a currency-neutral basis, with growth expected at all brands as well as in all regions and segments. Currency translation is expected to have a significant negative impact on our top-line development in reported terms. Group gross margin is forecasted to increase to a level between 49.5% and 49.8%, primarily as a result of a more favourable pricing, product and regional sales mix, as well as improvements at the Reebok brand. Group operating margin is forecasted to be at a level between 8.5% and 9.0%. As a result, we project net income attributable to shareholders to be at a level between € 830 million and € 930 million.

Subsequent Events

Subsequent management changes on the Executive Board

On January 8, 2014, the Supervisory Board of adidas AG appointed Eric Liedtke (47) to the Executive Board of adidas AG effective March 6, 2014. Eric Liedtke will assume responsibility for Global Brands succeeding Erich Stammlinger (56), who has decided to leave the adidas AG Executive Board on March 5, 2014, for personal reasons. Eric Liedtke, a US citizen, joined the adidas Group in 1994 as Global Line Manager for Cross Training in Portland/Oregon. During his 20-year career with adidas, he has held senior management positions of increasing responsibility at adidas America, including Director of Footwear Marketing and Vice President Brand Marketing. In 2006, Eric Liedtke moved to the adidas Group headquarters in Herzogenaurach, Germany, to become Senior Vice President Global Brand Marketing. Since 2011, he has held the position of Senior Vice President adidas Sport Performance, responsible for all adidas sports categories globally.

Subsequent macroeconomic developments

Since the end of 2013, several currencies, in particular the Argentine peso, Brazilian real, Turkish lira, Russian rouble, Australian dollar and Canadian dollar, amongst others, have further depreciated versus the euro. These changes currently add significant risk to our Group’s reported results in euro due to negative currency translation effects.

No other subsequent changes

Since the end of 2013, there have been no other significant organisation, socio-political, legal or financial changes which we expect to influence our business materially going forward.

Outlook

Forward-looking statements

This Management Report contains forward-looking statements that reflect Management’s current view with respect to the future development of the adidas Group. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to uncertainties as described in the Risk and Opportunity Report, which are beyond the control of the adidas Group. In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialise, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. The adidas Group does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.
Global economy to grow in 2014
According to the World Bank, global GDP is projected to increase 3.2% in 2014 (2013: 2.4%). While several major high-income economies are expected to return to growth in 2014 and inflationary pressures are forecasted to remain low in many markets, the development of the global economy nonetheless remains subject to a high degree of uncertainty. The strengthening of many mature markets marks a significant shift from recent years when developing countries were the major drivers of global GDP expansion. Their recovery is also anticipated to boost prospects for developing markets’ export activity.

High-income, developed markets are expected to expand 2.2% in 2014, with the euro area’s GDP forecasted to return to modest growth. The USA is also expected to continue to reduce its bond buying programme (quantitative easing), which could lead to an increase in long-term interest rates in some developed and developing countries. Nonetheless, the strongest economic progress in the world will continue to be derived from the emerging markets, which are forecasted to increase 5.3% in 2014. In many of these developing economies, this growth is projected to continue to support a rapid rise in wages and disposable income. These positive economic expectations and the outlook for consumer spending, particularly in the emerging markets, are forecasted to be supportive of our growth aspirations in 2014.

In Western Europe, with less severe austerity programmes in many countries and low inflationary pressures supporting recovery and modest GDP expansion, GDP is projected to increase around 1.2% in 2014. In the euro area, Germany, the union’s largest economy, will remain the main engine of growth, fuelled by healthy export activity and increasing domestic demand and consumer and investment spending. However, the recovery will be fragile and continue to be constrained by high unemployment rates and ongoing concerns regarding the over-indebtedness of many of the region’s governments and banks.

European emerging markets are expected to continue to improve, with GDP estimated to grow at a healthy 2.8% in 2014. Economic growth is projected to come from increased exports as the region should benefit in particular from a stronger euro area. Increasing domestic consumption is also expected to support economic activity. In Russia, the trend of wage moderation and slowing income growth, the gradual rise in unemployment levels and further moderation in personal lending could lead to a less robust consumption growth rate in 2014.

In the USA, according to the Federal Reserve, GDP is forecasted to grow 3.0% in 2014, driven by domestic consumption as well as increasing industrial and export activities. The consensus is that inflation will remain moderate, while the labour and housing markets will improve, supporting consumer spending and economic expansion. The Federal Reserve’s strategy is anticipated to continue with its accommodative policy stance, reducing its quantitative easing programme as the year progresses. Headwinds are expected from further public spending cuts, although at a lower rate than in 2013.

In Asia, GDP is projected to increase 4.2% in 2014. With the exception of Japan, growth is expected to remain relatively high during the year, with healthy industrial activity, manageable inflationary pressures and strong wage increases contributing to the region’s economic expansion. Improving growth prospects in developed markets should also support Asia’s export activities. China will remain the fastest-growing economy and is forecasted to expand by 7.4%. In Japan, GDP is predicted to increase 1.3% in 2014, and is expected to continue to be driven by the government’s substantial stimulus programme. However, Japan’s real wage growth is forecasted to contract, negatively impacting consumer spending.

In Latin America, GDP is expected to increase 3.0% in 2014, with low unemployment rates and healthy domestic demand and consumer spending supporting growth. Nonetheless, elevated inflation rates, particularly in Argentina, and a tight consumer debt environment are forecasted to negatively impact growth. Concerns also remain regarding the expectations of more challenging global liquidity conditions and the potential further weakening of several Latin American currencies.
**Sporting goods industry expansion to continue in 2014**

In the absence of any major economic shocks, we expect the global sporting goods industry to grow in 2014. In particular, the industry should benefit from major sporting events, such as the world’s largest, the FIFA World Cup, hosted by Brazil, as well as from the 2014 Winter Olympic Games being held in Sochi, Russia. Many sporting goods retailers will continue to move to a more omni-retail business model, and e-commerce and investment in digital are anticipated to remain growth areas. Following macroeconomic trends, consumer spending on sporting goods in the emerging economies is expected to grow faster than in the more developed markets. Private consumption in many developed economies is forecasted to improve moderately in 2014, supporting modest industry expansion in those markets. While inflationary pressures are projected to remain relatively contained in most markets, the recent currency devaluations in several emerging market countries are likely to lead to significant price increases over time in the affected countries. In addition, wage growth in the faster-growing economies is forecasted to continue to add significant costs to the industry, especially where the industry sources and manufactures sporting goods.

In Europe, improvements in consumer confidence and domestic demand should positively impact the sporting goods industry in 2014. The region’s industry will also gain momentum due to the large number of European teams participating in the 2014 FIFA World Cup in Brazil and the importance of football for those markets. This benefit will also positively impact many European emerging markets, including Russia, who also qualified. Russia’s sporting goods sector should also gain additional momentum as the host nation for the 2014 Winter Olympic Games. Nonetheless, trends of lower growth in disposable income rates are expected to continue to negatively impact consumer sentiment and spending, and lessen the sporting goods sector’s expansion in some European emerging markets, especially in Russia.

In the USA, industry growth rates are expected to be ahead of the economy’s overall growth. From a category perspective, the trend towards high-performance technical running and training footwear looks set to continue. Similarly, advanced and highly innovative apparel products are also predicted to be significant sporting goods sales drivers for the year. Lifestyle running is expected to recover and the US golf market is also forecasted to see modest growth in 2014.

In Greater China, strong wage growth and domestic consumption is predicted to propel sporting goods sales in 2014. The trend and market share shift towards international brands is expected to continue. In other Asian markets, the sporting goods industry is also forecasted to grow in 2014, albeit with regional differences. Japan’s sporting goods industry is expected to grow modestly, with the weaker yen and the substantial government stimulus programmes helping to drive improvements in consumer sentiment and domestic spending. However, an expected sales tax increase in April may negatively impact the industry. Most of the other major Asian emerging markets are expected to see robust sporting goods sales growth in 2014, as domestic demand increases and rising wages continue to drive purchases of discretionary items.

The sporting goods industry in Latin America is projected to record healthy growth in 2014, with wage growth expected to promote consumer spending and discretionary purchases. Furthermore, given the significance of football in this region, the industry is expected to maintain momentum from sales relating to the 2014 FIFA World Cup in Brazil.

**adidas Group 2014 outlook**

<table>
<thead>
<tr>
<th>Category</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency-neutral sales development (%)</td>
<td></td>
</tr>
<tr>
<td>adidas Group</td>
<td>high-single-digit rate increase</td>
</tr>
<tr>
<td>Wholesale</td>
<td>mid-single-digit rate increase</td>
</tr>
<tr>
<td>Retail</td>
<td>high-single- to low-double-digit rate increase</td>
</tr>
<tr>
<td>Comparable store sales</td>
<td>low- to mid-single-digit rate increase</td>
</tr>
<tr>
<td>Other Businesses</td>
<td>low- to mid-single-digit rate increase</td>
</tr>
<tr>
<td>TaylorMade-adidas Golf</td>
<td>low- to mid-single-digit rate increase</td>
</tr>
<tr>
<td>Rockport</td>
<td>mid- to high-single-digit rate increase</td>
</tr>
<tr>
<td>Reebok-CCM Hockey</td>
<td>mid-single-digit rate increase</td>
</tr>
<tr>
<td>Gross margin</td>
<td>49.5% to 49.8%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>between 8.5% and 9.0%</td>
</tr>
<tr>
<td>Net income attributable to shareholders</td>
<td>€ 830 million to € 930 million</td>
</tr>
<tr>
<td>Average operating working capital in % of net sales</td>
<td>moderate decrease</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>€ 500 million to € 550 million</td>
</tr>
<tr>
<td>Store base</td>
<td>net increase by around 250 stores</td>
</tr>
<tr>
<td>Gross borrowings</td>
<td>decline</td>
</tr>
</tbody>
</table>
Subsequent Events and Outlook

adidas Group currency-neutral sales to increase at a high-single-digit rate in 2014

We expect adidas Group sales to increase at a high-single-digit rate on a currency-neutral basis in 2014. In particular, this year’s major sporting events will provide positive stimulus to Group sales. As the Official Partner of the 2014 FIFA World Cup in Brazil, the adidas brand will be the most visible brand during the event and will benefit from record sales in the football category. Group sales development will also be favourably impacted by our high exposure to fast-growing emerging markets as well as the further expansion of Retail. Currency translation is expected to have a significant negative impact on our top-line development in reported terms.

Currency-neutral Wholesale revenues expected to increase at a mid-single-digit rate

We project currency-neutral Wholesale segment revenues to increase at a mid-single-digit rate compared to the prior year. Our growth expectations are supported by our positive order backlog development as well as positive retailer and trade show feedback. Currency-neutral adidas Sport Performance sales are forecasted to increase at a mid-single-digit rate, driven by growth in key categories such as football, running and basketball. adidas Originals & Sport Style revenues are projected to increase at a mid-single-digit rate on a currency-neutral basis, driven by the further expansion of the adidas NEO label as well as growth at adidas Originals. Currency-neutral Reebok sales are expected to increase at a mid-single-digit rate, mainly due to growth in fitness training and Classics as well as the further expansion of new categories such as studio.

Retail sales to increase at a high-single- to low-double-digit rate on a currency-neutral basis

adidas Group currency-neutral Retail segment sales are projected to grow at a high-single- to low-double-digit rate in 2014. The Group expects a net increase of its store base of around 250 adidas and Reebok stores in 2014. We plan to open around 450 new stores, depending on the availability of desired locations. New stores will primarily be located in European Emerging Markets, in particular Russia/CIS. Approximately 200 stores will be closed over the course of the year. Around 180 stores will be remodelled. Comparable store sales are expected to increase at a low- to mid-single-digit rate compared to the prior year.

Currency-neutral sales of Other Businesses to grow at a low- to mid-single-digit rate

In 2014, revenues of Other Businesses are expected to increase at a low- to mid-single-digit rate on a currency-neutral basis. TaylorMade-adidas Golf currency-neutral sales are projected to grow at a low- to mid-single-digit rate compared to the prior year. Product launches in core categories such as metalwoods and irons as well as new product introductions in footwear should support growth in this segment. Currency-neutral revenues at Rockport are forecasted to increase at a mid- to high-single-digit rate, driven by growth in core strategic product concepts such as Total Motion and truWalkZero. Currency-neutral sales at Reebok-CCM Hockey are expected to grow at a mid-single-digit rate, supported by new product introductions in its key categories skates and sticks.

adidas Group sales expected to increase in all geographical areas

We expect the Group’s currency-neutral revenues to increase in all of our geographical areas in 2014, however at varying growth rates. In Western Europe, the gradual improvement in the macroeconomic environment as well as the 2014 FIFA World Cup will positively impact sales development in this region. In European Emerging Markets, the expansion of and improvements in our own-retail activities, particularly in Russia/CIS, are forecasted to have a positive influence on Group sales. In North America, we expect momentum to improve as we move through 2014, with the adidas brand strengthening its product offering in major categories such as running and basketball and Reebok gaining traction with new product introductions in both footwear and apparel. In Greater China, we expect growth to continue at similar levels to the prior year. This development will be primarily driven by expanding and solidifying our distribution footprint. In Other Asian Markets, growth will be driven by markets such as South Korea, Southeast Asia and India. Finally, in Latin America, Group sales development is projected to be positively impacted by the 2014 FIFA World Cup.
Subsequent Events and Outlook

Group gross margin to improve in 2014
In 2014, the adidas Group gross margin is forecasted to increase to a level between 49.5% and 49.8% (2013: 49.3%). Improvements are expected in most segments. Group gross margin will benefit from a positive pricing, product and regional sales mix, as growth rates in high-margin emerging markets are projected to be above growth rates in more mature markets. In addition, the Reebok brand will positively influence Group gross margin development. However, these positive effects will be partly offset by less favourable hedging terms compared to the prior year, adverse currency movements in emerging markets as well as increasing labour costs, which are expected to negatively impact our cost of sales.

Operating margin to be between 8.5% and 9.0%
In 2014, we expected the operating margin for the adidas Group to be at a level between 8.5% and 9.0% (2013 excluding goodwill impairment losses: 8.7%). This development will be strongly influenced by currency movements.

Net income attributable to shareholders to be at a level between € 830 million and € 930 million
Net income attributable to shareholders is expected to be at a level between € 830 million and € 930 million compared to the 2013 net income attributable to shareholders, excluding goodwill impairment losses, of € 839 million. This represents basic earnings per share of between € 3.97 and € 4.45. Interest rate expenses in 2014 are forecasted to remain at the prior year level, as lower interest expenses from euro-denominated borrowings will be offset by higher interest expenses from bank borrowings in emerging markets. Net foreign exchange losses in the financial result are also expected to be at a similar level compared to the prior year. The Group tax rate is expected to be at a level of around 28.5% and thus more favourable compared to the 2013 tax rate excluding goodwill impairment losses of 29.8%.

Average operating working capital as a percentage of sales to decrease moderately
In 2014, average operating working capital as a percentage of sales is expected to decrease moderately compared to the prior year level (2013: 20.9%). This is mainly due to working capital improvements we expect to achieve as we move through the year.

Group other operating expenses as a percentage of sales to be around prior year level
In 2014, the Group’s other operating expenses as a percentage of sales are expected to be around the prior year level (2013: 42.3%). Sales and marketing working budget expenses as a percentage of sales are projected to increase modestly compared to the prior year. Marketing investments will be centred on major sporting events such as the 2014 FIFA World Cup and highly innovative product launches, particularly in the running category. Further, we will support Reebok’s growth strategy in key fitness categories, leveraging partnership assets such as CrossFit, Spartan Race and Les Mills. Operating overhead expenditure as a percentage of sales is forecasted to decrease modestly in 2014. Higher administrative and personnel expenses in the Retail segment due to the planned expansion of the Group’s store base will be offset by leverage in other areas.

We expect the number of employees within the adidas Group to increase versus the prior year level. Additional hires will be mainly related to own-retail expansion. The adidas Group will continue to spend around 1% of Group sales on research and development in 2014. Areas of particular focus include advanced cushioning solutions, lightweight and digital sports technologies as well as sustainable product innovation. Additionally, investments and research emphasis will also include areas such as new manufacturing processes and advanced materials. / SEE RESEARCH AND DEVELOPMENT, P. 99.
Subsequent Events and Outlook

Capital expenditure to be between € 500 million and € 550 million

In 2014, capital expenditure is expected to amount to between € 500 million and € 550 million (2013: € 479 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in emerging markets. These investments will account for around 50% of total investments in 2014. Other areas of investment include the Group’s logistics infrastructure, 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. Projected capital expenditure by segment is outlined in the diagram / DIAGRAM 02. All investments within the adidas Group in 2014 are expected to be fully financed through cash generated from operating activities.

Excess cash to be used to support growth initiatives

In 2014, we expect continued positive cash flow from operating activities. Cash will be used to finance working capital needs, investment activities, as well as dividend payments. We intend to largely use excess cash to invest in our Route 2015 growth initiatives, in particular the further expansion of our own-retail activities. In 2014, gross borrowings of € 681 million will mature. In order to ensure long-term flexibility, we aim to maintain a ratio of net borrowings over EBITDA of less than two times as measured at year-end (2013: –0.2).

Efficient liquidity management in place for 2014 and beyond

Efficient liquidity management remains a priority for the adidas Group in 2014. We focus on continuously anticipating the operating cash flows of our Group segments, as this represents the main source of liquidity within the Group. Liquidity is planned on a rolling monthly basis under a multi-year financial and liquidity plan. Long-term liquidity is ensured by continued positive operating cash flows and sufficient financial flexibility through unused credit facilities / SEE TREASURY, P. 135.

Management to propose dividend of € 1.50

In light of the strong generation of cash flow from operating activities in 2013, Management will recommend paying a dividend of € 1.50 to shareholders at the Annual General Meeting (AGM) on May 8, 2014, representing an increase of 11% compared to the prior year (2012: € 1.35). Subject to shareholder approval, the dividend will be paid on May 9, 2014. The proposal represents a payout ratio of 37.4% of net income attributable to shareholders excluding goodwill impairment losses, compared to 35.7% in the prior year. This complies with our dividend policy, according to which we intend to pay out between 20% and 40% of net income attributable to shareholders annually. Based on the number of shares outstanding at the end of 2013, the dividend payout will thus increase 11% to € 314 million (2012: € 282 million).

adidas Group expects further growth and margin improvements in 2015

Based on the initiatives laid out in our Route 2015 strategic business plan, we project adidas Group sales and net income to increase in 2015. We also expect further improvements in operating margin. Further details of our Route 2015 strategic goals and initiatives are outlined in the Group Strategy section of this Annual Report / SEE GROUP STRATEGY, P. 68.

Capital expenditure by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ/Consolidation</td>
<td>40%</td>
</tr>
<tr>
<td>Retail</td>
<td>36%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>15%</td>
</tr>
<tr>
<td>Other Businesses</td>
<td>9%</td>
</tr>
</tbody>
</table>

02 / Capital expenditure by segment

adidas Group / 2013 Annual Report
### Major 2014 product launches

<table>
<thead>
<tr>
<th>Product</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samba Copa Mundial football boot collection</td>
<td>adidas</td>
</tr>
<tr>
<td>miCoach Smart Ball football</td>
<td>adidas</td>
</tr>
<tr>
<td>Argentine Football Association official match ball</td>
<td>adidas</td>
</tr>
<tr>
<td>Supernova Sequence Boost running shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>CH Rocket Boost running shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>adizero Primeknit 2 running shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>NBA All-Star 2014 uniforms</td>
<td>adidas</td>
</tr>
<tr>
<td>D Rose 4.5 basketball shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>D Howard 4 basketball shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>Terrex Scope GTX outdoor shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>ClimaCool Boat Breeze outdoor shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>Terrex ClimaHeat Ice outdoor jacket</td>
<td>adidas</td>
</tr>
<tr>
<td>Originals Stan Smith shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>Originals ZX Flux shoe</td>
<td>adidas</td>
</tr>
<tr>
<td>SkyScape women’s walking shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>ZQuick running shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>Reebok CrossFit Nano 4.0 training shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>Reebok All Terrain Series running shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>Les Mills studio collection</td>
<td>Reebok</td>
</tr>
<tr>
<td>JetFuse running shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>Classics Kamikaze I basketball shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>Classics Pump Fury OG shoe</td>
<td>Reebok</td>
</tr>
<tr>
<td>SLDR 430 drivers</td>
<td>TaylorMade</td>
</tr>
<tr>
<td>Tour Preferred MB irons</td>
<td>TaylorMade</td>
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<tr>
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<td>TaylorMade</td>
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<tr>
<td>Tour Preferred CB irons</td>
<td>TaylorMade</td>
</tr>
<tr>
<td>Tour Preferred golf balls</td>
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<tr>
<td>Tour Preferred X golf balls</td>
<td>TaylorMade</td>
</tr>
<tr>
<td>Project (a) golf balls</td>
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</tr>
<tr>
<td>adizero One golf shoe</td>
<td>adidas Golf</td>
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<tr>
<td>ClimaChill apparel</td>
<td>adidas Golf</td>
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<tr>
<td>Pro Series hybrids</td>
<td>Adams Golf</td>
</tr>
<tr>
<td>XTD irons set</td>
<td>Adams Golf</td>
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<tr>
<td>Total Motion women’s mid-wedge shoe collection</td>
<td>Rockport</td>
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<tr>
<td>RocSportsLite women’s ballet shoe collection</td>
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<tr>
<td>ActiveFlex RocSportsLite men’s shoe collection</td>
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<td>City Smart men’s shoe collection</td>
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<tr>
<td>Ledge Hill Too men’s shoe collection</td>
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<tr>
<td>RibCor skate</td>
<td>Reebok Hockey</td>
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<tr>
<td>Premier XLT goalie equipment</td>
<td>Reebok Hockey</td>
</tr>
<tr>
<td>Tacks skate</td>
<td>CCM</td>
</tr>
<tr>
<td>Retro Flex goalie equipment</td>
<td>CCM</td>
</tr>
<tr>
<td>RBZ protective equipment</td>
<td>CCM</td>
</tr>
</tbody>
</table>
Risk and Opportunity Report

The adidas Group continuously explores and develops opportunities to sustain earnings and drive long-term increases in shareholder value. We acknowledge that in our daily business we are exposed to various risks and that it is necessary to take certain risks in order to be competitive and ensure sustainable success. Our risk and opportunity management principles and system provide the framework for our Group to conduct business in a well-controlled environment.

Risk and opportunity management principles
The adidas Group is regularly confronted with risks and opportunities which have the potential to negatively (risk) or positively (opportunity) impact the assets, liabilities, financial position and profit and loss of the Group, or intangible assets such as brand image.

We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the Group’s business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the Group’s ability to achieve its business objectives or financial goals.

In this Risk and Opportunity Report, we have outlined the Group’s most important risks and opportunities as well as other risks that have a particular relevance from an industry or financial market perspective. We have summarised risks in four main categories: Strategic, Operational, Legal & Compliance and Financial. Opportunities are classified in two main categories: Strategic & Operational and Financial.

Risk and opportunity management system
The adidas AG Executive Board has the overall responsibility to operate an effective risk and opportunity management system that ensures comprehensive and consistent management of all significant risks and opportunities. The Group Risk Management department coordinates the execution and further development of the adidas Group’s risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the adidas AG Executive Board. The adidas AG Supervisory Board has the responsibility to monitor the effectiveness of the Group’s risk management system. These duties are undertaken by the Supervisory Board’s Audit Committee. In addition, the Group Internal Audit department also includes an assessment of compliance with the Group Risk Management Policy as part of its regular auditing activities of selected adidas Group subsidiaries or functions each year.

To facilitate effective risk and opportunity management, we implemented an integrated risk and opportunity management system, which is based on the integrated frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Additionally, it has been adapted to more appropriately reflect the structure as well as company and management culture of the adidas Group. This system focuses on the identification, evaluation, handling, monitoring and reporting of risks and opportunities. The key objective of the risk and opportunity management system is to protect and further grow shareholder value through an opportunity-focused but risk-aware decision-making framework.

We believe that a key component of optimal risk and opportunity management is the identification and evaluation of risks, risk-mitigating actions and opportunities where they arise. In addition, a concerted approach to handling, monitoring and reporting is of key importance. Therefore, risk and opportunity management is a Group-wide activity, which utilises critical day-to-day management insight from both global and local business units and functions.
Our risk and opportunity management process contains the following components:

Risk and opportunity identification: The adidas Group continuously monitors the macroeconomic environment, developments in the sporting goods industry, as well as internal processes, to identify risks and opportunities as early as possible. The Risk Owners (i.e. all direct reports to the adidas AG Executive Board and the Managing Directors of all our markets) have primary responsibility for the identification of risks and opportunities. The Group Risk Management department has defined a catalogue of potential risk areas (Risk Universe) to assist Risk Owners in identifying and categorising risks and opportunities. Our Group-wide network of Risk Owners ensures an effective identification of risks and opportunities. While various Risk Owners – according to their area of responsibility – actively monitor the overall macroeconomic, political, social, regulatory and competitive landscape, others closely observe brand, distribution channel and price point developments as well as changes in other areas such as input prices, financial market conditions or technological developments.

The Risk Owners use various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting, consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation, or exposed to increased competition or changing consumer tastes. However, our risk and opportunity identification process is not only limited to external risk factors or opportunities; it also includes an internal perspective considering processes, projects, human resources or compliance aspects.

Risk and opportunity evaluation: In order to manage risks and opportunities in an effective way, we evaluate identified risks and opportunities individually according to a systematic evaluation methodology, which is applied consistently and allows adequate prioritisation as well as allocation of resources. Risk and opportunity evaluation is also part of the Risk Owners’ responsibility. The Group Risk Management department supports and guides the Risk Owners in the evaluation process. According to our risk and opportunity management methodology, risks and opportunities are evaluated by looking at two dimensions – the potential (financial) impact and the likelihood that this impact materialises, both considering the upcoming twelve-month period. This does not mean that the respective Risk Owners are only looking at risks from a short-term perspective. Their assessment also includes a mid-term (12 to 24 months) and long-term (beyond 24 months) perspective. The potential impact is evaluated by utilising five categories: marginal, minor, moderate, significant and major. These categories represent quantitative or equivalent qualitative measurements. The qualitative measurements are based on the potential financial effect on the relevant income statement metrics (operating profit, financial result or tax expenses). Qualitative measurements used are, for example, the degree of media exposure or additional senior management attention needed. Likelihood represents the possibility that a given risk or opportunity may materialise with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: unlikely, possible, likely, probable and highly probable.

When assessing risks, we consider two perspectives – the gross risk and the net risk. While the gross risk reflects the worst-case negative (financial) impact before any mitigating actions, the net risk reflects the expected remaining (financial) impact after all mitigating actions. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken, and on the other hand it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of high-level risks that materialised against the original assessment on a yearly basis. In this way, we ensure continuous monitoring of the accuracy of risk evaluations across the Group, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at both the Group and, more extensively, the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>in %</th>
<th>Potential impact</th>
<th>Financial equivalent 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlikely</td>
<td>&lt; 15%</td>
<td>Marginal</td>
<td>≤ € 1 million</td>
</tr>
<tr>
<td>Possible</td>
<td>15%–30%</td>
<td>Minor</td>
<td>€ 1 million – € 10 million</td>
</tr>
<tr>
<td>Likely</td>
<td>30%–50%</td>
<td>Moderate</td>
<td>€ 10 million – € 50 million</td>
</tr>
<tr>
<td>Probable</td>
<td>50%–85%</td>
<td>Significant</td>
<td>€ 50 million – € 100 million</td>
</tr>
<tr>
<td>Highly probable</td>
<td>&gt; 85%</td>
<td>Major</td>
<td>≤ € 100 million</td>
</tr>
</tbody>
</table>

1) Based on operating profit, financial result or tax expenses.
**Risk and opportunity handling:** Risks and opportunities are treated in accordance with the Group’s risk and opportunity management principles as described in the Group Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating actions and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimise (financial) impact and/or likelihood of occurrence, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating actions if applicable. The Group Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating actions and assess the viability of already implemented mitigating actions.

**Risk and opportunity monitoring and reporting:** Our integrated risk and opportunity management system aims to increase the transparency of Group risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments, but also the adequacy and effectiveness of the current risk handling strategy on an ongoing basis.

Regular risk reporting consists of a two-step reporting stream supported and facilitated by a globally used Group-wide IT solution that was implemented in 2011. Firstly, on a quarterly basis, Risk Owners are required to report to Group Risk Management risks with a possible gross impact rating of at least moderate (financial equivalent: impact on the relevant income statement metric above the threshold of € 10 million) and a net impact rating of at least minor (financial equivalent: impact on the relevant income statement metric above the threshold of € 1 million), both regardless of the likelihood of materialising. Opportunities are aggregated separately, with Risk Owners reporting all opportunities with an impact rating of at least minor (financial equivalent: above € 1 million impact on the relevant income statement metric). Secondly, Group Risk Management aggregates the reported risks and, also on a quarterly basis, provides the adidas AG Executive Board with a consolidated Group-wide report based on the Risk Owners’ input, which highlights substantial individual risks and opportunities as well as, on an aggregated level, key areas of risk and opportunity.

Material changes in previously reported risks and/or newly identified risks with a potential net impact of moderate (financial equivalent: impact on the relevant income statement metric above the threshold of € 10 million), and any issues identified which due to their material nature require immediate reporting to the Executive Board, are also reported outside the regular quarterly reporting stream on an ad hoc basis.

**Compliance management system (adidas Group Fair Play Compliance Framework)**

At the adidas Group, we consider compliance with the law as well as external and internal regulations as imperative. Every employee is required to act ethically and compliant with the law as well as external and internal regulations while executing the Group’s business. Violations must be avoided under all circumstances. As a company with worldwide operations and more than 50,000 employees, however, the Group accepts that it will never be possible to exclude compliance violations with absolute certainty.

Both the adidas Group Fair Play Compliance Framework and our risk and opportunity management system are closely aligned and both are overseen by the Group’s Chief Compliance Officer who reports directly to the Group’s Chief Executive Officer. Together, these systems create the organisational requirements for Group-wide awareness of the respective governing law, of our internal rules and guidelines as well as for ensuring their observance. We see compliance as all-encompassing, spanning all business functions throughout the entire value chain, from supply chain through to the end consumer. As a result, the identification, analysis and evaluation of potential compliance risks are essential for our risk and opportunity management process. The Group Risk Management department works closely with the Risk Owners and responsible Compliance Officers to conduct a systematic assessment of key compliance risks on a quarterly basis. **SEE LEGAL AND COMPLIANCE RISKS, P. 170.**

The Group’s compliance management system is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises and is designed to:

- support the achievement of qualitative and sustainable growth through good corporate governance practice;
- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct;
- protect and further enhance the value and reputation of the Group and its brands through compliant conduct;
- preserve diversity by fighting harassment and discrimination;
- contribute to continuous improvement in all aspects of the Group’s business.

In order to ensure standardised and exemplary actions and behaviour, we introduced our Code of Conduct in 2006, which is applicable in all regions and business areas. It stipulates guidelines for behaviour in everyday work and is available both on our website and on our intranet. The Code of Conduct is the cornerstone of our compliance management programme which is founded on three pillars: prevention, detection and response.
Prevention includes, for example, policies, guidelines and procedures, which provide all employees with clear and precise behaviour instructions and are updated on a continuous basis. These policies, guidelines and procedures are available for all employees on the Group’s intranet in our Global Policy Manual. Another vital part of prevention is training, such as the web-based Code of Conduct training, which is mandatory for all employees worldwide. The Group also has a Group Privacy Policy, which is available in multiple languages (e.g. German, English, Spanish, Portuguese, Chinese and Russian). Furthermore, we have launched an anti-trust training programme incorporating web-based training and face-to-face training workshops. It is mandatory for all employees who are exposed to customers and competitors and it forms an integral part of the Group’s skills and operational training programme within Global Sales. The Group’s Legal & Compliance department monitors, updates and improves the training programme on a continuous basis. Before our products enter the market, our Intellectual Property department examines the technologies, trademarks, logos and designs to identify possible infringements of the rights of third parties as well as product safety.

To ensure timely detection of potential infringements of statutory regulations or internal guidelines, we have implemented whistleblowing procedures which allow employees to either report concerns over wrongdoing/potential compliance violations internally (e.g. directly to their supervisor, to the Chief Compliance Officer or other Compliance Officers, the relevant HR manager or the Works Council) or externally via an independent, confidential reporting hotline and email service. The hotline (Fair Play hotline) is available around the clock, seven days a week and can be called free of charge in over 60 countries worldwide. In addition, our Group Internal Audit and Profit Protection departments conduct regular audits and investigations to detect potential incidents of non-compliance. In case of reported or suspected compliance violations, a dedicated contact person, to whom complaints and information concerning compliance violations can be reported. We track, monitor and report potential incidents of non-compliance worldwide using a web-based reporting solution which can be accessed by all Compliance Officers across the Group. Appropriate sanction mechanisms (including termination of employment) are used to react promptly to possible compliance violations. Insights gained from the investigation of past violations are used to continuously improve the compliance management system.

The Chief Compliance Officer regularly reports to the Executive Board on the further development of the compliance programme and on major compliance cases, which are also reported to the Audit Committee. Further, he reports to the Audit Committee at one of its meetings at least once a year concerning the contents and the further development of the compliance programme.

Description of the main features of the internal control and risk management system relating to the consolidated financial reporting process pursuant to § 315 section 2 no. 5 German Commercial Code (Handelsgesetzbuch – HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the adidas Group represents a process embedded within the Group-wide corporate governance system. It aims at providing reasonable assurance regarding the reliability of the Group’s external financial reporting by ensuring Group-wide compliance with statutory provisions, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Group Finance Manual). We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, treatment, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process in the various areas. In a first step, the internal control and risk management system serves to identify and assess as well as to limit and control risks identified in the consolidated financial reporting process which might result in our consolidated financial statements not being in conformity with internal and external regulations.

Internal Controls over Financial Reporting (ICoFR) serve to provide reasonable assurance regarding the reliability of reporting and compliance with applicable laws and regulations despite identified financial reporting risks. To monitor the effectiveness of ICoFR, the Group Internal Audit department and the Group Policies & Internal Controls department regularly review accounting-relevant processes. Additionally, as part of the year-end audit, the external auditor selects and examines internal controls, including the IT systems, to assess their effectiveness. The Audit Committee of the adidas AG Supervisory Board also monitors the effectiveness of ICoFR. However, due to limitations of ICoFR, even with appropriate and functional systems absolute certainty about the effectiveness of ICoFR cannot be guaranteed.

The Group Finance Manual comprises uniform consolidated financial reporting policies which are mandatory for all Group companies and available to all employees involved in the financial reporting process through the Group-wide intranet. We update the Group Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Group Finance Manual are promptly communicated to all Group companies. Clear policies serve to limit employees’ scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the Group. We aim to ensure compliance with the Group Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, the local manager responsible for the accounting process within the Group companies and the respective local Managing Director confirm adherence to the Group Finance Manual and International Financial Reporting Standards in a written declaration of completeness, which is provided to Group Accounting on a quarterly basis.
The accounting for Group companies is conducted either locally or by an adidas Group Shared Service Centre. Most of the IT ERP systems used are based on a Group-wide standardised SAP system. Some Group companies use Navision-based ERP software. As part of an initiative aimed at harmonising our system infrastructure (One ERP), we will also introduce an SAP-based ERP system within these Group companies in the medium term. Following approval by the Finance Director of the respective Group company, the local financial statements are transferred into a central consolidation system based on SAP SEM-BCS. At Group level, the regularity and reliability of the financial statements prepared by Group companies are reviewed by Group Accounting and Controlling. These measures include automated validation in the system as well as creation of reports and analyses to ensure data integrity and adherence to reporting logic. In addition, differences between current year and prior year financial data as well as budget figures are analysed on a distribution channel and market level. If necessary, the Group seeks the opinion of independent experts to review business transactions that occur infrequently and not on a routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors and differences and are reported back to the Group companies. After finalisation of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analysed with respect to trends and variances. Unless already otherwise clarified, the Group companies are asked to explain any identified material deviations.

All financial systems used are protected against malpractice by means of appropriate authorisation concepts, approval concepts and access restrictions. Access authorisations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimised by Group IT through central control and monitoring of virtually all IT systems, centralised management of change processes and regular data backups.

Focus on advancements in compliance management system in 2013

In 2013, we further enhanced the Group’s governance structures and processes with a particular emphasis on the Group’s compliance management system. We launched the adidas Group Fair Play Compliance Framework, which is applicable to the whole Group regardless of brand, market, distribution channel or function. This included the implementation of the global Fair Play hotline and email service, the creation and introduction of a global reporting solution for potential incidents of non-compliance as well as a worldwide communication and education initiative via brochures and posters at all adidas Group locations, including offices, own-retail stores and distribution/logistics centres. We also further activated the global network of Compliance Officers, providing training on a global, regional and local level. Regarding risk and opportunity management, the Group Risk Management department held numerous training sessions and workshops with Risk Owners as well as functional and market management teams worldwide (e.g. Greater China, Russia/CIS) to further strengthen the understanding of the Group’s risk and opportunity management system, in order to increase risk awareness and to establish a culture of risk-conscious decision-making. In addition, we updated and adjusted our Risk Universe and our Group Risk Management Policy, which is available to all Group employees on our intranet. The policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our Group. Furthermore, Group Policies & Internal Controls held the Group’s first-ever global Internal Controls Conference, bringing together employees from various areas of internal governance including Internal Controls, Internal Audit, Profit Protection, Risk Management and Compliance. This event drove further alignment worldwide and kicked off various initiatives across the Group to further optimise and harmonise risk management, control and compliance activities.
Risk and Opportunity Report  / Strategic Risks

Strategic Risks

Macroeconomic, socio-political and regulatory risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns and socio-political factors such as civil unrest, nationalisation or expropriation, in particular in regions where the Group is highly represented, therefore pose a significant risk to sales development. In addition, significant changes in the regulatory environment (e.g. trade restrictions, tax legislation, product quality and safety standards, etc.) could lead to potential sales shortfalls or cost increases. To mitigate these macroeconomic, socio-political and regulatory risks, the Group strives to balance sales across key global regions and also between developed and emerging markets. We also continuously monitor the macroeconomic, political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be more conservative product purchasing, tight working capital management and an increased focus on cost control. Furthermore, a core element of our positioning in performance sports is the utilisation of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influences. In addition, by building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators to liberalise global trade, curtail trade barriers and proactively adapt to significant changes in the regulatory environment.

In 2014, we expect the global economy to grow, albeit with varying degrees of performance geographically. However, as a result of the still challenging macroeconomic environment in many European countries, slowing economic growth rates in the emerging markets as well as political and regulatory uncertainty in certain countries in Latin America, the Middle East and Southeast Asia, we still regard the potential impact of macroeconomic, socio-political and regulatory factors as major. Given our broad-based risk mitigation, we now assess the likelihood that adverse macroeconomic, socio-political or regulatory events could impact our business to that extent as possible (2012: likely).
Risks related to distribution strategy
The inability to appropriately influence in which channels the Group’s products are sold constitutes a continuous risk. Grey market activity, parallel imports or the distribution of our products on open online marketplaces could negatively affect our own sales performance and the image of our Group’s brands. In a few individual markets, we work with distributors or strategic partners whose approach might differ from our own distribution practices and standards. This could also negatively impact the adidas Group’s business performance. Furthermore, weakly defined segmentation and channel strategies could lead to an unhealthy utilisation of our multiple distribution channels as well as strong retaliation from our customers. As a result, the Group has developed and implemented clearly defined distribution policies and procedures to avoid over-distribution of products in a particular channel and limit the exposure to unwanted channels such as grey markets or open online marketplaces. In addition, we conduct specific trainings for our sales force to appropriately manage product distribution and ensure that the right product is sold at the right point of sale to the right consumer at an adequate price / SEE GLOBAL SALES STRATEGY, P. 72.

Nevertheless, we still believe that unbalanced product distribution and the inability to effectively manage our different sales channels could have a significant impact on the Group. As a result of the dynamic market environment and the fast-changing world of online sales, we continue to evaluate the likelihood of materialising as possible.

Dependency risks
Risks arise from a dependence on particular suppliers, customers, other business partners, products or even markets. An over-reliance on a supplier for a substantial portion of the Group’s product volume, or an over-dependence on a particular customer, increases the Group’s vulnerability to delivery and sales shortfalls and could lead to significant margin pressure. Similarly, a strong dependence on certain products or markets could make the Group very susceptible to swings in consumer demand or changes in the market environment.

To mitigate these risks, the Group works with a broad network of suppliers and for the vast majority of its products does not have a single-sourcing model. Likewise, we utilise a broad distribution strategy which includes further expanding our controlled space activities. This enables us to reduce negative consequences resulting from sales shortfalls that can occur with key customers. Specifically, no single customer of our Group accounted for more than 10% of Group sales in 2013. Furthermore, we consistently provide a well-balanced product portfolio with no particular model or article contributing more than 1% to Group sales, which enables us to minimise negative effects from sudden unexpected changes in consumer demand.

Despite our global diversification, which reduces reliance on a particular market as far as possible, we still remain vulnerable to negative developments in key sales markets such as Russia/CIS, China or North America as well as our important sourcing countries. Therefore, we continue to regard the potential impact of these risks as significant. Due to our strong relationships with suppliers and customers as well as our positive expectations for our key sales markets we now assess the likelihood of materialising as unlikely (2012: possible).

Risks related to media and stakeholder activities
The adidas Group faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. Adverse media coverage on our products or business practices, unfavourable stakeholder initiatives as well as negative social media discussion may significantly hurt the Group’s reputation and brand image and eventually lead to a sales slowdown. To mitigate these risks, we pursue proactive, open communication with key stakeholders (e.g. consumers, media, non-governmental organisations, the financial community, etc.) on a continuous basis. We have also defined clear mission statements, values and goals for all our brands / SEE GLOBAL BRANDS STRATEGY, P. 77 / SEE OTHER BUSINESSES STRATEGY, P. 86. These form the foundation of our product and brand communication strategies. Furthermore, we continue to invest significant marketing resources to build brand equity and foster consumer awareness.

Nevertheless, we continue to believe that unsubstantiated negative media coverage, uncontrolled social media activities and stakeholder activism could have a significant impact on our Group. Despite the fast-moving and hardly controllable nature of social media as well as ever-increasing media and other stakeholder activities worldwide, we still regard the likelihood of being affected to such an extent as likely.

Customer consolidation and cross-border expansion/private label risks
The adidas Group is exposed to risks from consolidation amongst retailers as well as the increase of retailers’ own private label businesses. In addition, several key accounts, particularly in Europe, continue to expand internationally while centralising their purchasing activities. As a result, we may experience a reduction of our bargaining power, reduced shelf space allocation from retailers and lower sales and margin due to price arbitrage.
To mitigate these risks, we maintain a regionally balanced sales mix, focusing on cementing strong relationships with retailers and adapting the Group’s distribution strategy with a particular focus on controlled space initiatives. In addition, we are constantly investing in strengthening brand equity to increase the attractiveness and consumer appeal of our products. We also decided to create a new market structure in Western Europe with one aligned strategy going forward to be more attractive for consumers and customers. As a result, we now assess the potential impact of customer consolidation, cross-border expansion of key accounts and growth of private label offerings as moderate (2012: significant). However, we regard the likelihood of these risks materialising as possible.

**Competition risks**

Strategic alliances amongst competitors and/or retailers and intense competition for consumers and promotion partnerships from well-established industry peers and new market entrants (e.g. new brands, vertical retailers) pose a substantial risk to the adidas Group. This could lead to harmful competitive behaviour, such as price wars in the marketplace or bidding wars for promotion partnerships. Sustained pricing pressure in one of the Group’s key markets could threaten the Group’s sales and profitability development. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the Group’s profitability and market position.

To mitigate competition risks, we continuously monitor and analyse competitive and market information in order to be able to anticipate unfavourable changes in the competitive environment rather than reacting to such changes. This enables us to proactively adjust our marketing activities when needed. We also pursue a strategy of entering into long-term agreements with key promotion partners such as FIFA, FC Bayern Munich or Derrick Rose, as well as adding new partners to refresh and diversify our portfolio, e.g. Juventus FC, Mesut Özil or Jeremy Lin. In addition, our product and communication initiatives are designed to drive market share growth and to strengthen our brands’ market position. As a result, we now assess the potential impact of competition risks as significant (2012: major) although we expect competition in our industry to remain intense. However, we regard the likelihood of an impact of such magnitude as possible.

**Consumer demand risks**

Failure to anticipate and respond to changes in consumer demand for sporting goods products is one of the most serious threats to our industry. Consumer demand changes can be sudden and unexpected, particularly in our fashion-related businesses. Because industry product procurement cycles average 12 to 18 months, the Group faces a risk of short-term revenue loss in cases where it is unable to respond quickly to such changes. Even more critical, however, is the risk of continuously overlooking a new consumer trend or failing to acknowledge its potential magnitude over a sustained period of time.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brands and, in particular, of the respective Risk Owners. Therefore, we utilise extensive primary and secondary research tools as outlined in our risk and opportunity identification process.

As a leader in our industry, we are focused on influencing rather than reacting to the changing consumer environment. We invest significant resources in research and development to innovate and bring fresh new technologies and designs to market. In addition, we focus on supply chain improvements to shorten production lead times.

**Risks related to risk and control environment**

Failure to identify and actively manage substantial risks and to implement and maintain adequate internal controls across the Group could result in improper decisions, higher costs, compliance violation and fraud and also cause reputational damage. Furthermore, a lack of documentation of processes and procedures could result in a lack of risk awareness among the Group’s employees and facilitates fraud and compliance violations.

In order to adequately manage these risks, we maintain a Global Policy Manual that illustrates all relevant Group policies and is freely accessible to all employees via the Group’s intranet. In addition, we document key business processes to create transparency and enable the implementation of proper control mechanisms. By operating a Group-wide risk management system, compliance management system and internal control network, we further mitigate these risks. Nonetheless, we continue to believe the potential impact of these risks could be major. Because of the improvements we made in the last twelve months, particularly with respect to compliance management and internal controls as discussed earlier in this report, we now consider the likelihood of being affected to such a degree as unlikely (2012: possible).
Operational Risks

Own-retail risks
New adidas, Reebok and Rockport own-retail stores require considerable up-front investment in furniture and fixtures as well as ongoing maintenance. In addition, own-retail activities often require longer-term lease or rent commitments. Retail also employs significantly more personnel in relation to sales than our wholesale business. The higher portion of fixed costs compared to our wholesale business may cause a larger profitability impact in cases of significant sales declines. Success in own retail is predominantly related to the skills and performance of our employees. High turnover of staff as well as a lack of the required skills and qualifications of own-retail employees could negatively affect sales and profitability. Ineffective or inconsistent leadership and an inadequate culture with respect to operating own-retail stores with commercial expertise may also contribute to suboptimal business performance. In addition, delayed openings or poorly executed store operations could lead to sales shortfalls and also negatively affect brand image. Furthermore, inability to secure appropriate store locations may result in a worse than expected sales development.

The Group reduces these risks by applying various measures. We run multiple training initiatives for own-retail employees at all levels, from store clerk to top management. At the same time, we constantly monitor staff turnover and actively manage succession and career development to reduce attrition. Furthermore, we almost only enter into new lease contracts with durations of no more than ten years. Store openings are managed according to a standardised Group-wide business plan model. Store performance is measured by a retail scorecard consisting of nine quantitative key performance indicators. Underperforming stores are reorganised, remodelled or closed, as appropriate.

Further improving our sophistication as a retailer by investing in management expertise, employee development as well as IT systems remains a key priority for 2014. SEE GLOBAL SALES STRATEGY, P. 72. Nevertheless, we maintain our assessment of a potential major impact on the Group’s performance and a likelihood of materialising of possible from risks related to own retail.

Logistics risks
As a global company with business operations in numerous countries, the Group requires well-functioning logistics processes, from the supplier to our own warehouses and from our distribution centres to the customer. Any interruption of these processes could negatively affect our ability to fulfil orders and deliver products, leading to sales shortfalls, additional costs and deterioration of customer relationships. Inability to secure transportation or warehousing capacity, errors by employees as well as malfunctions in IT logistics systems could all disrupt the flow of goods. To mitigate these risks, we continuously monitor the global transportation market in order to be able to quickly adapt to changes in the transportation environment and secure required capacity. We work closely with multiple logistics service providers to guarantee transportation of our products to the desired destinations. In addition, we buy insurance coverage against theft or physical damage during transportation and storage. Furthermore, in case of malfunctioning logistics systems or warehouse processes, we actively re-prioritise the allocation of products to minimise damage caused.

Given the importance of logistics processes to ensure the proper flow of goods and based on our experience in the last two years, we now rate the potential impact of logistics risks as major (2012: significant). However, as a result of our learnings from substantial logistics malfunctioning in Russia in 2013, we assess the likelihood of being affected to such an extent as possible (2012: likely).

Marketing risks
Flawless execution of marketing activities is critical to the success of the Group and its brands. Therefore, unaligned product creation, range development, go-to-market or brand communication processes could lead to additional costs, suboptimal sales performance and the inability to resonate with the consumer as desired. Poorly executed marketing activities may also result in negative media coverage and hurt brand image. Similarly, inadequate or insufficient investment in brand-building could negatively affect our ability to maintain brand momentum and our competitive edge in the marketplace.

In order to reduce such risks, our global and local marketing departments are constantly cooperating and thereby ensuring consistent execution of key initiatives. Through continuous planning and alignment within the marketing organisation and also cross-functionally, we enable both consumer relevance and operational excellence. Despite our brands’ marketing strength and track record, we still believe these risks could have a significant potential impact for the Group, and we continue to assess the likelihood of materialising as likely.

Customer relationship risks
Building strong relationships with retailers to be a valuable and reliable business partner for them is one of the guiding principles of our Wholesale segment. SEE GLOBAL SALES STRATEGY, P. 72. Failure to cement and maintain strong relationships with retailers could have substantial negative effects on our wholesale activities and thus the Group’s business performance. Losing important customers in key markets due to subpar relationship management would result in significant sales shortfalls.
Therefore, the Group is committed to delivering outstanding customer service, providing our retail partners with the support and tools to establish and maintain a mutually successful business relationship. Customer relationship management is not only a key activity for our sales force but also of highest importance to our Group's top executives and second-line management. As a result, the Group's CEO as well as the Executive Board member responsible for Global Sales, for example, regularly meet with key customers to ensure a strong partnership between the Group and its retail customers. Due to our excellent relationship with our retail customers and our commitment and dedication to strengthening our partnerships, we believe that customer relationship risks could have a moderate (2012: major) impact on our Group's performance. We regard the likelihood of being impacted to such an extent as possible (2012: unlikely).

Sales and pricing risks
To achieve our sales and profitability targets, it is paramount to successfully convert orders into sales, drive sell-through at the point of sale and have product prices that are competitive in the marketplace. Failure to do so would result in sales and profit shortfalls. In addition, price increases required to compensate for higher product costs might not be realised in the marketplace, leading to margin declines.

To mitigate these risks, we pursue a range of pricing strategies. We closely monitor order book conversion as well as sell-out and sell-through performance and adjust prices where required. In addition, our continuous investment in brand-building and marketing helps us drive our business at various price points and supports a premium positioning. Furthermore, we work closely with our retail customers to minimise mark-downs and potentially re-allocate product.

As a result of these mitigating actions, the experience we gained in particular in the last twelve months related to pricing decisions as well as our brand strength, broad product offering and pricing architecture, we now assess the potential impact of sales and pricing as moderate (2012: major). However, due to a difficult macroeconomic environment and intense competition, particularly in Europe, we regard the likelihood of being affected to such an extent as probable (2012: possible).

Supplier risks
Almost the entire adidas Group product offering is sourced through independent suppliers, mainly located in Asia. To reduce the risk of business interruptions following the potential underperformance of a supplier or a potential supplier default, we work with vendors who demonstrate reliability, quality, innovation and continuous improvement.

Furthermore, in order to minimise any potential negative consequences such as product quality shortfalls, increased product lead times or violation of our Workplace Standards, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to supplier premises. Despite our commitment to enhance our mitigating actions and to minimise the potential impact of supplier risks, we regard the potential impact as significant (2012: major). However, we consider the likelihood of being impacted to such a degree as unlikely.

Inventory risks
As we place initial production orders around six months in advance of delivery, the adidas Group is exposed to inventory risks relating to misjudging consumer demand at the time of production planning. A sudden decline in demand has the potential to cause excess inventories. This can have negative implications for our financial performance, including higher levels of clearance activity and inventory obsolescence as well as reduced liquidity due to higher operating working capital requirements.

Similarly, a sudden increase in demand can lead to product shortfalls at the point of sale. In this situation, our Group faces the risk of missed sales opportunities and/or customer and consumer disappointment, which could lead to a reduction in brand loyalty and hurt our reputation as an on-time, in-full supplier. In addition, the Group faces potential profitability impacts from additional costs such as airfreight in efforts to speed up replenishment.

In order to mitigate these risks, we continuously strive to improve our forecasting and material planning processes. To that end, in 2013, we further improved our forecasting approach by more closely aligning processes and timelines of major business functions. In addition, our Global Operations function offers sophisticated and tailored replenishment models in order to shorten order-to-delivery times, ensuring availability of products while avoiding excess inventories.

The expected over-proportionate growth of the Retail segment will increase the exposure towards swings in consumer demand, and also makes the Group more susceptible to the risk of inventory shrinkage or excess inventory. However, as a result of continuous progress in our improvement efforts regarding planning processes and supply chain flexibility, we now assess the potential impact related to inventory clearance to be moderate (2012: significant), albeit with a likelihood of materialising of likely (2012: possible).
Hazard risks
The adidas Group is exposed to external risks such as natural disasters, epidemics, fire, accidents and malicious acts. Physical damage to our own or our suppliers’ premises, production units, warehouses and stock in transit can lead to property damage and business interruption.

These risks are mitigated by loss prevention measures such as working with reliable suppliers and logistics providers who guarantee high safety standards. In addition to the insurance coverage we have secured, the Group has also implemented loss prevention (e.g. sprinklers in facilities) and contingency plans to quickly recover business activities in order to minimise potential negative effects.

We maintain our assessment that the potential financial impact could be major, reflecting the fundamental and devastating consequences natural disasters or terrorist acts might have on our business. As a result of the increasing frequency of natural disasters (e.g. earthquakes, floods, etc.) around the world and since we operate in geographies with a particularly high exposure to natural hazards (e.g. Japan, the US West Coast, etc.), we still assess the likelihood of materialising as possible.

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. In that respect, we believe that diversity is critical to our Group’s success. Therefore, a lack of diversity or the inability to actively embrace and promote diversity across our global organisation could result in suboptimal business performance. Low employee engagement and the failure to maintain a performance-oriented culture amongst our workforce could also substantially impede our ability to achieve our goals. Furthermore, the loss of key personnel in strategic positions and the inability to identify, recruit and retain sufficient highly qualified and skilled people who best meet the specific needs of our Group pose substantial risks to our Group’s business performance. Unattractive or non-competitive management and employee remuneration may exacerbate these risks. In addition, a lack of sufficient training measures and inadequate documentation of critical know-how might dilute or lead to a loss of key capabilities.

To reduce these risks, we strongly engage in developing a motivating working environment and actively promote a way of working that is open, honest, fact-based, non-political, efficient and collaborative. Our goal is to make the adidas Group the “employer of choice” within our industry. Attractive reward and incentive schemes are designed to further support long-term employee commitment.

With the expansion of our own-retail activities and the continued growth of our employee base in emerging markets, employee turnover may increase in the future. Moreover, labour markets are becoming increasingly more competitive, with the battle for the most talented employees constantly intensifying. As a result of our activities to mitigate personnel risks, we now regard the potential impact of personnel risks as moderate (2012: significant). However, we believe the likelihood of materialising is probable (2012: unlikely).

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. Ineffective project management could delay the execution of projects critical to the Group or make them more expensive than planned. Virus or malware attacks could also lead to systems disruption and may result in the loss of business-critical and/or confidential information.

To mitigate these risks, our IT organisation proactively engages in system preventive maintenance, service continuity planning and adherence to applicable IT policies. Data security is managed by restricting user access based on job description and adhering to data protection regulations. Additional security measures such as anti-virus software and firewalls are designed to further protect our systems and critical information. We perform multiple backups at alternating data centre locations for the Group’s core enterprise resource planning system (ERP) on a daily basis. In addition, for the ERP system, our contingency solution allows us to quickly switch to a remote site if necessary – without any loss of data. System security, controls and reliability are reviewed and tested by the Internal Audit department.
IT project risks are further mitigated by utilising a proven project methodology for all IT projects that includes tight cost control and regular risk reviews for all major projects. The IT organisation’s strategic direction is aligned with the adidas Group’s overall Route 2015 strategic business plan. New quality reviews for major projects have been implemented to ensure that the progress, quality and costs of those projects are regularly evaluated by members of senior management.

Due to the critical nature of IT systems for all our business processes, we continue to regard the potential impact as major. However, we further strengthened our risk mitigation in the last twelve months, in particular in the areas of IT security and information protection. Therefore, we now consider the likelihood of being affected to such a degree as unlikely (2012: possible).

**Product innovation and development risks**

Innovative and attractive products generate strong sales and, more importantly, create a halo effect for other products. Furthermore, fulfilling the highest standards in terms of product quality and safety is critical to sustainable commercial success and forms an integral part of the product design and development phase. The speed with which new product technologies and fresh designs are brought to market is decisive for maintaining competitive advantage. In 2013, all brands generated the majority of their sales with products which had been brought to market over the previous 12 to 18 months /SEE RESEARCH AND DEVELOPMENT, P. 99. If the adidas Group failed to maintain a pipeline of new innovative products over a sustained period of time, we would risk a significant sales decline. Therefore, we continue to invest in innovation and design processes as well as the recruitment and retention of creative and innovative talent /SEE RESEARCH AND DEVELOPMENT, P. 99. 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 believe innovation is a key success factor in the sporting goods industry and, as a result, shortcomings regarding product innovation, design and development pose a substantial risk to all industry players. As a result, we still evaluate the potential impact of product innovation and development risks as moderate. Due to our proven R&D track record and our strong product pipeline, however, we regard the likelihood of materialising as unlikely (2012: likely).

**Risks related to rising input costs**

Raw material and labour costs account for approximately 70% of the Group’s cost of sales. Prices of materials such as rubber, cotton, polyester and those which closely correlate with the oil price are especially subject to the risk of price changes. As our ordering process and price negotiations usually take place around six months in advance of production, our sourcing function has visibility and reaction time to reflect sharp increases in input costs in its planning.

To reduce the financial impact on our product margins from higher sourcing costs, we are implementing further lean manufacturing techniques at our partner factories, reducing time and cost in the procurement process, re-engineering our products and selectively increasing prices where possible. In addition, with respect to material price increases we engage in risk sharing with our suppliers, which dampens the negative effect on the Group’s margin. Furthermore, the Profitability Management department is mandated with driving strategic sourcing initiatives to ensure competitiveness of our supply chain in light of increasing input costs /SEE GLOBAL OPERATIONS, P. 94. In the medium term, we also have the ability to adapt our sourcing structure to take advantage of more competitive pricing in other locations.

Due to the actions we have taken over the last years to mitigate effects from increasing input costs, as well as our continuous efforts in optimising our supply chain, we continue to regard the potential impact related to higher sourcing costs as moderate. As labour costs continue to increase across all our major sourcing countries, we still assess the likelihood of materialising as likely.
Legal & Compliance Risks

Legal risks
As a global player, the adidas Group is exposed to various legal risks, including contractual risks, liability risks related to non-contractual subject matters (e.g. advertising claims) or the risk of claims and litigation for infringement of third-party trademarks, patents and other rights. To avoid contract breaches and prevent the Group from entering into unfavourable contractual agreements, we continually monitor the fulfilment of our contractual obligations and constantly involve internal and external legal experts in all contractual matters. In addition, to reduce the risk of infringing third-party intellectual property rights, we carefully research new product technologies, designs and names to identify and avoid potential conflicts with the rights of third parties. Our Intellectual Property department drives continuous enhancements in our patent portfolio, and in the reviewing and analysis of third-party patents.

Despite the process and system (e.g. contract management) improvements we made in 2013, we view the potential impact as significant should these risks materialise (2012: major) and believe that the likelihood of materialising is possible.

Risks related to competition, trade and customs regulations
Numerous laws and regulations regarding competition, trade and customs affect the adidas Group’s business practices worldwide. Non-compliance with regulations concerning fair competition, pricing, advertising or product imports (including calculation of customs values) could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage. To proactively manage such risks, we constantly seek expert legal advice and provide subject matter training to our employees (e.g. competition law training). In addition, our internal Legal department advises the marketing departments to ensure appropriate and compliant brand communication. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and import regulations and obtain the required clearance of products to fulfil sales demand.

As a result of the growing number of and continuous change in competition, trade and customs regulations worldwide, we now assess the potential impact on the Group, should these risks materialise, as major (2012: significant) and regard the likelihood of materialising as possible.

Social and environmental risks
We have a responsibility to our employees, suppliers and the environment. Malpractice in these areas, in particular human rights violations, dubious employment practices as well as environmentally harmful production processes can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. To limit this risk, we have established Workplace Standards to which suppliers must conform before and during business relationships with the Group. Internal and external 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. If these deadlines are not met, business relations are terminated. See Sustainability, p. 111.

In order to minimise the environmental impact of producing and distributing our products, the adidas Group developed a fully comprehensive environmental strategy (Environmental Strategy 2015). This strategy takes a holistic approach towards environmental issues such as sustainable resource use, climate change mitigation, emissions to water and air, waste treatment as well as hazardous substances. See Sustainability, p. 111.

Although we believe that social and environmental malpractice may occur only in isolated cases, we see increasing corporate social responsibility obligations for the Group as legislative measures and consumer expectations with regard to socially and environmentally sound business practices and behaviour are becoming more demanding. Due to this development we will, for example, have to cope with rising costs in order to fulfil more challenging social and environmental requirements. However, because of the experience we have gained over the last years and due to constant improvements of our social and environmental activities, we now consider the potential impact on the Group as moderate (2012: major) but assess the likelihood of materialising as likely (2012: possible).

Risks related to product counterfeiting and imitation
As popular consumer brands which rely on technological and design innovation as defining characteristics, the Group’s brands are frequent targets for counterfeiting and imitation. To reduce the loss of sales and the potential damage to brand reputation resulting from counterfeit products, the adidas Group makes use of extensive legal protection (generally through registration) and works closely with law enforcement authorities, investigators and external legal counsel. Although we have stepped up measures such as product security labelling with our authorised suppliers, the development of these measures remains a key priority on an ongoing basis. In 2013, around twelve million counterfeit adidas Group products were seized worldwide.
As our brands remain a key factor for our Group’s success, we still assess the potential impact related to counterfeiting and imitation as significant but, as a result of our relentless and intensive efforts against counterfeiting, we continue to rate the likelihood of being impacted to such a degree as unlikely.

Product quality risks
The adidas Group faces a risk of selling defective products, which may result in injury to consumers and/or brand and product image impairment. We mitigate this risk by employing dedicated teams that monitor the quality of our products on all levels of the supply chain through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary. In 2013, we did not have any notable product recalls.

We still believe the potential impact of product liability cases or having to conduct wide-scale product recalls could be significant and, despite our internal standards and control activities regarding product quality, we continue to regard the likelihood of being impacted to such an extent as possible.

Fraud and corruption risks
We face the risk that our employees and Executive Board breach rules and standards that guide appropriate and responsible business behaviour. This includes the risks of fraud, financial misstatements or manipulation, bribery and corruption. Our Group’s Fair Play Compliance Framework helps us manage these risks in a proactive way and enables us to prevent, detect and adequately respond in case of fraudulent or corruptive behaviour. Our Global Policy Manual provides a framework for basic work procedures and processes and our Code of Conduct 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. In addition, our Compliance Officers across the Group guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilise controls such as segregation of duties in IT systems to prevent fraudulent activities. Whenever reasonable, we actively investigate and, in case of unlawful conduct, we work with state authorities to ensure rigorous enforcement of criminal law.

We believe the potential impact on the Group’s performance caused by fraud, financial misstatements or manipulation, bribery and corruption could be major (2012: significant). Despite the substantial growth of our global workforce in recent years, we regard the likelihood of being impacted by these risks to such an extent as unlikely, due to our preventative measures and controls. However, we believe the likelihood of occurrence of smaller fraud or corruption cases is higher.

Financial Risks

Credit risks
A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. The adidas Group is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and, to a lesser extent, from other third-party contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments. Without taking into account any collateral, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2013, there was no relevant concentration of credit risk by type of customer or geography. Our credit risk exposure is mainly influenced by individual customer characteristics. Under the Group’s credit policy, new customers are analysed for creditworthiness before standard payment and delivery terms and conditions are offered. Tolerance limits for accounts receivable are also established for each customer. Both creditworthiness and accounts receivable limits are monitored on an ongoing basis. Customers that fail to meet the Group’s minimum creditworthiness are, in general, allowed to purchase products only on a prepayment basis.

Other activities to mitigate credit risks include retention of title clauses as well as, on a selective basis, credit insurances, accounts receivable sales without recourse and bank guarantees.

Objective evidence that financial assets are impaired includes, for instance, significant financial difficulty of the issuer or debtor, indications of the potential bankruptcy of the borrower and the disappearance of an active market for a financial asset because of financial difficulties. The Group utilises allowance accounts for impairments that represent our estimate of incurred credit losses with respect to accounts receivable.

Allowance accounts are used as long as the Group is satisfied that recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are directly written off against the financial asset. The allowance consists of two components: (1) an allowance established for all receivables dependent on the ageing structure of receivables past due date and (2) a specific allowance that relates to individually assessed risk for each specific customer – irrespective of ageing.

At the end of 2013, no Group customer accounted for more than 10% of accounts receivable. We still believe that the potential financial impact of our credit risks from customers could be major but we rate the likelihood of materialising as unlikely (2012: possible).
The majority of agreements between financial institutions and the adidas Group include a mutual right to set-off. However, these agreements do not meet the criteria for offsetting in the statement of financial position, because the right to set-off is enforceable only in the event of counterparty defaults.

The carrying amounts of recognised derivative financial instruments, which are subject to the mentioned agreements, are presented in the adjacent table / TABLE 04.

### Financing and liquidity risks

Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure. In addition, the adidas Group faces the risk of having to accept unfavourable financing terms due to liquidity restraints. Our Group Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2013, Group cash, cash equivalents and marketable securities amounted to € 1.935 billion (2012: € 1.393 billion). Moreover, our Group maintains € 1.652 billion bilateral credit lines and a € 500 million committed long-term syndicated loan facility with international banks, which does not include a market disruption clause. The € 2.152 billion in credit lines are designed to ensure sufficient liquidity at all times / SEE TREASURY, P. 135.

Future cash outflows arising from financial liabilities that are recognised in the Consolidated Statement of Financial Position are presented in the following table / TABLE 05.

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.

We ended the year 2013 with net cash of € 295 million (2012: € 448 million). Thus the ratio of net borrowings over EBITDA decreased to −0.2 times at year-end, which is in line with the Group’s medium-term guideline of less than two times. In light of our available credit lines, financing structure and business model, our risk assessment remains unchanged. We assess the potential impact of these risks on the Group as minor and the likelihood of materialising as unlikely.

---

**TABLE 04**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts of recognised financial assets</td>
<td>59</td>
<td>61</td>
</tr>
<tr>
<td>Financial instruments which qualify for set-off in the statement of financial position</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net amounts of financial assets presented in the statement of financial position</td>
<td>59</td>
<td>61</td>
</tr>
<tr>
<td>Set-off possible due to master agreements</td>
<td>(53)</td>
<td>(48)</td>
</tr>
<tr>
<td><strong>Total net amount of assets</strong></td>
<td>6</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amounts of recognised financial liabilities</td>
<td>(93)</td>
<td>(60)</td>
</tr>
<tr>
<td>Financial instruments which qualify for set-off in the statement of financial position</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net amounts of financial liabilities presented in the statement of financial position</td>
<td>(93)</td>
<td>(60)</td>
</tr>
<tr>
<td>Set-off possible due to master agreements</td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td><strong>Total net amount of liabilities</strong></td>
<td>(40)</td>
<td>(12)</td>
</tr>
</tbody>
</table>

As financial market conditions remain challenging and highly volatile and due to our overall investment volume, we believe that the financial impact could be major (2012: moderate) but the likelihood of materialising is unlikely. Furthermore, we believe our risk concentration is limited due to the broad distribution of our investment business with more than 20 banks. At December 31, 2013, no bank accounted for more than 7% of our investments and the average concentration, including subsidiaries’ short-term deposits in local banks, was 1%. This leads to a maximum exposure of € 100 million in the event of default of any single bank. We have further diversified our investment exposure by investing into AAA-rated money market funds.

In addition, we held derivatives with a positive fair market value in the amount of € 59 million. The maximum exposure to any single bank resulting from these assets amounted to € 10 million and the average concentration was 6%.

According to IFRS 7, the adjacent table includes further information about set-off possibilities of derivative financial assets and liabilities / TABLE 04. The majority of agreements between financial institutions and the adidas Group include a mutual right to set-off. However, these agreements do not meet the criteria for offsetting in the statement of financial position, because the right to set-off is enforceable only in the event of counterparty defaults.
Currency risks

Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. Furthermore, translation impacts from the conversion of non-euro-denominated results into our Group’s functional currency, the euro, might lead to a material negative impact on our Group’s financial performance. The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing our products versus the denominations of our sales. The vast majority of our sourcing expenses are in US dollars, while sales are denominated in other currencies to a large extent – most notably the euro. Our main exposures are presented in the adjacent table /TABLE 06/. The exposure from firm commitments and forecasted transactions was calculated on a one-year basis.

In line with IFRS 7 requirements, we have calculated the impact on net income and shareholders’ equity based on changes in our most important currency exchange rates. The calculated impacts mainly result from fair value changes of our hedging instruments. The analysis does not include effects that arise from the translation of our foreign entities’ financial statements into the Group’s reporting currency, the euro. The sensitivity analysis is based on the net balance sheet exposure, including intercompany balances from monetary assets and liabilities denominated in foreign currencies. Moreover, all outstanding currency derivatives were re-evaluated using hypothetical foreign exchange rates to determine the effects on net income and equity. The analysis was performed on the same basis for both 2012 and 2013.

Future cash outflows

<table>
<thead>
<tr>
<th>Up to 1 year</th>
<th>Up to 2 years</th>
<th>Up to 3 years</th>
<th>Up to 4 years</th>
<th>Up to 5 years</th>
<th>Up to 6 years</th>
<th>Up to 7 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>126</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>126</td>
</tr>
<tr>
<td>Private placements</td>
<td>70</td>
<td>95</td>
<td>111</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>276</td>
</tr>
<tr>
<td>Eurobond</td>
<td>514</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>514</td>
</tr>
<tr>
<td>Convertible bond</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>502</td>
<td>—</td>
<td>—</td>
<td>505</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,825</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,825</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>33</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>42</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>464</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>464</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>80</td>
<td>12</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>93</td>
</tr>
<tr>
<td>Total</td>
<td>3,113</td>
<td>117</td>
<td>113</td>
<td>502</td>
<td>—</td>
<td>—</td>
<td>3,845</td>
</tr>
<tr>
<td>As at December 31, 2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank borrowings</td>
<td>59</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>59</td>
</tr>
<tr>
<td>Private placements</td>
<td>242</td>
<td>70</td>
<td>99</td>
<td>117</td>
<td>—</td>
<td>—</td>
<td>528</td>
</tr>
<tr>
<td>Eurobond</td>
<td>24</td>
<td>514</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>538</td>
</tr>
<tr>
<td>Convertible bond</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>503</td>
<td>—</td>
<td>507</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,799</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,790</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>26</td>
<td>14</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>40</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>434</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>434</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>57</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>2,633</td>
<td>602</td>
<td>100</td>
<td>118</td>
<td>503</td>
<td>—</td>
<td>3,956</td>
</tr>
</tbody>
</table>

1) Rounding difference may arise in totals.
2) Classified as long-term (between 1 and 3 years) in the consolidated financial statements, as they are covered by the committed mid-term syndicated loan.
3) Including interest payments.
4) Accrued interest excluded.

Exposure to foreign exchange risk

<table>
<thead>
<tr>
<th>USD</th>
<th>RUB</th>
<th>GBP</th>
<th>JPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exposure from firm commitments and forecasted transactions</td>
<td>(3,811)</td>
<td>348</td>
<td>370</td>
</tr>
<tr>
<td>Balance sheet exposure including intercompany exposure</td>
<td>(358)</td>
<td>104</td>
<td>[7]</td>
</tr>
<tr>
<td>Total gross exposure</td>
<td>(4,169)</td>
<td>454</td>
<td>363</td>
</tr>
<tr>
<td>Hedged with other cash flows</td>
<td>87</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hedged with currency options</td>
<td>425</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hedged with forward contracts</td>
<td>2,604</td>
<td>(107)</td>
<td>(298)</td>
</tr>
<tr>
<td>Net exposure</td>
<td>(1,053)</td>
<td>347</td>
<td>65</td>
</tr>
<tr>
<td>As at December 31, 2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exposure from firm commitments and forecasted transactions</td>
<td>(3,819)</td>
<td>359</td>
<td>369</td>
</tr>
<tr>
<td>Balance sheet exposure including intercompany exposure</td>
<td>(321)</td>
<td>109</td>
<td>8</td>
</tr>
<tr>
<td>Total gross exposure</td>
<td>(4,140)</td>
<td>448</td>
<td>377</td>
</tr>
<tr>
<td>Hedged with other cash flows</td>
<td>91</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hedged with currency options</td>
<td>225</td>
<td>—</td>
<td>(12)</td>
</tr>
<tr>
<td>Hedged with forward contracts</td>
<td>2101</td>
<td>(72)</td>
<td>(263)</td>
</tr>
<tr>
<td>Net exposure</td>
<td>(1,723)</td>
<td>396</td>
<td>102</td>
</tr>
</tbody>
</table>

1) Rounding difference may arise in totals.
Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2013 would have led to a € 2 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders’ equity by € 176 million. A 10% weaker euro at December 31, 2013 would have led to a € 3 million decrease in net income. Shareholders’ equity would have increased by € 214 million. The impacts of fluctuations of the US dollar against the Russian rouble and of the euro against the British pound and the Japanese yen on net income and shareholders’ equity are also included in accordance with IFRS requirements.

However, many other financial and operational variables that could potentially reduce the effect of currency fluctuations are excluded from the analysis. For instance:

- Interest rates, commodity prices and all other exchange rates are assumed constant.
- Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which we utilise internally to better reflect both the seasonality of our business and intra-year currency fluctuations.
- The underlying forecasted cash flow exposure (which the hedge instrument mainly relates to) is not required to be revalued in this analysis.
- Operational issues, such as potential discounts to key accounts, which have high transparency regarding the impacts of currency on our sourcing activities (due to their own private label sourcing efforts), are also excluded from this presentation.

Utilising a centralised currency risk management system, our Group hedges currency needs for projected sourcing requirements on a rolling 12- to 24-month basis. Our Group’s Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection from negative exchange rate fluctuations while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

Nevertheless, our gross US dollar cash flow exposure after natural hedging calculated for 2014 was roughly € 4.1 billion at year-end 2013, which we hedged using forward contracts. Currency options and currency swaps are excluded from this analysis. Our Group’s Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection from negative exchange rate fluctuations while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2014 hedging has almost been completed, it is clear that the EUR-USD conversion rate will improve compared to 2013. However, this positive effect will be more than offset by less favourable rates in the emerging markets and Japan. Volume forecast variances, currency volatility and an increasing portion of our business in emerging markets, where currencies have depreciated rapidly in 2013 and at the beginning of 2014, will expose the adidas Group to substantial currency effects in 2014. Our financial targets set for 2014 take these trends into consideration. Changing interest rates affect future interest payments for variable-interest liabilities. As the Group does not have material variable-interest liabilities, significant interest rate increases should have only slight adverse effects 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. Changes in global market interest rates affect future interest payments for variable-interest liabilities. 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, 2013. 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.

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 we value 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.

<table>
<thead>
<tr>
<th>Sensitivity analysis of foreign exchange rate changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ in millions)</td>
</tr>
<tr>
<td><strong>EUR +10% USD +10% EUR +10% EUR +10%</strong></td>
</tr>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>As at December 31, 2013</td>
</tr>
<tr>
<td>(176)</td>
</tr>
<tr>
<td>(21)</td>
</tr>
<tr>
<td>(17)</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>(2)</td>
</tr>
<tr>
<td>(8)</td>
</tr>
<tr>
<td>(10)</td>
</tr>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>As at December 31, 2012</td>
</tr>
<tr>
<td>(129)</td>
</tr>
<tr>
<td>(20)</td>
</tr>
<tr>
<td>(15)</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>(13)</td>
</tr>
<tr>
<td>(10)</td>
</tr>
<tr>
<td>(0)</td>
</tr>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>As at December 31, 2013</td>
</tr>
<tr>
<td>(158)</td>
</tr>
<tr>
<td>(24)</td>
</tr>
<tr>
<td>(18)</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>(12)</td>
</tr>
<tr>
<td>(8)</td>
</tr>
<tr>
<td>(0)</td>
</tr>
</tbody>
</table>
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 2012 and 2013. A 100 basis point increase in interest rates at December 31, 2013 would have increased shareholders’ equity by € 0.00 million (2012: increase by € 0.00 million) and decreased net income by € 0.00 million (2012: decrease by € 0.00 million). A 100 basis point decrease of the interest rates at December 31, 2013 would have resulted in a € 0.00 million decrease in shareholders’ equity (2012: decrease by € 0.00 million) and a € 0.00 million increase in net income (2012: increase by € 0.00 million).

To reduce interest rate risks and maintain financial flexibility, a core tenet of our Group’s financial strategy is to continue to use surplus cash flow from operations to reduce gross borrowings / SEE TREASURY, P. 135. Beyond that, the adidas Group is constantly looking for adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks.

In 2013, interest rates in Europe and North America remained at low levels. Given the central banks’ current interest rate policies and macroeconomic uncertainty, we do not foresee any major interest rate increases in these regions for the near-term future. Since 90% of the Group’s financing is in euros and US dollars, we regard the potential impact of interest rate risks only as minor and we now regard the likelihood that these risks will materialise as likely (2012: probable).

Risk related to impairment of goodwill/other intangible assets

As a result of various acquisitions in the past, our balance sheet carries book values of approximately € 1.2 billion in goodwill and € 1.4 billion in other intangible assets (including trademarks). Deterioration in the business performance and particularly in future business prospects could require corrections of these book values by incurring impairment charges. In addition, increases in market interest rates could trigger increases in discount rates used in our impairment test for goodwill and require impairment charges / SEE NOTE 02, P. 195. An impairment charge would be a purely accounting, non-cash effect impacting the Group’s operating result. We believe the effects on our financial results related to impairment of goodwill and other intangible assets could be significant. However, we regard the likelihood of a future impairment charge of such magnitude as unlikely.

Strategic and Operational Opportunities

<table>
<thead>
<tr>
<th>Strategic and operational opportunities</th>
<th>Likelihood</th>
<th>Potential impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic and socio-political opportunities</td>
<td>Unlikely</td>
<td>Moderate</td>
</tr>
<tr>
<td>Organic growth opportunities</td>
<td>Unlikely</td>
<td>Major</td>
</tr>
<tr>
<td>Opportunities related to organisational and process improvements</td>
<td>Possible</td>
<td>Significant</td>
</tr>
<tr>
<td>Marketing and communication opportunities</td>
<td>Possible</td>
<td>Minor</td>
</tr>
<tr>
<td>Acquisition opportunities</td>
<td>Possible</td>
<td>Minor</td>
</tr>
<tr>
<td>Personnel opportunities</td>
<td>Unlikely</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Financial opportunities

| Favourable financial market changes | Unlikely | Major |

Macroeconomic and socio-political opportunities

Since we are a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments, which support increased private consumption, can have a positive impact on our sales and profitability. Low unemployment rates, rising real incomes as well as a growing middle class with increasing spending power are fuelling consumption, particularly in emerging economies – and, subsequently, our industry. In addition, legislative and regulatory changes, e.g. the elimination of trade barriers, can potentially open new channels of distribution or lead to lower import costs and positively impact Group profitability.

Furthermore, governments are increasingly promoting living an active lifestyle to fight obesity and cardiovascular disease. According to the latest International Obesity Task Force (IOTF), more than 600 million adults are currently considered obese. An additional billion are estimated to be overweight. Additionally, up to 200 million school-age children are either obese or overweight. 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. This could lead to increases in sports participation, in particular in categories considered suitable for weight loss, such as training, running and walking. Given the strong global market position the adidas Group and its brands enjoy, acceleration in this trend could positively affect the Group’s sales development.
Moreover, continued growth in the global population, which is estimated to exceed nine billion by 2050, will over time lead to increasing sports participation and also expand the global consumer base for sports and sports lifestyle products. Most of this growth will be in emerging markets, which already play an important role in our growth strategy and where our brands are already well positioned. This could give an additional boost to the Group’s sales performance.

Also, we expect sports participation rates to increase over time, with increasing leisure time, investment in infrastructure and a broadening of awareness of the benefits of sport. This is particularly so in countries such as China or India, where sports participation is lower than in industrialised countries. In addition, European and North American sporting goods brands are often seen as highly desirable, easily accessible, affordable quasi-luxury goods in emerging markets, which presents an additional growth opportunity.

As most of these developments are long-term structural opportunities for the Group’s top- and bottom-line performance, we still assess the short-term impact as moderate. Given our ambitious goals, however, we continue to regard the likelihood of such short-term opportunities materialising as unlikely.

Organic growth opportunities

Controlled space: The sporting goods retail environment is changing constantly. We therefore continue to adapt our distribution strategy to cater for this change and have made controlled space initiatives a strategic priority. This includes retail space management with key retail partners as well as the introduction of new own-retail store formats. In our wholesale channels, we continue to pilot our latest shop-in-shop concepts globally and have also further invested in unique point-of-sale activation. For example, we have begun to roll out the Reebok FitHub shop-in-shop concept globally. We also continued our test phase of the NEO own-retail store concept in Germany and further expanded our store base in lower-tier cities in China. Successful results from these initiatives and further expansion could enable us to accelerate top- and bottom-line growth.

Fashion trends: Trends can rapidly change in our industry as certain styles, looks and colourways fall in and out of relevance for the consumer. Given our broad product offering, additional sales opportunities may arise when our products are more on-trend than those of our major competitors. Further establishing a premium price positioning could strengthen consumers’ perception of our brands, particularly in fashion categories, and open up additional margin opportunities.

Women’s: Our Group still generates the majority of its revenues in men’s and unisex categories. However, with women accounting for more than a third of total spending on athletic footwear, we believe the women’s sports market is one of the most attractive segments in the sporting goods industry. The adidas Group is therefore investing in developing women-specific product offerings in both performance and lifestyle that emphasise female individuality, authenticity and style. Higher traction from our various initiatives with adidas and Reebok such as specific adidas campaigns like #mygirl or Reebok’s expansion into studio-based fitness concepts could lead to additional sales opportunities for the Group.

New activities and categories: Exploiting the potential of emerging, fast-growing sports categories is another organic growth opportunity for our brands. Our brand teams conduct market research and engage in trend marketing to detect changes in lifestyle and consumer needs of our target audience as early as possible. Changes in lifestyle, habits and attitudes can potentially result in the emergence of new consumer needs that are not addressed by current product offerings. For example, we see a growing trend in the move by athletes and sports enthusiasts towards more minimalistic products that promote natural body movement. In order to tap into this opportunity, we are expanding our efforts to bring to market more lightweight and flexible products that support the athlete’s natural course of motion. In addition, we continue to see new exciting fitness concepts spring up such as CrossFit and obstacle racing. Similarly, we see tremendous growth potential in the outdoor and action sports categories and intend to become a leading player in these categories over the next few years. In this respect, under the adidas Originals banner, we launched our very first snowboard collection, featuring three distinct snowboarding boots and roughly 60 articles of snowboarding apparel. Depending on how long it takes to build the needed credibility with the target consumers, the outdoor and action sport categories may perform better than currently assumed in our projections.

Customisation and personalisation: 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. For example, the adidas, Reebok and TaylorMade brands all offer different personalisation and customisation platforms reflecting each brand’s strategy. With mi adidas and YourReebok, consumers can design and order completely customised adidas and Reebok footwear online, thereby creating their own unique style. This is a particularly relevant opportunity in the kids’ segment. In addition, TaylorMade-adidas Golf’s Centres of Excellence provide customised fitting sessions for golfers with expert fitters and technicians. We expect the market for personalised and customised footwear, apparel and hardware to grow strongly and evolve further in the coming years, which might support additional sales growth for the Group.
Digital interactivity: Consumer demand for digital interactivity has increased significantly in recent years as consumers realise the benefits of incorporating real-time data on metrics such as distance, speed and heart rate into their training routines and into their performance on the field. The design and development of this functionality requires different expertise, product and material research as well as production know-how compared to traditional footwear and apparel. Our resources and our positioning as a sport performance leader as well as collaborations with experts in technology and in the field of analysing data related to athletes’ movement and performance are beginning to open up new opportunities. For example, in November 2013, we launched the most advanced and intuitive wrist-based running device on the market, the adidas miCoach Smart Run. For the first time, runners are able to track their runs using GPS mapping, monitor their heart rate from their wrist with optical technology, listen to their favourite music and get real-time coaching by our miCoach system – all in one touchscreen device without cables or straps. As consumer demand for wearable functional devices increases, and with further advances in technology, we expect this market could offer significant potential and opportunities as we continue to invest to drive credibility in the space.

Sustainable products: As consumers demand more products that are environmentally benign and produced on a sustainable basis, the adidas Group continues its efforts to create meaningful product platforms that drive growth in this area. We remain focused on the extension of the adidas “Better Place” programme. 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. For example, in September 2013, adidas by Stella McCartney introduced its spring/summer 2014 collection that incorporated sustainable elements wherever possible. Advanced, eco-friendly cutting techniques ensure 95% of fabric used creates the final product, with the remaining 5% recycled or repurposed, so that no surplus material goes to waste. Organic cotton, recycled yarn and DryDye pieces in each range complete the sustainable offering.

Strategic partnerships: The adidas Group is constantly evolving its partnership network within sports and culture, with academic organisations and other industries in research and development, designers in the fashion industry, other brands and non-traditional sporting goods retailers. These partnerships have generated multiple new growth avenues for the Group, as we have acquired product or process know-how and gained access to new distribution channels or markets. For example, at the end of 2013, together with partners the adidas Group announced its leading position in the research project “Speedfactory” under the umbrella of the German government. The intention of this project is to shape the future of manufacturing and come up with innovative products as well as new production technologies specifically taking into account future consumer needs, speed, flexibility and sustainability. Therefore, partnership collaborations in the future may enable the adidas Group to pursue further growth and efficiency opportunities.

Taking all these together, we see many long-term organic growth opportunities and still regard the potential impact as major. However, given our ambitious goals, we believe the likelihood of being positively affected to such an extent in the short term is unlikely.

Opportunities related to organisational and process improvements

Continued optimisation of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still significant opportunity to further streamline cost structures throughout our Group. For example, we continuously search for ways to increase efficiency in our supply chain and make it truly demand-driven. Furthermore, by implementing end-to-end planning processes and improving our replenishment capabilities, we see opportunities not only to better serve our customers but also to reduce our operating working capital needs. Another example in this respect is the reduction of the number of articles; this reduces complexity and workload in the creation area and warehouse costs, and allows us to offer more focused and consistent ranges to our retail partners.

Furthermore, constant improvements in manufacturing excellence (e.g. process simplification), manufacturing innovation or warehouse consolidation, may help us increase efficiency and profitability for the Group. Innovations in production could also support the Group in reducing its environmental impact, while at the same time enabling the Group to provide consumers with the best value proposition possible. For example, a higher level of automation in the production processes for footwear and apparel manufacturing could result in productivity enhancements, shorten lead times and improve overall quality.

In addition, consolidating and upgrading our distribution centres represents an opportunity for the Group to realise further efficiency gains, reduce operating overheads and provide the operational ability to drive additional revenue growth and working capital improvements. Process improvements in other areas of the Group’s business activities could also positively impact profitability. For example, further centralising ranging and product purchasing for our own-retail business could lead to an increase in efficiency and drive additional sales, thus helping us increase overall Group profitability. A consolidated and global approach with respect to non-trade purchasing may also increase efficiency and help us generate cost savings. Furthermore, consolidation of back-office functions as part of our reorganisation initiatives in Western Europe and North America, but also in other markets, could foster process harmonisation, eliminate redundancy and reduce operating overheads.
Overall, we continue to view the potential impact of organisational and process improvements as significant. Given that benefits from our numerous initiatives to improve efficiency and operational excellence have already been reflected in our targets for 2014 and 2015, we now regard the likelihood that additional opportunities related to organisational and process improvements materialise to such an extent only as possible (2012: likely).

Marketing and communication opportunities
Advances in digital communication offer significant opportunities for our brands to engage with consumers in a deeper and more meaningful way, and enhance our potential to build long-lasting relationships and brand loyalty. The adidas Group constantly monitors the latest developments and trends in communication technologies. The emergence of social media and social networks is one such example which is helping our brands increase their consumer reach. In this regard, we are investing considerable resources to present the adidas Group’s brands through a variety of social media platforms, such as Facebook, YouTube or Twitter / SEE GLOBAL BRANDS STRATEGY, P. 77. A key advantage of these tools is that they allow our brands to engage in a direct dialogue with our consumers. By offering consumers the opportunity to actively participate in brand campaigns or in the design and creation of new products, we can generate a far superior brand experience. In 2013, we introduced Brazuca, the official 2014 FIFA World Cup Brazil match ball, which was named following a public vote in Brazil involving one million football fans. Furthermore, as consumer demand for personalised experiences and continuous access to fresh content increases, we are establishing global newsrooms, staffed with “brand journalists” in key locations, starting with Rio de Janeiro, London, Portland and Shanghai, creating content, providing community management, customer relationship management and analytics across various time zones / SEE GLOBAL BRANDS STRATEGY, P. 77.

Another opportunity for the Group is the activation of promotion partnerships with individual high-profile athletes as well as global icons such as Lionel Messi for adidas football or Kanye West for adidas Originals. Depending on their success and popularity, as well as our ability to sign new future iconic partnerships, this could generate additional sales for the Group via signature product lines and design collaborations as well as increase brand equity. While we believe there is significant long-term potential for future opportunities in this area, in the short term, we assess the potential impact of marketing and communication opportunities as minor (2012: significant). Despite our strong portfolio of promotion partnerships with world-class athletes in key sports, we regard the likelihood that those opportunities materialise to such an extent in the short term only as possible (2012: likely).

Acquisition opportunities
Although the Group’s focus is on organic growth initiatives, we consider acquisitions of smaller, fast-growing or innovative companies as an opportunity to generate additional sales and profits. Furthermore, acquisition opportunities may arise as a result of challenging macroeconomic and competitive conditions that could lead to financial distress of companies which, while not as financially healthy as industry leaders, possess certain assets that could help the adidas Group further improve its business performance. However, we still regard the potential impact of acquisition opportunities only as minor and the likelihood that such opportunities materialise as possible.

Personnel opportunities
Recruiting highly qualified employees, in particular for our own-retail segment, may help us generate better than expected top- and bottom-line results. For example, a reduction of the attrition rates in our own-retail stores could increase conversion rates as well as store productivity and also lead to lower expenses for recruiting activities. In addition, successfully establishing a performance culture as well as developing key talents across the Group may contribute positively to sales and profitability improvements. As a result, we continue to believe the potential impact of such opportunities is significant, and we still assess the likelihood of an impact of such magnitude in the short term as unlikely.

Financial Opportunities
Favourable financial market changes
Favourable exchange and interest rate developments can potentially have a positive impact on the Group’s financial results. Our Group Treasury department closely monitors the financial markets to identify and exploit opportunities / SEE TREASURY, P. 135. Translation effects from the conversion of non-euro-denominated results into our Group’s functional currency, the euro, might positively impact our Group’s financial performance. Overall, we believe favourable exchange rate and interest rate developments could have a major potential impact. We continue to assess the likelihood of being positively affected to such an extent as unlikely.
## Changes in corporate risk assessment versus prior year

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Likelihood</td>
<td>Potential impact</td>
</tr>
<tr>
<td><strong>Strategic risks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macroeconomic, socio-political and regulatory risks</td>
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<td>Likely</td>
</tr>
<tr>
<td>Dependency risks</td>
<td>Unlikely</td>
<td>Possible</td>
</tr>
<tr>
<td>Customer consolidation and cross-border expansion/private label risks</td>
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<td>Moderate</td>
</tr>
<tr>
<td>Competition risks</td>
<td>Significant</td>
<td>Major</td>
</tr>
<tr>
<td>Risks related to risk and control environment</td>
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</tr>
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<td>Consumer demand risks</td>
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<tr>
<td><strong>Operational risks</strong></td>
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<tr>
<td>Logistics risks</td>
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<tr>
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<td>Product innovation and development risks</td>
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<td><strong>Legal &amp; Compliance risks</strong></td>
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<tr>
<td>Legal risks</td>
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<td>Major</td>
</tr>
<tr>
<td>Risks related to competition, trade and customs regulations</td>
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<td>Social and environmental risks</td>
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<tr>
<td>Fraud and corruption risks</td>
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<td>Significant</td>
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<tr>
<td><strong>Financial risks</strong></td>
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<td>Credit risks</td>
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<td>Interest rate risks</td>
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<td>Probable</td>
</tr>
<tr>
<td>Risk related to impairment of goodwill/other intangible assets</td>
<td>Unlikely</td>
<td>Significant</td>
</tr>
</tbody>
</table>
Management Assessment of Performance, Risks and Opportunities, and Outlook

Assessment of performance versus targets

We communicate our Group’s financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2013, the adidas Group delivered a solid financial performance, despite macroeconomic challenges in many regions, with currency-neutral Group sales growth outperforming macroeconomic growth.

As a result of intensified currency translation headwinds, distribution constraints due to a warehouse issue and a softer consumer environment in Russia/CIS as well as an overall weakness in the golf market, we lowered our full year 2013 guidance in September, compared to our initial expectations.

In 2013, Group revenues rose 3% on a currency-neutral basis, mainly due to growth in emerging markets as well as the further expansion of our own-retail activities. Group revenues increased below our initial guidance of a mid-single-digit currency-neutral increase. This was driven by lower sales growth than originally expected in Russia/CIS and at TaylorMade-adidas Golf. Gross margin increased 1.5 percentage points to 49.3%, above our initial expectations of 48.0% to 48.5%. This development was due to a more favourable pricing, product and regional sales mix as well as strong improvements in the Reebok brand gross margin. Operating margin excluding goodwill impairment losses improved 0.7 percentage points to 8.7%. This development was slightly below our initial guidance of approaching 9.0%, as operating expenses as a percentage of sales to increase moderately in 2013, our challenges impacted by increased working capital requirements towards the end of the year. While we had expected average operating working capital as a percentage of sales to increase moderately in 2013, our challenges in Russia/CIS resulted in slightly higher inventories and, as a result, a stronger increase than we had initially expected.

Beyond our financial performance, we also actively monitor the Group’s key non-financial KPIs on a regular basis, as available.

Despite the distribution challenges we faced in Russia/CIS, we continued to maintain a good level of on-time in-full deliveries to our customers and own-retail stores in 2013. As in prior years, the majority of our sales in 2013 were again generated from products launched in the past 12 to 18 months. In addition, we received several awards and industry recognitions for our new product innovations.

In 2013, Group revenues rose 3% on a currency-neutral basis, mainly due to growth in emerging markets as well as the further expansion of our own-retail activities. Group revenues increased below our initial guidance of a mid-single-digit currency-neutral increase. This was driven by lower sales growth than originally expected in Russia/CIS and at TaylorMade-adidas Golf. Gross margin increased 1.5 percentage points to 49.3%, above our initial expectations of 48.0% to 48.5%. This development was due to a more favourable pricing, product and regional sales mix as well as strong improvements in the Reebok brand gross margin. Operating margin excluding goodwill impairment losses improved 0.7 percentage points to 8.7%. This development was slightly below our initial guidance of approaching 9.0%, as operating expenses as a percentage of sales to increase moderately in 2013, our challenges impacted by increased working capital requirements towards the end of the year. While we had expected average operating working capital as a percentage of sales to increase moderately in 2013, our challenges in Russia/CIS resulted in slightly higher inventories and, as a result, a stronger increase than we had initially expected.

As a result of intensified currency translation headwinds, distribution constraints due to a warehouse issue and a softer consumer environment in Russia/CIS as well as an overall weakness in the golf market, we lowered our full year 2013 guidance in September, compared to our initial expectations.

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Assessment of overall risks and opportunities

The Group’s Risk Management team aggregates all risks and opportunities reported by different business units and functions through the quarterly risk and opportunity assessment process. In addition, the Group’s Executive Board discusses and assesses Group risks and opportunities on a regular basis. Taking into account the potential financial impact as well as the likelihood of materialising of the risks explained within this report, and considering the strong balance sheet as well as the current business outlook, we do not foresee any material jeopardy to the viability of the Group as a going concern. This assessment is also supported by the historical response to our financing demands /SEE RISK AND OPPORTUNITY REPORT, P. 158. The partial changes in risk evaluation have no substantial impact on the overall adidas Group risk profile; however, we believe that the current development of major currencies since the beginning of 2014 will make the achievement of our financial targets for 2014 and 2015 significantly more challenging to meet.

Assessment of financial outlook

Since the adidas Group publicly announced its Route 2015 strategic business plan in 2010, we have made good progress towards our Route 2015 aspirations. We remain focused on creating long-term sustainable shareholder value and continue to pursue all targets with utmost diligence.

In 2014, we will see a specific emphasis on returning our Group to higher currency-neutral growth rates than seen in 2013, while also continuing to pursue initiatives to improve our Group’s operating margin in the medium to long term. We will also continue to invest in future growth opportunities by utilising the upcoming 2014 FIFA World Cup and innovation platforms such as Boost, expanding our digital activities as well as opening new retail stores /SEE GLOBAL BRANDS STRATEGY, P. 77 /GLOBAL SALES STRATEGY, P. 72.

Through our extensive pipeline of new and innovative products, which have received favourable reviews from retailers, we project top- and bottom-line improvements in our Group’s financial results in 2014. This is supported by positive order backlogs and improving comparable store growth trends in our own-retail stores compared to the prior year. Gross margin expansion, resulting from a more favourable pricing, product and regional sales mix, is expected to have a positive impact on the Group’s profitability. In addition, we project that other operating expenses as a percentage of sales will be around the prior year level. We believe that our outlook for 2014 is realistic within the scope of the current trading and economic environment /SEE SUBSEQUENT EVENTS AND OUTLOOK, P. 151.

Assuming no significant deterioration in the global economy, we are confident to further increase sales and profitability in 2015, as we continue to drive operational progress towards our Route 2015 strategic business plan aspirations /SEE GROUP STRATEGY, P. 68. However, given further headwinds from the weakening of several currencies versus the euro since the beginning of 2014, we believe there is higher risk to the achievement of our stated financial goals and aspirations than in prior years. No other material event between the end of 2013 and the publication of this report has altered our view.

adidas Group targets versus actual key metrics

<table>
<thead>
<tr>
<th></th>
<th>2012 Results</th>
<th>2013 Targets 1)</th>
<th>2013 Results</th>
<th>2014 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (year-over-year change, currency-neutral)</td>
<td>6%</td>
<td>mid-single-digit increase</td>
<td>3%</td>
<td>high-single-digit increase</td>
</tr>
<tr>
<td>Gross margin</td>
<td>47.7%</td>
<td>48.0% to 48.5%</td>
<td>49.3%</td>
<td>49.5% to 49.8%</td>
</tr>
<tr>
<td>Other operating expenses (in % of net sales)</td>
<td>41.3%</td>
<td>moderate decline</td>
<td>42.3%</td>
<td>around prior year level</td>
</tr>
<tr>
<td>Operating margin</td>
<td>8.0%2)</td>
<td>approaching 9.0%</td>
<td>8.7%3)</td>
<td>between 8.5% and 9.0%</td>
</tr>
<tr>
<td>Net income attributable to shareholders (€ in millions)</td>
<td>7912)</td>
<td>890 to 920</td>
<td>8393)</td>
<td>830 to 930</td>
</tr>
<tr>
<td>Average operating working capital (in % of net sales)</td>
<td>20.0%</td>
<td>moderate increase</td>
<td>20.9%</td>
<td>moderate decline</td>
</tr>
<tr>
<td>Capital expenditure (€ in millions)4)</td>
<td>434</td>
<td>500 to 550</td>
<td>479</td>
<td>500 to 550</td>
</tr>
<tr>
<td>Gross borrowings (€ in millions)</td>
<td>1,487</td>
<td>further reduction of gross borrowings</td>
<td>1,334</td>
<td>further reduction of gross borrowings</td>
</tr>
</tbody>
</table>

1) As published on March 7, 2013. The outlook was updated over the course of the year.
2) Excluding goodwill impairment of € 265 million.
3) Excluding goodwill impairment of € 52 million.
4) Excluding acquisitions and finance leases.
For the love of sport.

"Hi, my name is Corry, I am part of the Reebok-CCM Hockey Product Creation team. We live hockey and everybody here is extremely passionate about creating products that help players of all levels to get the most out of this great game. My team and I launched many innovative products in 2013, highlighted by the launch of the CCM RBZ skate and RBZ Stage II stick. These two products generated incredible excitement in both the consumer and professional channels. Products like these are just the beginning of an amazing pipeline of products coming from Reebok-CCM."

For the love of sport.