

SUPERVISORY BOARD REPORT

# SUPERVISORY BOARD REPORT

**IGOR LANDAU**  
CHAIRMAN OF  
THE SUPERVISORY  
BOARD



## DEAR SHAREHOLDERS,

We look back on 2018 as another very successful year. Thanks to a sharp focus on our consumers' needs as part of our stringent implementation of our 'Creating the New' strategy, the company was once again able to increase sales and achieve strong bottom-line growth in the 2018 financial year. Innovative products and impressive marketing campaigns such as for the FIFA World Cup in Russia strengthened the presence of our brands and brand desire. We were able to generate double-digit growth rates in our focus markets North America and China as well as in the important e-commerce channel. At the same time, we tackled company-specific weaknesses in our home market Europe, and negative macroeconomic factors in large parts of the world were effectively offset. Despite investments in our brands, which increased significantly in the last year and were higher than ever before, as well in the scalability of the company, we generated profitability results which surpassed the targets set at the beginning of the year. This reflects both the quality and sustainability of our growth and places our company in a position to continue to grow profitably in the future. In the last year, we duly shared the company's success with our shareholders, as underscored by the total dividend payout and share buyback of more than € 1.5 billion in 2018, and we intend to continue to do so.

### SUPERVISION AND ADVICE IN DIALOGUE WITH THE EXECUTIVE BOARD

In the year under review, we performed all of our tasks laid down by law, the Articles of Association, the German Corporate Governance Code (the 'Code') and the Rules of Procedure carefully and conscientiously, as in previous years. We regularly advised the Executive Board on the management of the company and diligently and continuously supervised its management activities, assuring ourselves of the legality, expediency and regularity thereof. The Executive Board involved us directly and in a timely and comprehensive manner in all of the company's fundamental decisions.

The Executive Board informed us extensively through written and oral reports. This information covered all relevant aspects of the company's business strategy, business planning (including finance, investment and personnel planning), the course of business and the company's financial position and profitability. We were also kept up to date on matters relating to accounting processes, the risk situation and the effectiveness of the internal control and risk management systems and compliance as well as all major decisions and business transactions. The Executive Board always explained immediately and in a detailed manner any deviations in business performance from the established plans, and the Supervisory Board as a whole discussed each of these deviations in depth.

The Executive Board regularly provided us with comprehensive written reports for the preparation of our meetings. We thus always had the opportunity to critically analyze the Executive Board's reports and resolution proposals within the committees and within the Supervisory Board as a whole and to put forward suggestions before passing resolutions after in-depth examination and extensive consultation. At the Supervisory Board meetings, the Executive Board was available to discuss and answer our questions. In the periods between our meetings, the Executive Board also provided us with extensive, timely monthly reports on the current business situation. We critically examined, specifically challenged and checked the plausibility of the information provided by the Executive Board.

In the past financial year, the Supervisory Board primarily exercised its duties in plenary sessions. We held six regular meetings of the entire Supervisory Board, one of which took place outside Germany. One resolution was passed by way of a circular resolution. The attendance rate of the members at the Supervisory Board and committee meetings was around 94% in the year under review. All committee meetings, with the exception of one Audit Committee meeting from which one member was excused, were fully attended.

The participation of the individual Supervisory Board members in the Supervisory Board and committee meetings is set out below:

**Individual meeting participation of the Supervisory Board members**  
in meetings requiring personal attendance and telephone conferences of the Supervisory Board  
in the 2018 financial year

	2018		
Supervisory Board members	Number of Supervisory Board and committee meetings	Participation	Participation in %
Igor Landau, Chairman of the Supervisory Board	10	10	100%
Sabine Bauer, Deputy Chairwoman of the Supervisory Board	9	9	100%
Willi Schwerdtle, Deputy Chairman of the Supervisory Board	9	9	100%
Dr. Frank Appel <sup>1</sup>	3	3	100%
Ian Gallienne	12	12	100%
Dieter Hauenstein	6	5	83%
Dr. Wolfgang Jäger	13	13	100%
Dr. Stefan Jentzsch <sup>2</sup>	3	3	100%
Herbert Kauffmann	13	13	100%
Katja Kraus	6	5	83%
Kathrin Menges	7	6	86%
Udo Müller	6	6	100%
Roland Nosko	8	8	100%
Hans Ruprecht	12	10	83%
Nassef Sawiris	6	6	100%
Heidi Thaler-Veh	6	5	83%
Kurt Wittmann	6	5	83%

<sup>1</sup> Starting from the end of the Annual General Meeting on May 9, 2018.

<sup>2</sup> Until the end of the Annual General Meeting on May 9, 2018.

The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft ('KPMG'), Berlin, attended all regular meetings of the Supervisory Board – the exception being the meeting which took place outside Germany – insofar as no Executive Board matters were dealt with. KPMG also attended all meetings of the Audit Committee.

In the periods between meetings, the Supervisory Board Chairman and the Audit Committee Chairman maintained regular contact with the Chief Executive Officer and the Chief Financial Officer, conferring on matters such as corporate strategy, business planning and development, the risk situation and risk management as well as compliance. In addition, the Executive Board immediately informed the Supervisory Board Chairman about any significant events of fundamental importance for the management and for evaluating the situation and development of the company, where necessary also at short notice.

The Supervisory Board also regularly conferred on, in particular, Supervisory Board matters and personnel matters of the Executive Board without the Executive Board. Both the Supervisory Board and the Audit Committee reviewed the efficiency of their work in the spring and fall of 2018. Overall, the Supervisory Board members assessed the work in the entire Supervisory Board and Audit Committee as efficient. However, they resolved upon specific improvements regarding the organization of the Supervisory Board work.

The members of the Supervisory Board are individually responsible for undertaking any necessary training and further education measures required for their tasks. Furthermore, training measures were offered to the Supervisory Board to ensure the required expertise. Moreover, there was an onboarding process for the new Supervisory Board member in order to facilitate his exercising of the new office.

## TOPICS FOR THE ENTIRE SUPERVISORY BOARD

Our consultations and examinations focused on the following topics:

## SITUATION AND BUSINESS DEVELOPMENT

The development of sales and earnings, the employment situation as well as the financial position of the company and the business development of the company's individual business areas and markets were presented to us in detail by the Executive Board at every Supervisory Board meeting and were discussed regularly. Moreover, the Supervisory Board dealt with the corporate strategy and the annual and multi-year business planning. Further topics which were always discussed were the possible impact of global economic developments as well as the development of our individual brands and markets.

The Executive Board reported on the situation of the company and the financial figures for the 2017 financial year at the February meeting and the balance sheet meeting in March. In addition, after in-depth examination of the financial statements, the Supervisory Board approved the annual financial statements and consolidated financial statements as well as the combined Management Report, including the non-financial statement for adidas AG and the Group as at December 31, 2017. The annual financial statements were thus adopted. Prior to the passing of the resolution, the auditor reported on the material results of the audit, including the results of the examination of the content of the non-financial statement commissioned by the Supervisory Board in accordance with § 111 section 2 German Stock Corporation Act (Aktengesetz – AktG). Furthermore, the Supervisory Board Report to the Annual General Meeting for the 2017 financial year was approved. Finally, we dealt with, inter alia, the business development of Reebok and the distribution strategy of adidas. At the May meeting, we primarily dealt with the results for the first quarter of the year under review and with the current development of the business. Particular topics of the August meeting were the financial results of the second quarter and of the first half of the 2018 financial year as well as the business development of the company. Furthermore, we dealt in detail with the main sustainability initiatives and adidas' talent strategy. Finally, we discussed the current development of the Runtastic business segment. At the annual strategy meeting of the Supervisory Board in October, the Executive Board reported on the current business situation and outlined in detail the further course of the strategic business plan which the Supervisory Board discussed in depth. Another focal point of the Supervisory Board meeting was the development of business in Europe. Finally, we intensively dealt with the topic of digitalization. In this regard, we discussed adidas' digitalization strategy and the challenges and opportunities associated with it. Topics of our December meeting were the 2019 Budget and Investment Plan as well as the marketing and sponsorship agreements concluded in the year under review.

### **TRANSACTIONS REQUIRING SUPERVISORY BOARD APPROVAL**

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

In March, we resolved upon the resolutions to be proposed to the 2018 Annual General Meeting, including the proposal regarding the appropriation of retained earnings for the 2017 financial year. At the May meeting, we approved the issuance of non-share-based bonds and/or comparable financial instruments, including equity-neutral convertible bonds. We also approved the extension of our US-based Portland location as well as the adjusted resolution proposal of the Executive Board on the appropriation of retained earnings. At our October

meeting, we approved the cancelation of treasury shares and resolved upon the amendment to the Articles of Association due to the reduction of the nominal capital resulting from the cancelation of treasury shares. One topic of our December meeting was, after thorough discussion, the approval of the 2019 Budget and Investment Plan presented by the Executive Board.

### **EXECUTIVE BOARD COMPENSATION**

All matters regarding Executive Board compensation were prepared comprehensively by the General Committee, as provided for in the Rules of Procedure of the Supervisory Board, explained to the Supervisory Board as a whole and submitted for resolution.

Each year at our February meeting of the entire Supervisory Board, the main subject is Executive Board compensation. After in-depth review of the individual performance of the Executive Board members and the achievement of the targets set for the 2017 Performance Bonus and LTIP 2015/2017, we resolved upon the performance-related compensation to be paid to the Executive Board members for the 2017 Performance Bonus and LTIP 2015/2017 at this meeting. Furthermore, after comprehensive consultation, we set the criteria and targets decisive for the 2018 Performance Bonus as well as for the new long-term incentive plan LTIP 2018/2020 along with the individual bonus target amounts for each Executive Board member. Following in-depth discussions, we adjusted the pension commitments of the Executive Board members Gil Steyaert, Eric Liedtke and Karen Parkin in March and May due to tax law provisions. Finally, we dealt with the contribution for the defined contribution pension plans and determined this for 2019 at our October meeting.

### **CHANGES ON THE SUPERVISORY BOARD AND COMPLIANCE WITH THE STATUTORY MINIMUM QUOTA**

There was one personnel change with regard to the full Supervisory Board in the year under review. Dr. Stefan Jentzsch resigned as Supervisory Board member with effect from the end of the Annual General Meeting of adidas AG held on May 9, 2018. As his successor, Dr. Frank Appel, Chief Executive Officer of Deutsche Post AG, was elected by the Annual General Meeting as member of the Supervisory Board for the remaining term of the current shareholder representatives which expires with effect from the end of the Annual General Meeting on May 9, 2019. The Supervisory Board wishes to thank Dr. Jentzsch for his valuable contributions and his great dedication within the Supervisory Board of adidas AG.

With regard to the representation of women and men, the Supervisory Board complies with the statutory minimum quota pursuant to § 96 section 2 sentences 1, 3 and 4 AktG. Both the

shareholder representatives and the employee representatives resolved in accordance with § 96 section 2 sentence 3 AktG that the minimum quota of 30% women and 30% men on the Supervisory Board shall be fulfilled separately for the shareholder representatives and the employee representatives.

The term of office of all Supervisory Board members expires as scheduled at the end of the Annual General Meeting in May 2019.

## CORPORATE GOVERNANCE

The Supervisory Board regularly monitors the application and further development of the corporate governance regulations within the company, in particular the implementation of the recommendations of the Code. The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG in February 2018. In February 2019, we discussed in depth the current 2019 Declaration of Compliance and then resolved upon it and made it permanently available to our shareholders on our corporate website.

[ADIDAS-GROUP.COM/S/CORPORATE-GOVERNANCE](https://www.adidas-group.com/s/corporate-governance)

In February, we discussed the independence of the members of the Supervisory Board and the respective independence criteria. In the Supervisory Board's assessment, currently all members are independent.

At the February, March and May meetings of the Supervisory Board and at the August meeting of the Audit Committee, within the framework of our regular self-evaluation, we dealt with the results of the efficiency examination of the Supervisory Board and Audit Committee and the measures to be implemented.

At the March meeting, we approved Kasper Rorsted taking over a Board of Directors mandate at Nestlé S.A. In August, we approved Gil Steyaert's Supervisory Board mandate at Fashion for Good B.V.

Topics of our October meeting were the revision of the objectives of the Supervisory Board regarding its composition and the competency profile for the full Supervisory Board, which we made permanently available to our shareholders on our corporate website. Taking into consideration the specific features which result from the activities of the organization as a globally present, public listed company, we ensured that the full Supervisory Board continues to have the knowledge, skills and professional expertise required to properly perform its duties. Details can be found in the Corporate Governance Report including the Declaration on

Corporate Governance. [SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 35](#)

In the year under review, no conflicts of interest arose in regard to the Executive Board members. There were also no conflicts of interest within the Supervisory Board. It is pointed out that, in December 2018, the Supervisory Board approved the extension of a contract, effective January 1, 2019, with a company in which one Supervisory Board member is involved. The order volume is to be confirmed annually by the Supervisory Board. A resolution was passed by the Supervisory Board as regards the order volume for the 2019 financial year at the meeting in December 2018. In the view of the Supervisory Board, there was no conflict of interest. Nevertheless, as in the prior years, the Supervisory Board member concerned did not participate in the respective resolution.

Further information on corporate governance within the company is contained in the Corporate Governance Report including the Declaration on Corporate Governance.

[SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 35](#)

## EFFICIENT COMMITTEE WORK

In order to perform our tasks in an efficient manner, we have established a total of six standing Supervisory Board committees.

The committees prepare resolutions and topics for the meetings of the entire Supervisory Board. Within the legally permissible framework and in appropriate cases, we have furthermore delegated the Supervisory Board's authority to pass certain resolutions to individual committees. With the exception of the Audit Committee, the Supervisory Board Chairman also chairs all the standing committees. The respective committee chairmen report to the Supervisory Board on the content and results of the committee meetings on a regular and comprehensive basis.

- The **Steering Committee** did not meet in the year under review.
- The **General Committee** held two meetings in the 2018 financial year. The main focus of the meetings was the preparation of the resolutions of the entire Supervisory Board regarding the Executive Board compensation, particularly the resolution on the target achievement of the 2017 Performance Bonus and LTIP 2015/2017, the targets for the 2018 Performance Bonus and LTIP 2018/2020, the 2019 contribution for the defined contribution pension plans as well as the determination of the Executive Board compensation and the review of its

appropriateness. Furthermore, the General Committee intensively dealt with the long-term succession planning for the Executive Board.

- The **Audit Committee** held six meetings in the year under review. One resolution was passed by way of a circular resolution. The Chief Financial Officer and the auditor were present at all meetings and reported to the committee members in detail.

In addition to the supervision of the accounting process, the committee's work also focused on the examination of the annual financial statements and the consolidated financial statements for 2017, including the combined Management Report and the non-financial statement of adidas AG and the Group, as well as the Executive Board's proposal regarding the appropriation of retained earnings. Following an in-depth review of the audit reports on the annual financial statements and consolidated financial statements with the auditor, the committee decided to recommend that the Supervisory Board approve the 2017 annual financial statements and consolidated financial statements. Furthermore, the audit of the non-financial statement, including the selection and commissioning of the external auditor by the Supervisory Board, was prepared. On the basis of the transitional periods of Art. 41 Regulation (EU) No 537/2014, the current statutory auditor may not be re-appointed after June 17, 2023 and it is mandatory to carry out an external rotation. Based on a respective resolution by the entire Supervisory Board, the Chairmen of the Supervisory Board and Audit Committee commissioned KPMG for the audit with limited assurance of the content of the non-financial statement for the 2018 financial year. Following in-depth discussions, the Audit Committee also made a recommendation to the Supervisory Board regarding the proposal to the Annual General Meeting 2018 for the appointment of the auditor. The Audit Committee declared to the Supervisory Board that the recommendation is free from undue influence by a third party and that no clause of the kind referred to in Article 16 section 6 of the EU Regulation No. 537/2014 of the European Parliament and of the Council of April 14, 2014 on specific requirements regarding the statutory audit of public-interest entities has been imposed upon it. A further subject of in-depth discussions was the assignment of the audit mandate for the 2018 financial year, including the determination of the focus points of the audit, the supervision of the independence and qualification of the auditor as well as the quality of the audit of annual accounts, the determination of the audit fees and ultimately the discussion of the quarterly financial figures and the half year report with the auditor. The Audit Committee dealt intensively with the monitoring of the effectiveness of the risk management system, the internal control system and audit system as well as the compliance management system. Moreover, the Audit Committee addressed the findings of Internal Audit and the audit plan. Potential and pending legal disputes were also discussed. In addition, at

every meeting of the Audit Committee, the Chief Compliance Officer gave regular reports on the Compliance Management System and material compliance cases in the year under review. Furthermore, reports on IT security, the EU General Data Protection Regulation and the hedging strategy were heard.

- In the year under review, the **Finance and Investment Committee** held one meeting by way of a conference call at which, in particular, the Executive Board's resolution based on the authorization of the Annual General Meeting on May 12, 2016 to repurchase shares with an aggregate acquisition cost of up to a total of € 3 billion until May 11, 2021 was approved. Furthermore, the Finance and Investment Committee approved the Executive Board's resolution to sell a building and estate in Canton, USA.
- The **Nomination Committee** met once in the year under review. The Nomination Committee particularly prepared the recommendations by the Supervisory Board to the Annual General Meeting which will elect the shareholder representatives on the Supervisory Board in May 2019. In this respect, taking the statutory requirements into account, the suitability and independence of the candidates were discussed. Furthermore, taking into account the competency profile for the members of the Supervisory Board defined by the Supervisory Board, a qualification profile was developed. Based on this, the Nomination Committee discussed suitable candidates for the positions to be filled within the Supervisory Board.
- The **Mediation Committee**, established in accordance with the German Co-Determination Act (Mitbestimmungsgesetz — MitbestG), did not have to be convened in 2018.

## EXAMINATION OF THE 2018 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG audited the 2018 consolidated financial statements prepared by the Executive Board in accordance with § 315e German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2018 annual financial statements of adidas AG, prepared in accordance with HGB requirements, and the combined Management Report of adidas AG and the adidas Group. Furthermore, at the request of the Supervisory Board, KPMG audited the non-financial statement. KPMG has been the auditor and Group auditor of adidas AG as a capital market-oriented company since the 1995 financial year. Auditor Karl Braun has been signing the annual financial statements since the 2012 financial year and auditor Haiko Schmidt as the responsible audit partner since the 2017 financial year. On May 9, 2018, the Annual General Meeting elected KPMG as auditor and Group auditor upon proposal of the Supervisory Board,

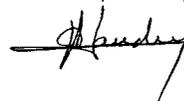
corresponding with a recommendation of the Audit Committee. Prior to the Supervisory Board proposing KPMG as auditor to the Annual General Meeting, KPMG had confirmed to both the Supervisory Board and the Audit Committee that there are no circumstances which could prejudice their independence as auditor or which could cast doubt on KPMG's independence. In this respect, KPMG also declared to which extent non-audit services were rendered for the company in the prior financial year or are contractually agreed upon for the following year. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed by the Executive Board to all Supervisory Board members in a timely manner. We examined the documents in depth, with a particular focus on legality and regularity, in the presence of the auditor at the Audit Committee meeting held on March 1, 2019 and at the Supervisory Board's March 5, 2019 financial statements meeting, during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported the material results of the audit, inter alia with regard to the priority topics agreed and the key audit matters, and was available for questions and the provision of additional information. The auditor did not report any significant weaknesses with respect to the internal control and risk management system relating to the accounting process. We also discussed in depth with the Executive Board the proposal concerning the appropriation of retained earnings, which provides for a dividend of € 3.35 per dividend-entitled share and adopted this increase to € 3.35 compared to the prior year in consideration of the strong business development in the 2018 financial year, the company's good financial situation and positive future prospects. Based on our own examinations of the annual and consolidated financial statements (including the non-financial

statement), we came to the conclusion that there are no objections to be raised. At our financial statements meeting, therefore, following the recommendation of the Audit Committee, we approved the audit results and the financial statements including the non-financial statement prepared by the Executive Board. The annual financial statements of adidas AG were thus approved.

### EXPRESSION OF THANKS

On behalf of the entire Supervisory Board, I wish to thank the members of the Executive Board and all adidas employees around the world for their great personal dedication and their ongoing commitment. I would also like to thank the employee representatives on the Supervisory Board for their trusting collaboration.

For the Supervisory Board



**IGOR LANDAU**

CHAIRMAN OF THE SUPERVISORY BOARD

March 2019