CALLING ALL CREATORS

adidas

Q2 2017

ADIDAS FIRST HALF YEAR REPORT

JANUARY — JUNE 2017

ADIDAS FIRST HALF YEAR REPORT 2017

Additional information on our performance in the first half of 2017 can be found in our Fact Sheet and other publications online. ↘ adidas-group.com/s/results

01 FINANCIAL HIGHLIGHTS (IFRS)

	First half year 2017	First half year 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	10,485	8,761	19.7%
Gross profit [1]	5,227	4,364	19.8%
Other operating expenses [1]	4,194	3,657	14.7%
EBITDA [1]	1,362	1,135	20.0%
Operating profit [1]	1,142	950	20.2%
Net income from continuing operations [1]	809	671	20.6%
Net income attributable to shareholders [2]	613	641	(4.4%)
Key Ratios			
Gross margin [1]	49.9%	49.8%	0.0pp
Other operating expenses in % of net sales [1]	40.0%	41.7%	(1.7pp)
Operating margin [1]	10.9%	10.8%	0.1pp
Effective tax rate [1]	28.5%	29.6%	(1.1pp)
Net income attributable to shareholders in % of net sales [2]	5.8%	7.3%	(1.5pp)
Average operating working capital in % of net sales [1, 3]	20.4%	21.4%	(1.0pp)
Equity ratio	41.8%	41.3%	0.5pp
Net borrowings/EBITDA [1, 4]	0.3	0.6	
Financial leverage	12.0%	17.7%	(5.8pp)
Return on equity [2]	10.0%	11.1%	(1.1pp)
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	14,692	14,029	4.7%
Inventories	3,644	3,514	3.7%
Receivables and other current assets	3,530	3,461	2.0%
Working capital	2,229	2,202	1.2%
Net borrowings	735	1,028	(28.5%)
Shareholders' equity	6,141	5,792	6.0%
Capital expenditure	266	201	32.3%
Net cash generated from/(used in) operating activities [2]	167	(75)	n.a.
Per Share of Common Stock (€)			
Basic earnings [2]	3.04	3.20	(5.2%)
Diluted earnings [2]	3.01	3.13	(3.9%)
Net cash generated from/(used in) operating activities [2]	0.83	(0.37)	n.a.
Dividend	2.00	1.60	25.0%
Share price at end of period	167.75	128.45	30.6%
Other (at end of period)			
Number of employees [1]	56,044	55,236	1.5%
Number of shares outstanding	202,657,342	200,197,417	1.2%
Average number of shares	201,783,166	200,197,417	0.8%

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business and the planned divestiture of TaylorMade, Adams Golf, Ashworth and CCM Hockey.
2 Includes continuing and discontinued operations.
3 Twelve-month trailing average.
4 EBITDA of last twelve months.

OUR SHARE

ADIDAS AG SHARE DECLINES IN THE SECOND QUARTER

In the second quarter of 2017, international equity markets recorded a highly volatile performance and ended the period largely inconsistent. While strong economic data in the Eurozone and the success of Emmanuel Macron in the French parliamentary election supported international equity markets, worldwide signals of a less expansionary monetary policy, the weakening of U.S. economic data as well as the threat of an impeachment of U.S. President Donald Trump represented key headwinds in the second quarter. As a consequence, the DAX-30 closed the second quarter relatively unchanged compared to the end of March 2017. see Table 02 The adidas AG share was negatively impacted by some profit-taking by investors following the strong share price development in recent quarters as well as by unfavourable newsflow regarding the U.S. retail environment. Consequently, the adidas AG share closed the second quarter at € 167.75, 6% below the level of March 31, 2017. Since the beginning of the year, the adidas AG share grew 12%, as at June 30, 2017, thus outperforming the DAX-30, which saw a 7% increase in the same period. see Table 02

DIVIDEND OF € 2.00 PER SHARE PAID

At the Annual General Meeting (AGM) on May 11, 2017, shareholders approved the adidas AG Executive and Supervisory Boards' recommendation to pay a dividend of € 2.00 per share for the 2016 financial year. see Financial Highlights, p. 3 The dividend was paid on May 16, 2017. This represents a dividend payout of € 405 million and a payout ratio of 39.8% of net income attributable to shareholders, which is in line with the company's targeted payout ratio of between 30% and 50%.

02 PERFORMANCE OF THE ADIDAS AG SHARE AND IMPORTANT INDICES AT JUNE 30, 2017 IN %

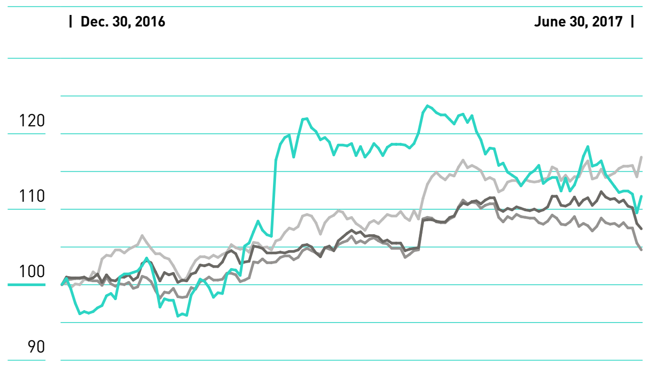
	Q2	YTD	1 year	3 years	5 years	10 years
adidas AG	(6)	12	31	127	197	259
DAX-30	0	7	27	25	92	54
EURO STOXX 50	(2)	5	20	7	52	(23)
MSCI World Textiles, Apparel & Luxury Goods	7	17	21	9	62	102

Source: Bloomberg.

75% OF CONVERTIBLE BOND CONVERTED

In March 2012, adidas AG successfully issued a convertible bond, due on June 14, 2019, for an aggregate nominal amount of € 500 million. The bonds were priced with a 0.25% annual coupon and a conversion premium of 40% above the reference price of € 59.61, resulting in an initial conversion price of € 83.46 per share which, as a consequence of contractual provisions relating to dividend protection, was adjusted to € 81.13 per share in May 2017. As a result of conversion rights exercised, a total of 1,106,498 shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from April 1, 2017 to June 30, 2017. In total, 4,588,125 shares were transferred following the exercise of conversion rights, all of which were serviced from treasury shares of the company. As at June 30, 2017, the remaining bonds were convertible into up to 1,550,673 new or existing adidas AG shares. Consequently, at the end of the second quarter of 2017, 75% of the convertible bond was converted. The convertible bond closed the quarter at € 206.44, well above the prior year level of € 159.23.

03 SHARE PRICE DEVELOPMENT IN 2017 [1]



1 Index: December 30, 2016 = 100.
— adidas AG
— DAX-30
— EURO STOXX 50
— MSCI World Textiles, Apparel & Luxury Goods

BUSINESS PERFORMANCE

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMY GROWS IN THE SECOND QUARTER OF 2017[1]

In the second quarter of 2017, the global economy grew at a solid rate, reflecting improvements in consumer confidence and global trade as well as a modest recovery in investment, industrial and manufacturing activity. Nevertheless, high policy uncertainty, the possibility of financial market disruptions, as well as heightened geopolitical tensions and political discord, remained major sources of uncertainty and continued to weigh on the overall economy. In developed economies, economic activity strengthened modestly throughout the quarter, supported by improvements in labour markets and in domestic demand as well as growth in manufacturing and investment activity. Developing economies also grew in the second quarter of 2017, mainly reflecting improving domestic demand, the gradual recovery in commodity prices and industrial production as well as accommodative fiscal and monetary policies.

1 Source: IMF, World Economic Outlook.

MODEST GROWTH FOR THE GLOBAL SPORTING GOODS INDUSTRY IN THE SECOND QUARTER[2, 3]

The global sporting goods industry recorded modest growth in the second quarter of 2017, supported by rising consumer spending in both developing and developed markets, the ongoing athleisure trend as well as higher sports participation and increasing health awareness around the world. In addition, social trends including social fitness remained strong catalysts, significantly impacting the overall sports industry. The e-commerce channel continued to see rapid expansion, reflecting the changing consumer behaviour as well as retailers leveraging a wide variety of commercial opportunities across mobile technologies and social media. At the same time, the industry continued to face challenges in some regions arising from the ongoing retail consolidation and weaker store traffic, resulting in an uptick in promotional activity.

2 Source: NPD Market Research.
3 Source: Deutsche Bank Market Research.

04 **QUARTERLY CONSUMER CONFIDENCE DEVELOPMENT[1]**
BY REGION

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
USA[2]	97.4	103.5	113.3	124.9	118.9
Euro area[3]	(7.3)	(8.3)	(5.2)	(5.1)	(1.3)
Japan[4]	42.1	42.6	42.3	44.0	43.5
China[5]	102.9	104.6	108.4	114.2	116.4
Russia[6]	(26.0)	(19.0)	(18.0)	(15.0)	(14.0)
Brazil[7]	101.0	103.1	100.3	102.0	100.5

1 Quarter-end figures.
2 Source: Conference Board.
3 Source: European Commission.
4 Source: Economic and Social Research Institute, Government of Japan.
5 Source: China National Bureau of Statistics.
6 Source: Russia Federal Service of State Statistics.
7 Source: Brazil National Confederation of Industry.

05 **EXCHANGE RATE DEVELOPMENT[1]**
€ 1 EQUALS

	Average rate 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Average rate 2017[2]
USD	1.1069	1.1161	1.0541	1.0691	1.1412	1.0819
GBP	0.8188	0.8610	0.8562	0.8555	0.8793	0.8601
JPY	120.40	113.09	123.40	119.55	127.75	121.66
RUB	74.278	70.491	63.938	60.274	67.428	62.705
CNY	7.3515	7.4531	7.3123	7.3760	7.8664	7.4389

1 Spot rates at quarter-end.
2 Average rate for the first half of 2017.

INCOME STATEMENT

FOCUS ON CONTINUING OPERATIONS

Due to the existence, at the balance sheet date, of a signed agreement to sell the TaylorMade business (including the TaylorMade, Adams Golf and Ashworth brands) and a concrete plan to divest the CCM Hockey business, all income and expenses of the TaylorMade and CCM Hockey businesses are reported as discontinued operations at the end of June 2017. For the sake of clarity, all figures related to the 2016 financial year in this report refer to the company's continuing operations unless otherwise stated.

ADIDAS WITH STRONG FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2017

In the first half of 2017, revenues increased 18% on a currency-neutral basis. In euro terms, revenues grew 20% to € 10.485 billion. see Table 06 From a brand perspective, currency-neutral revenues for brand adidas grew 19%, driven by double-digit sales increases in the running category as well as at adidas Originals and adidas neo. In addition, high-single-digit growth in the training and outdoor categories also contributed to this development. Currency-neutral Reebok sales were up 9% versus the prior year, mainly as a result of double-digit sales increases in Classics. In addition, mid-single-digit growth in the training category and low-single-digit growth in the running category also contributed to this development. From a regional perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands grew at double-digit rates in all regions except Russia/CIS.

The gross margin improved slightly to 49.9%, reflecting the positive effects from an improved pricing, product and channel mix as well as lower input costs, which were largely offset by unfavourable currency developments. see Table 06

Royalty and commission income increased 7% to € 57 million. On a currency-neutral basis, royalty and commission income grew 3%. Other operating income declined 72% to € 52 million, mainly due to the non-recurrence of extraordinary gains related to the early termination of the Chelsea FC contract and the Mitchell & Ness divestiture.

Other operating expenses were up 15% to € 4.194 billion, as a result of an increase in expenditure for point-of-sale and marketing investments as well as higher operating overhead expenditure. As a percentage of sales, however, other operating expenses decreased 1.7 percentage points to 40.0%. see Table 06 Expenditure for point-of-sale and marketing investments amounted to € 1.249 billion, which represents an increase of 12% versus the prior year level. As a percentage of sales, the company's expenditure for point-of-sale and marketing investments declined 0.8 percentage points to 11.9%, reflecting the strong top-line improvement as well as this year's different phasing of the company's marketing spend. Operating overhead expenses grew 16% to € 2.945 billion. As a percentage of sales, operating overhead expenses decreased 0.9 percentage points to 28.1%. Operating profit grew 20% to € 1.142 billion, representing an operating margin of 10.9%, an increase of 0.1 percentage points compared to the prior year. see Table 06 This development was due to the positive effect of lower other operating expenses as a percentage of sales, which more than offset the significant decline in other operating income mainly caused by the non-recurrence of the extraordinary gain related to the early termination of the Chelsea FC contract. Financial income grew 11% to € 32 million, mainly as a result of an increase in interest income. Financial expenses were up 60% to € 43 million, due to an increase in interest expenses. As a result, net financial expenses amounted to € 11 million compared to net financial income of € 2 million in the prior year. The company's tax rate was down 1.1 percentage points to 28.5%. see Financial Highlights, p. 3 Consequently, net income from continuing operations grew 21% to € 809 million, resulting in basic earnings per share of € 4.00, up 20% versus the prior year, and diluted earnings per share of € 3.96, an increase of 21% compared to the prior year.

In the first half of 2017, adidas incurred losses from discontinued operations of € 195 million, net of tax, related to the TaylorMade and CCM Hockey businesses (2016: losses of € 28 million). Losses from discontinued operations were due to a loss recognised on the measurement to fair value less costs to sell, net of tax, in the amount of € 208 million, partly offset by income from discontinued operating activities of € 13 million. As a result, net income attributable to shareholders, which in addition to net income from continuing operations includes the losses from discontinued operations, declined 4% to € 613 million. see Table 06 As a result, basic EPS from continuing and discontinued operations decreased 5% to € 3.04 and diluted EPS from continuing and discontinued operations declined 4% to € 3.01. see Table 06

The total number of shares outstanding increased by 1,168,032 shares in the first half of 2017 to 202,657,342 as a result of share conversions in relation to the company's outstanding convertible bond which were partly offset by shares repurchased as part of the company's share buyback programme. see Financial Highlights, p. 3 Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 201,783,166.

06 KEY FINANCIAL HIGHLIGHTS

	First half year 2017	First half year 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	10,485	8,761	20%
Operating profit [1]	1,142	950	20%
Net income from continuing operations [1]	809	671	21%
Net income attributable to shareholders [2]	613	641	(4%)
Key Ratios			
Gross margin [1]	49.9%	49.8%	0.0pp
Other operating expenses in % of net sales [1]	40.0%	41.7%	(1.7pp)
Operating margin [1]	10.9%	10.8%	0.1pp
Per Share of Common Stock (€)			
Diluted earnings [2]	3.01	3.13	(4%)

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business and the planned divestiture of TaylorMade, Adams Golf, Ashworth and CCM Hockey.
2 Includes continuing and discontinued operations.

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

PLANNED DIVESTITURE OF THE TAYLORMADE AND CCM HOCKEY BUSINESSES IMPACTS BALANCE SHEET ITEMS

At June 30, 2017, all assets and liabilities of the TaylorMade (including the TaylorMade, Adams Golf and Ashworth brands) and CCM Hockey businesses are presented as assets and liabilities classified as held for sale due to the existence of a signed agreement and a concrete plan, respectively, to sell both businesses. At the end of the first half of 2017, assets of € 513 million and liabilities of € 210 million were allocated to the TaylorMade and CCM Hockey businesses. However, a restatement of the 2016 balance sheet items is not permitted under IFRS.

ASSETS

At the end of June 2017, total assets were up 5% to € 14.692 billion compared to the prior year, as a result of an increase in current assets which more than offset a decline in non-current assets.

Total current assets increased 10% to € 8.924 billion at the end of June 2017. Cash and cash equivalents were up 9% to € 1.232 billion, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 140 million. Inventories increased 4% to € 3.644 billion. On a currency-neutral basis, inventories grew 6%. Inventories from continuing operations increased 9% (+11% currency-neutral), reflecting higher stock levels to support the company's top-line momentum. The company's accounts receivable increased 5% to € 2.477 billion. On a currency-neutral basis, receivables were up 8%. Receivables from continuing operations increased 19% (+22% currency-neutral), reflecting the company's top-line development in the second quarter of 2017. Other current financial assets increased 6% to € 422 million. This development was mainly due to an increase in the fair value of financial instruments. Other current assets declined 9% to € 558 million, mainly due to a decrease in tax receivables other than income taxes.

Total non-current assets decreased 2% to € 5.768 billion at the end of June 2017. Fixed assets decreased 3% to € 4.835 billion, mainly as a result of the reclassification of the net book value of fixed assets of the TaylorMade and CCM Hockey businesses to assets classified as held for sale. Currency translation effects of € 98 million also contributed to the decrease in fixed assets. Other non-current financial assets increased 13% to € 125 million. This development was due to an increase in the fair value of financial instruments. see Diagram 07

LIABILITIES AND EQUITY

Total current liabilities increased 13% to € 6.696 billion at the end of June 2017. Accounts payable remained virtually unchanged at € 1.862 billion. On a currency-neutral basis, accounts payable grew 1%. Accounts payable from continuing operations increased 5% (+6% currency-neutral), reflecting higher inventories compared to the prior year. Short-term borrowings increased 42% to € 990 million at the end of June 2017, reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings as well as an increase in bank loans. These effects were partly offset by conversions of convertible bonds into adidas AG shares. Other current provisions were up 22% to € 568 million, partly due to an increase in provisions for customs risks. Current accrued liabilities grew 6% to € 1.915 billion, mainly as a result of invoices not yet received as well as accruals for customer discounts and personnel. Other current liabilities were up 8% to € 439 million, primarily due to an increase in miscellaneous taxes payable.

Total non-current liabilities decreased 19% to € 1.872 billion at the end of June 2017. Long-term borrowings declined 33% to € 983 million compared to the prior year, reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings. Pensions and similar obligations increased 24% to € 342 million, reflecting adjustments as a result of the decrease in interest rates. see Diagram 08

Shareholders' equity increased 6% to € 6.141 billion at the end of June 2017. The net income generated during the last twelve months and the reissuance of treasury shares in an amount of € 374 million

07 **STRUCTURE OF STATEMENT OF FINANCIAL POSITION** [1]
IN % OF TOTAL ASSETS

	June 30, 2017	June 30, 2016
Assets (€ in millions)	**14,692**	14,029
Cash and cash equivalents	**8.4**	8.1
Accounts receivable	**16.9**	16.8
Inventories	**24.8**	25.0
Fixed assets	**32.9**	35.4
Other assets	**17.0**	14.7

2017 2016

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 14.

08 **STRUCTURE OF STATEMENT OF FINANCIAL POSITION** [1]
IN % OF TOTAL LIABILITIES AND EQUITY

	June 30, 2017	June 30, 2016
Liabilities and equity (€ in millions)	**14,692**	14,029
Short-term borrowings	**6.7**	5.0
Accounts payable	**12.7**	13.2
Long-term borrowings	**6.7**	10.5
Other liabilities	**32.2**	30.1
Total equity	**41.7**	41.2

2017 2016

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 15.

were partly offset by the dividend of € 405 million paid to shareholders for the 2016 financial year, the repurchase of treasury shares in an amount of € 303 million, including incidental purchasing costs, as well as negative currency effects of € 197 million. The company's equity ratio increased to 41.8%.

OPERATING WORKING CAPITAL

Operating working capital increased 6% to € 4.258 billion at the end of June 2017. On a currency-neutral basis, operating working capital grew 9%. Operating working capital from continuing operations rose 17% (+20% currency-neutral). Average operating working capital as a percentage of sales from continuing operations decreased 1.0 percentage points to 20.4%, reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management. see Financial Highlights, p. 3

LIQUIDITY ANALYSIS

In the first half of 2017, net cash generated from operating activities increased to € 167 million. see Financial Highlights, p. 3 Net cash generated from continuing operating activities rose to € 221 million, driven by an increase in income before taxes and lower operating working capital requirements, partly offset by an increase in income taxes paid. Net cash used in investing activities rose to € 314 million. Net cash used in continuing investing activities increased to € 310 million. The majority of continuing investing activities in the first half of 2017 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of our own-retail stores and investments in IT systems as well as the further development of the company's headquarters in Herzogenaurach. Net cash used in financing activities totalled € 8 million. Net cash used in continuing financing activities totalled € 7 million, mainly due to the dividend paid to shareholders as well as the repurchase of treasury shares, partly offset by an increase in proceeds from short-term borrowings. Exchange rate effects negatively impacted the company's cash position by € 123 million. As a result of all these developments, cash and cash equivalents increased by € 97 million to € 1.232 billion.

Net borrowings at June 30, 2017 amounted to € 735 million, representing a decrease of € 293 million compared to the prior year. see Financial Highlights, p. 3 This development was mainly related to conversions of convertible bonds into adidas AG shares. The company's ratio of net borrowings over EBITDA amounted to 0.3, which is below the company's mid-term target corridor of below two times.

BUSINESS PERFORMANCE BY SEGMENT

WESTERN EUROPE

Sales in Western Europe increased 14% on a currency-neutral basis. In euro terms, sales grew 12% to € 2.944 billion. Despite difficult prior year comparisons resulting from revenues generated with UEFA EURO 2016 related products, adidas brand revenues grew 13% on a currency-neutral basis, driven by double-digit sales growth in the training, running and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues increased 28% on a currency-neutral basis, mainly due to double-digit sales growth in the training category as well as in Classics. From a country perspective, the main contributors to the increase were the UK, Germany, Poland and Spain where revenues grew at double-digit rates each. see Table 09

Gross margin in Western Europe decreased 0.5 percentage points to 44.6%. The positive effects from an improved pricing and channel mix were more than offset by the negative impact from unfavourable currency developments. Operating expenses were up 6% to € 701 million. This development mainly reflects higher sales expenditure as well as an increase in expenditure for point-of-sale investments. As a percentage of sales, operating expenses were down 1.4 percentage points to 23.8%. The operating margin increased 0.9 percentage points to 20.8%, as a result of the positive effect of lower operating expenses as a percentage of sales which more than offset the gross margin decline. see Table 09

09 **WESTERN EUROPE AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	2,944	2,628	12%	14%
adidas brand	2,688	2,427	11%	13%
Reebok brand	256	201	27%	28%
Gross profit	1,315	1,185	11%	–
Gross margin	44.6%	45.1%	(0.5pp)	–
Segmental operating profit	613	523	17%	–
Segmental operating margin	20.8%	19.9%	0.9pp	–

NORTH AMERICA

Sales in North America increased 28% on a currency-neutral basis. In euro terms, sales grew 32% to € 2.001 billion. adidas brand revenues increased 34% on a currency-neutral basis, driven by double-digit sales growth in the running, training and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues decreased 9% on a currency-neutral basis, reflecting the planned clean-up of low-margin business in the US. From a category perspective, double-digit growth in Classics was more than offset by sales declines in the training and running categories. see Table 10

Gross margin in North America increased 1.5 percentage points to 39.7%, driven by an improved product mix, which was partly offset by a less favourable pricing and channel mix as well as the negative impact from unfavourable currency developments. Operating expenses were up 17% to € 598 million, reflecting higher expenditure for point-of-sale and marketing investments as well as higher sales expenditure. Operating expenses as a percentage of sales decreased 4.0 percentage points to 29.9%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 5.2 percentage points to 11.4%. see Table 10

10 **NORTH AMERICA AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	2,001	1,515	32%	28%
adidas brand	1,794	1,294	39%	34%
Reebok brand	207	221	(6%)	(9%)
Gross profit	796	580	37%	–
Gross margin	39.7%	38.2%	1.5pp	–
Segmental operating profit	228	94	144%	–
Segmental operating margin	11.4%	6.2%	5.2pp	–

GREATER CHINA

Sales in Greater China increased 29% on a currency-neutral basis. In euro terms, sales were up 28% to € 1.855 billion. adidas brand revenues grew 29% on a currency-neutral basis. This development was due to double-digit growth in the running, training and basketball categories as well as at adidas Originals and adidas neo. Reebok brand revenues increased 19% on a currency-neutral basis, driven by double-digit sales growth in the training and running categories. see Table 11

Gross margin in Greater China increased 0.6 percentage points to 59.2%, reflecting an improved pricing and product mix as well as lower input costs, partly offset by negative currency effects. Operating expenses were up 33% to € 394 million and, as a percentage of sales, increased 0.7 percentage points to 21.2%. This development reflects an increase in sales expenditure as well as higher expenditure for point-of-sale and marketing investments. As a result of the negative effect of higher operating expenses as a percentage of sales, which more than offset the gross margin increase, the operating margin decreased 0.2 percentage points to 38.0%. see Table 11

11 **GREATER CHINA AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	1,855	1,447	28%	29%
adidas brand	1,816	1,415	28%	29%
Reebok brand	39	32	22%	19%
Gross profit	1,099	849	29%	–
Gross margin	59.2%	58.7%	0.6pp	–
Segmental operating profit	705	552	28%	–
Segmental operating margin	38.0%	38.2%	(0.2pp)	–

RUSSIA/CIS

Sales in Russia/CIS decreased 10% on a currency-neutral basis. In euro terms, sales increased 10% to € 341 million. adidas brand revenues were down 14% on a currency-neutral basis, due to sales declines in most categories, which more than offset high-single-digit increases in the football category as well as at adidas neo. Reebok brand revenues increased 2% on a currency-neutral basis, driven by high-single-digit sales increases in the training category. see Table 12

Gross margin in Russia/CIS increased 6.5 percentage points to 64.5%, driven by an improved pricing mix as well as positive currency effects. Operating expenses were up 21% to € 162 million and, as a percentage of sales, grew 4.2 percentage points to 47.4%. This development mainly reflects an increase in sales expenditure, which was driven by currency effects. The operating margin increased 2.3 percentage points to 17.0% as a result of the gross margin increase which more than offset the negative effect of higher operating expenses as a percentage of sales. see Table 12

12 **RUSSIA/CIS AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	341	310	10%	(10%)
adidas brand	250	238	5%	(14%)
Reebok brand	90	72	25%	2%
Gross profit	220	179	22%	–
Gross margin	64.5%	58.0%	6.5pp	–
Segmental operating profit	58	46	27%	–
Segmental operating margin	17.0%	14.7%	2.3pp	–

LATIN AMERICA

Sales in Latin America grew 11% on a currency-neutral basis. In euro terms, sales were up 16% to € 895 million. Despite difficult prior year comparisons resulting from revenues generated with Copa América 2016 related products, adidas brand revenues increased 10% on a currency-neutral basis. This development was driven by double-digit sales growth at adidas Originals and adidas neo. In addition, mid-single-digit growth in the running and outdoor categories also contributed to this development. Reebok brand revenues were up 17% on a currency-neutral basis, as a result of double-digit growth in the training and running categories as well as in Classics. From a market perspective, the main contributors to the increase were Mexico and Argentina, where revenues grew at double-digit rates each. In addition, high-single-digit growth in Chile and Peru also contributed to this development. see Table 13

Gross margin in Latin America declined 3.6 percentage points to 39.6%, as the positive effects from an improved pricing and channel mix were more than offset by severe negative currency effects. Operating expenses were up 8% to € 258 million, mainly reflecting an increase in sales expenditure. Operating expenses as a percentage of sales were down 2.0 percentage points to 28.8%. The operating margin decreased 1.6 percentage points to 10.7%, reflecting the gross margin decrease which more than offset the positive effect of lower operating expenses as a percentage of sales. see Table 13

13 **LATIN AMERICA AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	895	773	16%	11%
adidas brand	785	680	15%	10%
Reebok brand	111	93	20%	17%
Gross profit	354	334	6%	–
Gross margin	39.6%	43.2%	(3.6pp)	–
Segmental operating profit	96	95	1%	–
Segmental operating margin	10.7%	12.3%	(1.6pp)	–

JAPAN

Sales in Japan increased 16% on a currency-neutral basis. In euro terms, revenues increased 19% to € 562 million. adidas brand revenues grew 17% on a currency-neutral basis, driven by double-digit sales growth in the running and training categories as well as at adidas Originals and adidas neo. In addition, high-single-digit growth in the football category also contributed to this development. Reebok brand revenues were up 12% on a currency-neutral basis, due to strong double-digit sales increases in the training and running categories. see Table 14

Gross margin in Japan increased 2.3 percentage points to 52.4%, driven by an improved pricing and channel mix, partly offset by a less favourable product mix. Operating expenses were up 9% to € 155 million, reflecting an increase in sales expenditure as well as higher expenditure for point-of-sale investments. Operating expenses as a percentage of sales decreased 2.6 percentage points to 27.5%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin grew 4.9 percentage points to 26.3%. see Table 14

14 **JAPAN AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	562	472	19%	16%
adidas brand	504	421	20%	17%
Reebok brand	58	51	15%	12%
Gross profit	294	236	25%	–
Gross margin	52.4%	50.0%	2.3pp	–
Segmental operating profit	148	101	46%	–
Segmental operating margin	26.3%	21.4%	4.9pp	–

MEAA

Sales in MEAA (Middle East, Africa and other Asian markets) were up 14% on a currency-neutral basis. In euro terms, sales grew 17% to € 1.491 billion. adidas brand revenues grew 15% on a currency-neutral basis, due to double-digit sales growth in the running category as well as at adidas Originals and adidas neo. In addition, high-single-digit increases in the outdoor category also contributed to this development. Reebok brand revenues grew 7% on a currency-neutral basis due to double-digit growth in the training and running categories. From a market perspective, the main contributors to the increase were double-digit improvements in Australia, Thailand, South Africa, India and Indonesia as well as mid-single-digit sales growth in South Korea. see Table 15

Gross margin in MEAA increased 1.1 percentage points to 51.3%, driven by an improved pricing and product mix which more than offset negative currency effects. Operating expenses were up 11% to € 331 million, driven by higher sales expenditure as well as higher expenditure for point-of-sale and marketing investments. As a percentage of sales, operating expenses declined 1.2 percentage points to 22.2%. The operating margin was up 2.2 percentage points to 29.1%, reflecting the increase in gross margin as well as the positive effect of lower operating expenses as a percentage of sales. see Table 15

15 **MEAA AT A GLANCE** € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	1,491	1,273	17%	14%
adidas brand	1,335	1,132	18%	15%
Reebok brand	156	141	11%	7%
Gross profit	764	638	20%	–
Gross margin	51.3%	50.2%	1.1pp	–
Segmental operating profit	433	342	27%	–
Segmental operating margin	29.1%	26.8%	2.2pp	–

OTHER BUSINESSES

Other Businesses comprises adidas Golf, Runtastic and Other centrally managed businesses, which primarily includes the business activities of Y-3. see Note 12, p. 28

Revenues in Other Businesses grew 14% on a currency-neutral basis, driven by double-digit growth in Other centrally managed businesses and at Runtastic as well as mid-single-digit growth at adidas Golf. In euro terms, revenues in Other Businesses increased 15% to € 395 million. see Table 16

Gross margin was up 0.5 percentage points to 40.9%, mainly due to improvements in Other centrally managed businesses. Operating expenses declined 14% to € 110 million, primarily as a result of lower sales expenditure. As a percentage of sales, operating expenses declined 9.5 percentage points to 27.9%. Operating margin was up 9.9 percentage points to 13.6%, reflecting the increase in gross margin as well as the positive effect of lower operating expenses as a percentage of sales. see Table 16

16 **OTHER BUSINESSES AT A GLANCE** [1] € IN MILLIONS

	First half year 2017	First half year 2016	Change	Change (currency-neutral)
Net sales	395	344	15%	14%
adidas Golf	208	195	7%	5%
Other centrally managed businesses	173	138	25%	25%
Gross profit	161	139	16%	–
Gross margin	40.9%	40.4%	0.5pp	–
Segmental operating profit	54	13	322%	–
Segmental operating margin	13.6%	3.7%	9.9pp	–

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business and the planned divestiture of TaylorMade, Adams Golf, Ashworth and CCM Hockey.

SUBSEQUENT EVENTS AND OUTLOOK

SUBSEQUENT EVENTS

NO SUBSEQUENT EVENTS

Between the end of the first half of 2017 and the finalisation of the interim consolidated financial statements on July 25, 2017, there were no significant organisational, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

OUTLOOK [1]

GLOBAL ECONOMY TO GROW IN 2017 [2, 3]

Global GDP is projected to increase by 2.7% in 2017. This development will be supported by a further stabilisation in commodity prices, improvements in global trade and manufacturing activity as well as continuous accommodative fiscal and monetary policies. Nevertheless, heightened policy uncertainty and weak productivity growth are expected to weigh on the economic recovery. Developing economies are forecasted to remain a major contributor to the global economic expansion in 2017. At 4.1%, their growth rate is projected to accelerate compared to 2016. In developed economies, GDP is expected to grow at a level of 1.9% in 2017.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2017 [4]

In the absence of any major economic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2017. Consumer spending on sporting goods in the developing economies is expected to grow faster than in the more developed markets. Strong wage growth and domestic consumption in many developing economies are predicted to propel the industry throughout the year. In developed economies, the sporting goods industry is forecasted to benefit from wage increases which will support consumer spending on sporting goods and fuel the industry's growth. In addition, rising sports participation and health awareness globally is projected to continue to boost sportswear demand.

ADIDAS RAISES TOP- AND BOTTOM-LINE OUTLOOK FOR THE 2017 FINANCIAL YEAR

Due to the strong financial performance in the first half of 2017, adidas has increased its 2017 financial outlook. We now expect sales to increase at a rate between 17% and 19% (previously: to increase at a rate between 12% and 14%) on a currency-neutral basis in 2017. The top-line expansion will be driven by growth in all regions except Russia/CIS. We expect particularly strong support from Western Europe, North America and Greater China, where we continue to forecast revenues to grow at a double-digit rate each in 2017. We continue to forecast revenues in Latin America, Japan and MEAA to improve at a high-single-digit rate. Other Businesses, which now mainly consists of adidas Golf, Runtastic and Other centrally managed businesses such as Y-3, is now forecasted to grow at a mid-single-digit rate (previously: to be below prior year level).

The gross margin is expected to increase up to 0.8 percentage points to a level of up to 50.0% (previously: to increase up to 0.3 percentage points). This development will be driven by a more favourable pricing, product and channel mix. Less favourable US dollar hedging rates, which negatively impacted the gross margin development particularly in the first half of 2017, will partly offset these improvements. Other operating expenses as a percentage of sales are forecasted to be below the prior year level of 42.7%, driven by leverage from both expenditure for point-of-sale and marketing investments as well as lower operating overheads as a percentage of sales. The operating profit is expected to increase between 24% and 26% (previously: to increase between 13% and 15%), resulting in an operating margin improvement of up to 0.6 percentage points to a level of up to 9.2% (previously: to increase between 0.2 and 0.4 percentage points). This development will be driven by the projected gross margin improvement as well as lower other operating expenses as a percentage of sales. These positive effects will be partly offset by the significant decline in other operating income, reflecting the non-recurrence of the one-time gain related to the early termination of the Chelsea FC sponsorship that was included in the prior year. Net financial expenses are forecasted to decrease in 2017, reflecting a decrease in interest expenses as well as positive exchange rate effects. The tax rate is projected to be below the prior year level of 29.6%. Net income from continuing operations is projected to increase at a rate between 26% and 28% to a level between € 1.360 billion and € 1.390 billion (previously: to increase at a rate between 13% and 15%). As a result of an increase in the average number of shares following conversions of convertible bonds into adidas AG shares, basic earnings per share from continuing operations are expected to increase at a rate between 25% and 27% (previously: to increase at a rate between 13% and 15%).

1 This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of adidas. 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 of the adidas 2016 Annual Report (pp. 118 – 132), which are beyond the control of the company. 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. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.
2 Source: World Bank, Global Economic Prospects.
3 Source: IMF, World Economic Outlook.
4 Source: NPD Market Research.

RISKS AND OPPORTUNITIES

Taking into account the occurrence likelihood and the potential financial impact of the risks explained in the 2016 Annual Report, as well as the current business outlook, Management does not foresee any material jeopardy to the viability of the company as a going concern. Management remains confident that the earnings strength forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the company. Compared to the assessment in the 2016 Annual Report, overall the company's risk profile remains unchanged.

17 **2017 OUTLOOK**

	As reported in 2016 including TaylorMade and CCM Hockey		**Continuing operations** reflecting divestiture of TaylorMade and CCM Hockey		
	2016 Results reported	**2017 Outlook** March 2017	**2016 Results** adjusted	**2017 Outlook** March 2017	**2017 Outlook** August 2017
Net sales (€ in millions)	19,291	to increase at a rate between 11% and 13% [1]	18,483	to increase at a rate between 12% and 14% [1]	to increase at a rate between 17% and 19% [1]
Gross margin	48.6%	to increase up to 0.5pp to a level of up to 49.1%	49.2%	to increase up to 0.3pp	to increase up to 0.8pp to a level of up to 50.0%
Other operating expenses (in % of net sales)	42.8%	below prior year level	42.7%	below prior year level	below prior year level
Operating profit (€ in millions)	1,491	to increase at a rate between 18% and 20%	1,582	to increase at a rate between 13% and 15%	to increase at a rate between 24% and 26%
Operating margin	7.7%	to increase at a rate between 0.6 and 0.8pp to a level between 8.3% and 8.5%	8.6%	to increase at a rate between 0.2 and 0.4pp	to increase up to 0.6pp to a level of up to 9.2%
Net income from continuing operations (€ in millions)	1,019	to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion	1,082	to increase at a rate between 13% and 15%	to increase at a rate between 26% and 28% to a level between € 1.360 billion and € 1.390 billion
Basic earnings per share from continuing operations (in €)	5.08	to increase at a rate between 18% and 20%	5.39	to increase at a rate between 13% and 15%	to increase at a rate between 25% and 27%
Average operating working capital (in % of net sales)	20.2%	modest increase	21.1%	modest increase	modest increase
Capital expenditure [2] (€ in millions)	651	around € 1.1 billion	651	around € 1.1 billion	up to € 1.0 billion

1 Currency-neutral.
2 Excluding acquisitions and finance leases.

↘ adidas-group.com/s/financial-report-2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	June 30, 2017	June 30, 2016	Change in %	December 31, 2016
Assets				
Cash and cash equivalents	1,232	1,135	8.5	1,510
Short-term financial assets	5	5	(3.7)	5
Accounts receivable	2,477	2,356	5.1	2,200
Other current financial assets	422	398	5.9	729
Inventories	3,644	3,514	3.7	3,763
Income tax receivables	74	96	(23.4)	98
Other current assets	558	611	(8.7)	580
Assets classified as held for sale	513	29	1,687.4	–
Total current assets	**8,924**	**8,144**	**9.6**	**8,886**
Property, plant and equipment	1,876	1,661	12.9	1,915
Goodwill	1,248	1,379	(9.5)	1,412
Trademarks	1,395	1,597	(12.6)	1,680
Other intangible assets	140	172	(18.6)	167
Long-term financial assets	176	155	13.6	194
Other non-current financial assets	125	111	13.1	96
Deferred tax assets	697	700	(0.5)	732
Other non-current assets	111	110	1.0	94
Total non-current assets	**5,768**	**5,884**	**(2.0)**	**6,290**
Total assets	**14,692**	**14,029**	**4.7**	**15,176**

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	June 30, 2017	June 30, 2016	Change in %	December 31, 2016
Liabilities and equity				
Short-term borrowings	990	698	41.7	636
Accounts payable	1,862	1,857	0.3	2,496
Other current financial liabilities	286	262	8.8	201
Income taxes	425	443	(4.0)	402
Other current provisions	568	466	21.8	573
Current accrued liabilities	1,915	1,803	6.2	2,023
Other current liabilities	439	405	8.4	434
Liabilities classified as held for sale	210	6	3,245.4	-
Total current liabilities	**6,696**	**5,942**	**12.7**	**6,765**
Long-term borrowings	983	1,470	(33.1)	982
Other non-current financial liabilities	27	20	32.8	22
Pensions and similar obligations	342	276	23.7	355
Deferred tax liabilities	318	352	(9.6)	387
Other non-current provisions	53	55	(3.8)	44
Non-current accrued liabilities	102	96	5.7	120
Other non-current liabilities	47	42	13.1	46
Total non-current liabilities	**1,872**	**2,312**	**(19.0)**	**1,957**
Share capital	203	200	1.2	201
Reserves	182	397	(54.2)	749
Retained earnings	5,756	5,195	10.8	5,521
Shareholders' equity	**6,141**	**5,792**	**6.0**	**6,472**
Non-controlling interests	(16)	(17)	7.7	(17)
Total equity	**6,125**	**5,775**	**6.1**	**6,455**
Total liabilities and equity	**14,692**	**14,029**	**4.7**	**15,176**

CONSOLIDATED INCOME STATEMENT

ADIDAS AG CONSOLIDATED INCOME STATEMENT (IFRS) € IN MILLIONS

	First half year 2017	First half year 2016	Change	Second quarter 2017	Second quarter 2016	Change
Net sales	10,485	8,761	19.7%	5,038	4,199	20.0%
Cost of sales	5,258	4,398	19.6%	2,513	2,126	18.2%
Gross profit	**5,227**	**4,364**	**19.8%**	**2,525**	**2,074**	**21.7%**
(% of net sales)	49.9%	49.8%	0.0pp	50.1%	49.4%	0.7pp
Royalty and commission income	57	53	7.4%	29	30	(2.5%)
Other operating income	52	190	(72.5%)	24	159	(85.0%)
Other operating expenses	4,194	3,657	14.7%	2,072	1,833	13.0%
(% of net sales)	40.0%	41.7%	(1.7pp)	41.1%	43.7%	(2.5pp)
Operating profit	**1,142**	**950**	**20.2%**	**505**	**429**	**17.9%**
(% of net sales)	10.9%	10.8%	0.1pp	10.0%	10.2%	(0.2pp)
Financial income	32	29	11.3%	7	9	(24.2%)
Financial expenses	43	27	59.9%	26	14	93.2%
Income before taxes	**1,131**	**952**	**18.8%**	**486**	**425**	**14.5%**
(% of net sales)	10.8%	10.9%	(0.1pp)	9.7%	10.1%	(0.5pp)
Income taxes	322	281	14.6%	139	124	12.1%
(% of income before taxes)	28.5%	29.6%	(1.1pp)	28.6%	29.2%	(0.6pp)
Net income from continuing operations	**809**	**671**	**20.6%**	**347**	**301**	**15.5%**
(% of net sales)	7.7%	7.7%	0.1pp	6.9%	7.2%	(0.3pp)
Losses from discontinued operations, net of tax	195	28	587.1%	189	10	1,874.7%
Net income	**614**	**642**	**(4.4%)**	**159**	**291**	**(45.6%)**
(% of net sales)	5.9%	7.3%	(1.5pp)	3.1%	6.9%	(3.8pp)
Net income attributable to shareholders	**613**	**641**	**(4.4%)**	**158**	**291**	**(45.5%)**
(% of net sales)	5.8%	7.3%	(1.5pp)	3.1%	6.9%	(3.8pp)
Net income attributable to non-controlling interests	**1**	**1**	**15.8%**	**0**	**1**	**(62.4%)**
Basic earnings per share from continuing operations (in €)	4.00	3.34	19.7%	1.72	1.50	14.4%
Diluted earnings per share from continuing operations (in €)	3.96	3.27	21.3%	1.70	1.47	16.2%
Basic earnings per share from continuing and discontinued operations (in €)	3.04	3.20	(5.2%)	0.78	1.45	(46.1%)
Diluted earnings per share from continuing and discontinued operations (in €)	3.01	3.13	(3.9%)	0.78	1.42	(45.2%)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ADIDAS AG CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS) € IN MILLIONS

	First half year 2017	First half year 2016	Second quarter 2017	Second quarter 2016
Net income after taxes	**614**	**642**	**159**	**291**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans (IAS 19), net of tax[1]	1	2	2	0
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**1**	**2**	**2**	**0**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met				
Net (loss)/gain on cash flow hedges, net of tax	(251)	(114)	(68)	44
Currency translation differences	(350)	(81)	(354)	98
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	**(601)**	**(195)**	**(422)**	**142**
Other comprehensive income	**(600)**	**(193)**	**(421)**	**143**
Total comprehensive income	**14**	**449**	**(262)**	**434**
Attributable to shareholders of adidas AG	13	446	(264)	433
Attributable to non-controlling interests	1	2	1	1

1 Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ADIDAS AG CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS) € IN MILLIONS

	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Other reserves [1]	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2015	**200**	**777**	**(123)**	**59**	**(122)**	**4,874**	**5,666**	**(18)**	**5,648**
Net income recognised directly in equity			(83)	(114)	2		(195)	1	(193)
Net income						641	641	1	642
Total comprehensive income			**(83)**	**(114)**	**2**	**641**	**446**	**2**	**449**
Dividend payment						(320)	(320)	(2)	(322)
Balance at June 30, 2016	**200**	**777**	**(206)**	**(54)**	**(121)**	**5,195**	**5,792**	**(17)**	**5,775**
Balance at December 31, 2016	**201**	**838**	**(52)**	**146**	**(182)**	**5,521**	**6,472**	**(17)**	**6,455**
Net income recognised directly in equity			(351)	(250)	1		(600)	0	(600)
Net income						613	613	1	614
Total comprehensive income			**(351)**	**(250)**	**1**	**613**	**13**	**1**	**14**
Reissuance of treasury shares due to the conversion of convertible bonds	2	33				99	134		134
Repurchase of treasury shares	(0)					(73)	(73)		(73)
Repurchase of treasury shares due to equity-settled share-based payment	(0)					(7)	(7)		(7)
Reissuance of treasury shares due to equity-settled share-based payment	0					7	7		7
Dividend payment						(405)	(405)		(405)
Equity-settled share-based payment						0	0		0
Balance at June 30, 2017	**203**	**871**	**(403)**	**(105)**	**(181)**	**5,756**	**6,141**	**(16)**	**6,125**

1 Reserves for remeasurements of defined benefit plans (IAS 19), option plans and acquisition of shares from non-controlling interest shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

ADIDAS AG CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS) € IN MILLIONS

	First half year 2017	First half year 2016
Operating activities:		
Income before taxes	1,131	952
Adjustments for:		
Depreciation, amortisation and impairment losses	208	166
Reversals of impairment losses	(1)	(0)
Unrealised foreign exchange losses, net	4	29
Interest income	(14)	(9)
Interest expense	40	27
Losses/(gains) on sale of property, plant and equipment and intangible assets, net	4	(39)
Other non-cash expense	1	0
Payment for external funding of pension obligations (CTA)	(4)	–
Operating profit before working capital changes	**1,370**	**1,125**
Increase in receivables and other assets	(402)	(492)
Increase in inventories	(132)	(434)
(Decrease)/increase in accounts payable and other liabilities	(305)	9
Cash generated from operations before interest and taxes	**531**	**208**
Interest paid	(34)	(16)
Income taxes paid	(276)	(209)
Net cash generated from/(used in) operating activities – continuing operations	**221**	**(17)**
Net cash used in operating activities – discontinued operations	(54)	(58)
Net cash generated from/(used in) operating activities	**167**	**(75)**
Investing activities:		
Purchase of trademarks and other intangible assets	(20)	(23)
Proceeds from sale of trademarks and other intangible assets	0	0
Purchase of property, plant and equipment	(242)	(173)
Proceeds from sale of property, plant and equipment	5	3
Proceeds from sale of assets held for sale	–	14
Proceeds from sale of a disposal group	6	32
Proceeds from sale/(purchase) of short-term financial assets	0	(0)
Purchase of investments and other long-term assets	(73)	(4)
Interest received	14	9
Net cash used in investing activities – continuing operations	**(310)**	**(143)**
Net cash used in investing activities – discontinued operations	**(4)**	**(3)**
Net cash used in investing activities	**(314)**	**(145)**
Financing activities:		
Repayments of finance lease obligations	(1)	(1)
Dividend paid to shareholders of adidas AG	(405)	(320)
Dividend paid to non-controlling interest shareholders	–	(2)
Repurchase of treasury shares	(85)	–
Repurchase of treasury shares due to share-based payments	(7)	–
Proceeds from reissuance of treasury shares due to share-based payments	6	–
Proceeds from short-term borrowings	485	466
Repayments of short-term borrowings	–	(138)
Net cash (used in)/generated from continuing financing activities	**(7)**	**6**
Net cash (used in)/generated from discontinued financing activities	**(0)**	**3**
Net cash (used in)/generated from financing activities	**(8)**	**9**
Effect of exchange rates on cash	**(123)**	**(19)**
Decrease of cash and cash equivalents	(278)	(230)
Cash and cash equivalents at beginning of year	1,510	1,365
Cash and cash equivalents at end of period	**1,232**	**1,135**

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT JUNE 30, 2017

01 — GENERAL

The interim consolidated financial statements of adidas AG and its direct and indirect subsidiaries (collectively 'adidas', the 'Group' or 'the company') for the first half year ending June 30, 2017 are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The company applied all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee effective as at June 30, 2017.

These interim consolidated financial statements have been prepared in compliance with International Accounting Standard IAS 34 'Interim Financial Reporting'. Accordingly, these interim consolidated financial statements do not include all of the information and notes required for consolidated financial statements at financial year-ends. Therefore, these interim consolidated financial statements should be read in conjunction with the 2016 annual consolidated financial statements. The accounting policies as well as principles and practices applied in the consolidated financial statements for the year ending December 31, 2016 also apply to the interim consolidated financial statements for the first half year ending June 30, 2017.

The company has the following updates to the new standards and interpretations and amendments to existing standards and interpretations issued by the IASB and endorsed by the EU which are expected to have an impact on the consolidated financial statements and will be effective for financial years beginning after January 1, 2017, and which have not been applied in preparing these interim consolidated financial statements:

— **IFRS 9 Financial Instruments (EU effective date: January 1, 2018):** The new standard prescribes rules for the accounting of financial instruments, replacing the current guidelines in IAS 39 Financial Instruments: Recognition and Measurement.

  The company has decided to adopt IFRS 9 for hedge accounting at the EU effective date. adidas has determined that new impairment calculations according to IFRS 9 will affect the accumulated allowance for doubtful accounts on accounts receivable. Additionally, adidas has identified the need for IT changes including: adding new accounts, e.g. for separating hedge components as well as adding ageing buckets for impairment purposes.

  Further effects from IFRS 9 on the 2018 consolidated financial statements will depend to a large extent on both the financial instruments which adidas holds and on the economic conditions at that point in time. Further analysis of the expected impact on the consolidated financial statements of adidas AG is ongoing.

— **IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 (EU effective date: January 1, 2018):** This new standard replaces the current guidance on recognising revenue in accordance with IFRS, in particular IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes and provides a holistic framework for all aspects of revenue recognition. IFRS 15 creates a centralised, single five-step model for recognising revenue arising from contracts with customers.

  In 2015, adidas performed an initial IFRS 15 evaluation on market and brand level in order to identify material topics that needed further examination. After further central analysis, adidas has begun a second, more detailed evaluation with all markets and brands in order to gain further assurance about the effects of IFRS 15 on the company. The respective analysis of the responses is still in progress. Additionally, adidas has determined that the accounting for the licensing-out of trademarks is expected to be comparable to current practice in accordance with IAS 18.

  After further analysis, adidas has chosen the modified retrospective method (also called 'cumulative effect method') for transition purposes. According to this transition method, the cumulative effect of applying IFRS 15 will be shown in the opening balance as at January 1, 2018. If the IFRS 15 Amendment Clarifications to IFRS 15 is endorsed in the EU, adidas will use the practical expedient applicable for the modified retrospective method. see 'IFRS 15 Amendment – Clarifications to IFRS 15' This would allow the company to reflect the aggregate effect of all contract modifications that occur before the beginning of the earliest period presented or before the date of initial application.

  Additionally, the company has held further IFRS 15 information sessions, training and workshops with relevant internal stakeholders.

  Further analysis of the expected impact on the consolidated financial statements of adidas AG is in progress.

The company has the following updates to the new standards and interpretations as well as amendments to existing standards and interpretations issued by the IASB and not yet effective in the EU:

— **IFRS 15 Amendment – Clarifications to IFRS 15 (IASB effective date: January 1, 2018):** The amendment provides some transition relief for modified and completed contracts and adds guidance for identifying performance obligations, principal vs. agent considerations, and licensing. If the amendment is endorsed in the EU, the company expects to use the transition relief available for the modified retrospective method. The transition relief would reduce the workload necessary to analyse contracts with customers.

— **IFRS 16 Leases (IASB effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 Leases and the respective interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognise a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months.

The company has continued to collect real estate lease contracts in the global lease management system, which captures relevant information from lease contracts and uses this information to create accounting reports. adidas plans to use this system for IFRS 16 accounting purposes, and is in the process of analysing the system to ensure compliance with IFRS 16 requirements. The company is evaluating which other leased assets fall under the scope of IFRS 16. Further analysis of the expected impact on the company's consolidated financial statements is still in progress.

The interim consolidated financial statements and the interim Group management report have not been audited in accordance with § 317 German Commercial Code (Handelsgesetzbuch – HGB) or reviewed by an auditor.

Costs that are incurred unevenly during the financial year are anticipated or deferred in the interim consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

The results of operations for the first half year ending June 30, 2017 are not necessarily indicative of results to be expected for the entire year.

The interim consolidated financial statements are presented in euros (€) and, unless otherwise stated, all values are presented in millions of euros (€ in millions). Due to rounding principles, numbers presented may not sum up exactly to totals provided.

02 — SEASONALITY

The sales of the company in certain product categories are seasonal and therefore revenues and attributable earnings may vary within the financial year. Sales and earnings tend to be strongest in the first and third quarters of the financial year because these coincide with the launch of the spring/summer and fall/winter collections, respectively. This is especially relevant for the adidas and Reebok brands, whose sales account for more than 95% of the net sales of the company. However, shifts in the share of sales and attributable earnings of particular product categories, brands or the regional composition may occur throughout the year.

03 — DISCONTINUED OPERATIONS

On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). The transaction, which is subject to customary closing conditions, is expected to be completed later in 2017. As a result, TaylorMade is reported as discontinued operations and classified as a disposal group held for sale as at June 30, 2017. The fair value was determined based on the signed agreement. Around half of the total consideration of US $ 425 million will be paid in cash with the remainder in a combination of a secured note and contingent considerations. The fair value of the remainder was estimated by applying the discounted cash flow method and Monte Carlo method, respectively.

Due to the concrete plans to sell the CCM Hockey operating segment and the approval by the respective committees, the CCM Hockey operating business is reported as discontinued operations and classified as a disposal group held for sale as at June 30, 2017. The fair value was determined based on the expected most likely bid which will be paid in cash and in the form of a secured note. The fair value of the secured note was estimated by applying the discounted cash flow method.

The net result of discontinued operations presented in the consolidated income statement as at June 30, 2017 also contains the fair value adjustment of the contingent consideration in connection with the sale of the Rockport operating segment in July 2015.

TaylorMade and CCM Hockey were previously neither classified as assets held for sale nor as discontinued operations. The prior year figures of the consolidated income statement and the consolidated statement of cash flows have been restated to show the discontinued operations separately from continuing operations.

The results of the TaylorMade and CCM Hockey operations are shown as discontinued operations in the consolidated income statement:

DISCONTINUED OPERATIONS

€ in millions	First half year 2017	First half year 2016
Net sales	479	430
Expenses	(455)	(474)
Gain/(loss) from operating activities	**23**	**(44)**
Income taxes	(10)	16
Gain/(loss) from operating activities, net of tax	**13**	**(29)**
(Loss)/gain recognised on the measurement to fair value less costs to sell	(242)	0
Income taxes	34	0
(Loss)/gain recognised on the measurement to fair value less costs to sell, net of tax	**(208)**	**0**
Losses from discontinued operations, net of tax	**(195)**	**(28)**
Basic earnings per share from discontinued operations (€)	(0.97)	(0.14)
Diluted earnings per share from discontinued operations (€)	(0.97)	(0.14)

Losses from discontinued operations for the first half year ending June 30, 2017 in an amount of € 195 million (2016: losses of € 28 million) are entirely attributable to the shareholders of adidas AG.

04 — ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

At June 30, 2017, the disposal groups TaylorMade and CCM Hockey were stated at fair value and comprised the following major classes of assets and liabilities:

CLASSES OF ASSETS AND LIABILITIES

€ in millions	June 30, 2017
Accounts receivable	195
Other current financial assets	6
Inventories	146
Other current assets	15
Total current assets	**363**
Property, plant and equipment	29
Trademarks	42
Other intangible assets	6
Long-term financial assets	13
Deferred tax assets	59
Total non-current assets	**150**
Total assets	**513**
Accounts payable	71
Other current provisions	24
Other current accrued liabilities	72
Other current liabilities	14
Total current liabilities	**182**
Long-term borrowings	0
Pensions and similar obligations	14
Deferred tax liabilities	14
Total non-current liabilities	**28**
Total liabilities	**210**

Impairment losses of € 234 million (before transaction costs) for write-downs of the disposal groups held for sale to the lower of their carrying amount and their fair value less costs to sell have been included in 'Losses/gains from discontinued operations, net of tax'. At June 30, 2017, the fair value less costs to sell amounts to € 295 million. The impairment losses have reduced the carrying amount of goodwill, trademarks and other intangible assets as well as of property, plant and equipment.

05 — GOODWILL

Following the company's internal management reporting and the related split of the market North America into North America (excluding USA Reebok) and USA Reebok, the number of groups of cash-generating units increased to a total of 13 effective January 1, 2017.

On May 10, 2017, adidas signed a definitive agreement to sell its golf equipment business which includes the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). As a result, the goodwill allocated to the group of cash-generating units TaylorMade-adidas Golf in the amount of € 292 million was split and re-allocated to the new cash-generating units TaylorMade amounting to € 113 million and adidas Golf amounting to € 179 million based on relative values (value in use) of the operation disposed of and the cash-generating unit retained, respectively.

At June 30, 2017, the number of cash-generating units decreased to a total of twelve as the cash-generating units TaylorMade and CCM Hockey are classified as disposal groups and are shown in 'Assets/liabilities classified as held for sale'.

06 — TRADEMARKS

At June 30, 2017, the CCM Hockey trademarks amounting to € 113 million as well as the brand names Ashworth and Adams Golf amounting to € 43 million were initially measured according to IAS 36 'Impairment of Assets' and subsequently transferred to 'Assets classified as held for sale' due to the concrete plans to divest the operating segment CCM Hockey and the signing of a definitive agreement to sell the TaylorMade operations, respectively.

07 — SHAREHOLDERS' EQUITY

During the period from January 1, 2017 to June 30, 2017, the nominal capital of adidas AG remained unchanged. Consequently, on June 30, 2017, the nominal capital of adidas AG amounted to € 209,216,186, divided into 209,216,186 registered no-par-value shares ('registered shares').

As a result of conversion rights exercised, a total of 1,640,998 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from January 1, 2017 to June 30, 2017.

In addition, a further 48,840 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period between July 1, 2017 and July 25, 2017 due to conversion rights exercised.

In the 2016 financial year, adidas AG introduced an employee stock purchase plan in favour of employees of adidas AG and its affiliated companies. On January 6, 2017, in connection with the employee stock purchase plan, 25,699 shares of adidas AG were repurchased for an average price of € 144.41. This corresponded to a total price of € 3,711,236 (excluding incidental purchasing costs) with a notional amount of € 25,699 in the nominal capital and consequently 0.01% of the nominal capital. All shares which were repurchased for this purpose on January 6, 2017 were issued to the eligible employees on January 9, 2017 and January 10, 2017, respectively. On April 7, 2017, in connection with the employee stock purchase plan, a further 20,086 shares of adidas AG were repurchased for an average price of € 176.16. This corresponded to a total price of € 3,538,364 (excluding incidental purchasing costs) with a notional amount of € 20,086 or 0.009% of the nominal capital. All shares which were repurchased for this purpose on April 7, 2017 were issued to the eligible employees on April 11, 2017.

On June 30, 2017, adidas AG thus held a total of 6,558,844 treasury shares, corresponding to a notional amount of € 6,558,844 in the nominal capital and consequently 3.13% of the nominal capital. In accordance with § 71b German Stock Corporation Act (Atkiengesetz – AktG), the treasury shares held directly or indirectly do not confer any rights to the company.

08 — SHARE-BASED PAYMENT

In 2016, adidas announced the introduction of an open-ended employee stock purchase plan. The plan operates on a quarterly basis, with each calendar quarter referred to as an 'investment quarter'. The investment shares granted in the first investment quarter between October 1, 2016 and December 31, 2016 were issued to the eligible persons on January 9, 2017 and January 10, 2017, respectively. The investment shares granted in the second investment quarter between January 1, 2017 and March 31, 2017 were issued to the eligible employees on April 11, 2017. The third investment quarter ran from April 1, 2017 to June 30, 2017.

09 — FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT JUNE 30, 2017, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions	Category according to IAS 39	Carrying amount June 30, 2017	Measurement according to IAS 39			Measurement according to IAS 17	Fair value June 30, 2017
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,232	1,232				1,232
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,477	2,477				2,477
Other current financial assets							
Derivatives being part of a hedge	n.a.	173		173			173
Derivatives not being part of a hedge	FAHfT	18			18		18
Promissory notes	AfS	8			8		8
Other financial assets	LaR	222	222				222
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	76	50	26			76
Loans	LaR	18	18				18
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	8		8			8
Derivatives not being part of a hedge	FAHfT	12			12		12
Promissory notes	AfS	29			29		29
Other financial assets	LaR	76	76				76
Assets classified as held for sale	LaR	215	215				215
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	864	864				864
Private placements	FLAC	–	–				–
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	126	126				260
Accounts payable	FLAC	1,862	1,862				1,862
Current accrued liabilities	FLAC	674	674				674
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	162		162			162
Derivatives not being part of a hedge	FLHfT	46			46		46
Earn-out components	n.a.	11			11		11
Other financial liabilities	FLAC	65	65				65
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	983	983				1,034
Convertible bond	FLAC	–	–				–
Non-current accrued liabilities	FLAC	1	1				1
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	13		13			13
Derivatives not being part of a hedge	FLHfT	1			1		1
Earn-out components	n.a.	9			9		9
Other financial liabilities	FLAC	0	0				0
Finance lease obligations	n.a.	3				3	3
Liabilities classified as held for sale	FLAC	72	72				72
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		117					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		117					
Loans and Receivables (LaR)		3,008					
Available-for-Sale Financial Assets (AfS)		112					
Financial Liabilities Measured at Amortised Cost (FLAC)		4,646					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		47					

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2016, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions	Category according to IAS 39	Carrying amount Dec. 31, 2016	Measurement according to IAS 39			Measure-ment according to IAS 17	Fair value Dec. 31, 2016
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,510	1,510				1,510
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,200	2,200				2,200
Other current financial assets							
Derivatives being part of a hedge	n.a.	325		325			325
Derivatives not being part of a hedge	FAHfT	44			44		44
Promissory notes	AfS	15			15		15
Other financial assets	LaR	345	345				345
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	102	64	39			102
Loans	LaR	10	10				10
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	15		15			15
Derivatives not being part of a hedge	FAHfT	17			17		17
Promissory notes	AfS	30			30		30
Other financial assets	LaR	34	34				34
Assets classified as held for sale	LaR	–	–				–
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	379	379				379
Private placements	FLAC	–	–				–
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	257	257				476
Accounts payable	FLAC	2,496	2,496				2,496
Current accrued liabilities	FLAC	704	704				704
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	87		87			87
Derivatives not being part of a hedge	FLHfT	24			24		24
Earn-out components	n.a.	7			7		7
Other financial liabilities	FLAC	81	81				81
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	982	982				1,048
Convertible bond	FLAC	–	–				–
Non-current accrued liabilities	FLAC	9	9				9
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	2		2			2
Derivatives not being part of a hedge	FLHfT	1			1		1
Earn-out components	n.a.	15			15		15
Other financial liabilities	FLAC	0	0				0
Finance lease obligations	n.a.	4				4	4
Liabilities classified as held for sale	FLAC	–	–				–
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		148					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		148					
Loans and Receivables (LaR)		2,590					
Available-for-Sale Financial Assets (AfS)		148					
Financial Liabilities Measured at Amortised Cost (FLAC)		4,909					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		24					

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 13 AS AT JUNE 30, 2017

€ in millions	Fair value June 30, 2017	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	181		181	
Derivatives not being part of a hedge	30		30	
Long-term financial assets	157		26	131
Promissory notes	36			36
Financial assets	**410**		**242**	**168**
Short-term borrowings	1,124		1,124	
Derivative financial instruments				
Derivatives being part of a hedge	175		175	
Derivatives not being part of a hedge	47		47	
Long-term borrowings	1,034	1,034		
Earn-out components	20			20
Financial liabilities	**2,399**	**1,034**	**1,345**	**20**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 13 AS AT DECEMBER 31, 2016

€ in millions	Fair value Dec. 31, 2016	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	339		339	
Derivatives not being part of a hedge	62		62	
Long-term financial assets	184		39	145
Promissory notes	45			45
Financial assets	**636**		**445**	**190**
Short-term borrowings	855		855	
Derivative financial instruments				
Derivatives being part of a hedge	89		89	
Derivatives not being part of a hedge	24		24	
Long-term borrowings	1,048	1,048		
Earn-out components	22			22
Financial liabilities	**2,039**	**1,048**	**969**	**22**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3

€ in millions		Fair value Jan. 1, 2017	Additions	Disposals	Gains	Losses	Currency translation	Fair value June 30, 2017
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	81	–	–	–	–	–	81
Promissory notes	On January 23, 2015, the adidas Group signed a definitive agreement to sell the Rockport operating segment which was divested on July 31, 2015. The transaction included contingent promissory notes. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	45	–	–	–	(6)	(3)	36
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	64	3	(14)	–	(3)	–	50
Earn-out components	The aquisition of Runtastic includes earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. The fair value adjustment refers to accretion and is recognised in interest result.	22	–	(2)	–	0	–	20

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3

€ in millions		Fair value Jan. 1, 2016	Additions	Disposals	Gains	Losses	Currency translation	Fair value Dec. 31, 2016
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	81	–	–	1	–	–	81
Promissory notes	On January 23, 2015, the adidas Group signed a definitive agreement to sell the Rockport operating segment which was divested on July 31, 2015. The transaction included contingent promissory notes. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	42	–	–	2	–	1	45
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	22	47	–	–	(5)	–	64
Earn-out components	The aquisition of Runtastic includes earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. The fair value adjustment refers to accretion and is recognised in interest result.	21	–	–	–	1	–	22

The valuation methods used in measuring Level 1, Level 2 and Level 3 fair values remain unchanged and can be found in the Notes to the 2016 consolidated financial statements.

10 — OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

Other operating income mainly includes income from the release of accrued liabilities and other provisions as well as sundry income.

Other operating expenses include expenses for marketing, sales and research and development, as well as for logistics and central administration. In addition, they include impairment losses as well as depreciation on tangible assets and amortisation on intangible assets (except goodwill impairment losses), with the exception of depreciation and amortisation which is included in the cost of sales. In the first half of 2017, depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses amounted to € 204 million (2016: € 165 million).

11 — EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income from continuing operations attributable to shareholders by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by adidas and held as treasury shares.

It is necessary to include potential dilutive shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share for the first half year ending June 30, 2017 as the conversion right has a value at the balance sheet date. The average share price reached € 166.69 per share during the first half of 2017 and thus exceeded the conversion price of € 81.13 per share.

EARNINGS PER SHARE

	Continuing operations		Discontinued operations		Total	
	First half year 2017	First half year 2016	First half year 2017	First half year 2016	First half year 2017	First half year 2016
Net income from continuing operations (€ in millions)	809	671	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	1	1	–	–	–	–
Net income attributable to shareholders (€ in millions)	**808**	**670**	**(195)**	**(28)**	**613**	**641**
Weighted average number of shares	201,783,166	200,197,417	201,783,166	200,197,417	201,783,166	200,197,417
Basic earnings per share (in €)	**4.00**	**3.34**	**(0.97)**	**(0.14)**	**3.04**	**3.20**
Net income attributable to shareholders (€ in millions)	808	670	(195)	(28)	613	641
Interest expense on convertible bond, net of taxes (€ in millions)	2	5	–	–	2	5
Net income used to determine diluted earnings per share (€ in millions)	**810**	**674**	**(195)**	**(28)**	**615**	**646**
Weighted average number of shares	201,783,166	200,197,417	201,783,166	200,197,417	201,783,166	200,197,417
Weighted assumed conversion of the convertible bond	2,452,688	6,129,671	–	–	2,452,688	6,129,671
Weighted average number of shares for diluted earnings per share	**204,235,854**	**206,327,088**	**201,783,166**	**200,197,417**	**204,235,854**	**206,327,088**
Diluted earnings per share (in €)	**3.96**	**3.27**	**(0.97)**	**(0.14)**	**3.01**	**3.13**

For further information on basic and diluted earnings per share from discontinued operations see Note 03, p. 21.

12 — SEGMENTAL INFORMATION

adidas operates predominantly in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products.

As at June 30, 2017, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments', 15 operating segments were identified: Western Europe, North America (excluding USA Reebok), USA Reebok, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade, adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses. Effective January 1, 2017, the market North America was split into two markets: North America (excluding USA Reebok) and USA Reebok. Both markets meet the definition of an operating segment according to IFRS 8. The markets Middle East, South Korea and Southeast Asia/Pacific were aggregated to the segment MEAA ('Middle East, Africa and other Asian markets'). The markets North America (excluding USA Reebok) and USA Reebok were aggregated to the segment North America. Furthermore the operating segment TaylorMade-adidas Golf has been split into the operating segments TaylorMade and adidas Golf. According to the criteria in IFRS 8 for reportable segments, the business segments Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan and MEAA are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

Each market comprises all wholesale, retail and e-commerce business activities relating to the distribution and sale of products of the adidas and Reebok brands to retail customers and end consumers.

The operating segment TaylorMade comprises the brands TaylorMade, Adams Golf and Ashworth.

adidas Golf comprises the distribution and sale of adidas Golf branded products.

CCM Hockey designs, produces and distributes ice hockey equipment such as sticks, skates and protection gear. In addition, CCM Hockey designs, produces and distributes apparel mainly under the brand name CCM.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

Other centrally managed businesses primarily includes the business activities of the labels Y-3 and Porsche Design Sport by adidas as well as the business activities of the brand Five Ten in the outdoor action sports sector. Furthermore, the segment also comprises International Clearance Management.

Certain centralised corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes functions such as Global Brands and Global Sales (central brand and distribution management for the brands adidas and Reebok), central treasury, global sourcing as well as other headquarter functions. Assets, liabilities, income and expenses relating to these corporate functions are presented together with other non-allocable items and intersegment eliminations in the reconciliation.

Compared to the interim consolidated financial statements for the first three months ending March 31, 2017, the TaylorMade and CCM Hockey operating segments are presented as discontinued operations in the segmental reporting.

There are no intersegment sales between the reportable segments.

The results of the operating segments are reported in the line item 'Segmental operating profit'. This is defined as gross profit minus other operating expenses plus royalty and commission income and other operating income attributable to the segment or group of segments, however without considering headquarter costs and central expenditure for marketing investments.

Segmental assets include accounts receivable as well as inventories.

Segmental liabilities only contain accounts payable from operating activities as there are no other liability items reported regularly to the chief operating decision maker.

SEGMENTS

€ in millions	Net sales (third parties)[1]		Segmental operating profit[1]		Segmental assets[2]		Segmental liabilities[2]	
	2017	2016	2017	2016	2017	2016	2017	2016
Western Europe	2,944	2,628	613	523	1,946	1,721	77	80
North America	2,001	1,515	228	94	1,392	1,178	64	101
Greater China	1,855	1,447	705	552	477	355	114	108
Russia/CIS	341	310	58	46	247	243	6	8
Latin America	895	773	96	95	788	682	50	57
Japan	562	472	148	101	200	206	21	21
MEAA	1,491	1,273	433	342	769	751	63	83
Other Businesses (continuing operations)	395	344	54	13	292	688	24	100
Other Businesses (discontinued operations)	478	430	35	(32)	343	–	71	–
Other Businesses (total)	873	774	88	(20)	635	688	96	100
Total	**10,963**	**9,191**	**2,370**	**1,733**	**6,454**	**5,822**	**490**	**558**

1 First half year.
2 At June 30.

Reconciliation

OPERATING PROFIT

€ in millions	First half year 2017	First half year 2016
Operating profit for reportable segments	2,282	1,753
Operating profit for Other Businesses	88	(20)
Segmental operating profit	**2,370**	**1,733**
HQ/Consolidation	(813)	(475)
Central expenditure for point-of-sale and marketing investments	(380)	(340)
Reclassification to discontinued operations	(35)	32
Operating profit	**1,142**	**950**
Financial income	32	29
Financial expenses	(43)	(27)
Income before taxes	**1,131**	**952**

13 — EVENTS AFTER THE BALANCE SHEET DATE

Between the end of the first half of 2017 and the finalisation of these interim consolidated financial statements on July 25, 2017, there were no major company-specific matters which we expect to influence our business materially going forward.

Herzogenaurach, July 25, 2017

The Executive Board of adidas AG

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Herzogenaurach, July 25, 2017

The Executive Board of adidas AG

KASPER RORSTED
CEO

ROLAND AUSCHEL
Global Sales

GLENN BENNETT
Global Operations

ERIC LIEDTKE
Global Brands

HARM OHLMEYER
CFO

KAREN PARKIN
Human Resources

GIL STEYAERT
Executive Board Member

FINANCIAL CALENDAR

NOVEMBER 2017

9

NINE MONTHS 2017 RESULTS

Press release / Analyst conference call and webcast / Publication of Nine Months Report

MARCH 2018

7

FULL YEAR 2017 RESULTS

Press conference in Herzogenaurach, Germany / Press release / Analyst conference call and webcast / Publication of 2017 Annual Report

MAY 2018

3

FIRST QUARTER 2018 RESULTS

Press release / Analyst conference call and webcast / Publication of First Quarter Report

MAY 2018

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ANNUAL GENERAL MEETING

Fuerth (Bavaria), Germany / Webcast

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Concept and Design
Strichpunkt
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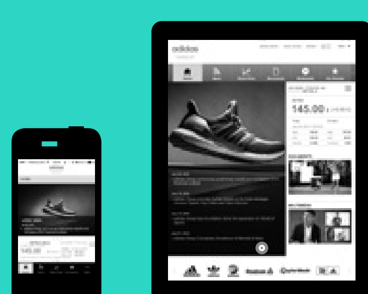

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