adidas
GROUP

Annual Report 2010

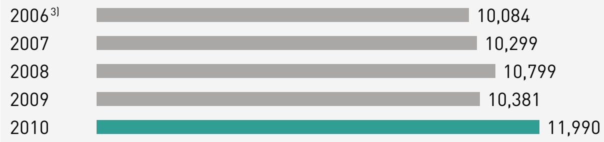
FIT FOR THE FUTURE »

Targets »» 2010	Results »» 2010	Outlook »» 2011
Low- to mid-single-digit currency-neutral sales increase	Net sales reach € 11.990 billion Group currency-neutral sales increase 9%	Mid- to high-single-digit currency-neutral sales increase
Bring major new concepts, technology evolutions and revolutions to market, such as: **adidas:** – adiZero F50 football boot – miCoach training system **Reebok:** – ZigTech training shoe **TaylorMade-adidas Golf:** – R9 SuperTri driver **Rockport:** – TruWalk footwear collection **Reebok-CCM Hockey:** – 11K skate	Major 2010 product launches: **adidas:** – adiStar Salvation running shoe – adiZero F50 football boot – miCoach training system **Reebok:** – ZigTech training shoe – RunTone running shoe **TaylorMade-adidas Golf:** – R9 SuperTri driver – Burner SuperFast driver and fairway woods **Rockport:** – TruWalk men's and women's footwear **Reebok-CCM Hockey:** – Reebok 11K skate and CCM U+ Crazy Light skate	Bring major new concepts, technology evolutions and revolutions to market, such as: **adidas:** – adiZero F50 Runner running shoe – adiPower Predator football boot **Reebok:** – RealFlex footwear – EasyTone Plus footwear – ClassicLite footwear and apparel collection **TaylorMade-adidas Golf:** – R11 and R11 TP driver **Rockport:** – Naomi women's footwear collection **Reebok-CCM Hockey:** – CCM U+ Crazy Light II stick
On a currency-neutral basis, sales to increase: – at a low- to mid-single-digit rate for the Wholesale segment – at a high-single-digit rate for the Retail segment – at a low-single-digit rate for Other Businesses	On a currency-neutral basis: – Wholesale segment sales increase 8% – Retail segment sales increase 18% – adidas brand sales increase 9% – Reebok brand sales increase 12% – Other Businesses sales increase 2% – TaylorMade-adidas Golf sales increase 1%	On a currency-neutral basis, sales to increase: – at a mid-single-digit rate for the Wholesale segment – at a low-double-digit rate for the Retail segment – at a mid-single-digit rate for Other Businesses
Increase gross margin to a level between 46% and 47%	Gross margin: 47.8%	Gross margin level between 47.5% and 48.0%
Increase operating margin to a level around 6.5%	Operating margin: 7.5%	Increase operating margin to between 7.5% and 8.0%
Further reduction of operating working capital as a percentage of sales	Operating working capital as a percentage of sales improves to 20.8%	Increase operating working capital as a percentage of sales
Capital expenditure range € 300 million – € 400 million	Capital expenditure: € 269 million	Capital expenditure range € 350 million – € 400 million
Further reduction of net borrowings; net borrowings/EBITDA ratio to be maintained below 2	Net borrowings reduced substantially to € 221 million; year-end financial leverage: 4.8%	Further reduction of net borrowings; net borrowings/EBITDA ratio to be maintained below 2
Diluted earnings per share to increase to a level between € 1.90 and € 2.15	Net income attributable to shareholders increases 131% to € 567 million; diluted earnings per share increases 122% to € 2.71	Diluted earnings per share to increase to a level between € 2.98 and € 3.12
Further increase shareholder value	adidas AG share price increases 29%; dividend of € 0.80 per share (subject to Annual General Meeting approval)	Further increase shareholder value

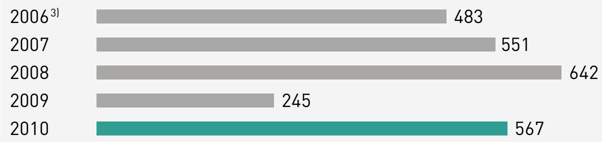
Financial Highlights (IFRS) 01

	2010	2009	Change
Operating Highlights (€ in millions)			
Net sales	11,990	10,381	15.5%
EBITDA	1,159	780	48.6%
Operating profit	894	508	76.0%
Net income attributable to shareholders	567	245	131.1%
Key Ratios (%)			
Gross margin	47.8%	45.4%	2.4pp
Operating expenses as a percentage of net sales	42.1%	42.3%	(0.2pp)
Operating margin	7.5%	4.9%	2.6pp
Effective tax rate	29.5%	31.5%	(2.0pp)
Net income attributable to shareholders as a percentage of net sales	4.7%	2.4%	2.4pp
Operating working capital as a percentage of net sales [1]	20.8%	24.3%	(3.5pp)
Equity ratio	43.5%	42.5%	1.0pp
Net borrowings/EBITDA	0.2	1.2	
Financial leverage	4.8%	24.3%	(19.5pp)
Return on equity	12.3%	6.5%	5.8pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	10,618	8,875	19.6%
Inventories	2,119	1,471	44.1%
Receivables and other current assets	2,324	2,038	14.0%
Working capital	1,972	1,649	19.6%
Net borrowings	221	917	(75.9%)
Shareholders' equity	4,616	3,771	22.4%
Capital expenditure	269	240	11.8%
Net cash generated from operating activities	894	1,198	(25.3%)
Per Share of Common Stock (€)			
Basic earnings	2.71	1.25	116.8%
Diluted earnings	2.71	1.22	121.8%
Operating cash flow	4.28	6.11	(30.0%)
Dividend	0.80 [2]	0.35	128.6%
Share price at year-end	48.89	37.77	29.4%
Other (at year-end)			
Number of employees	42,541	39,596	7.4%
Number of shares outstanding	209,216,186	209,216,186	0.0%
Average number of shares	209,216,186	196,220,166	6.6%

Net sales 02
€ in millions



Net income attributable to shareholders 03
€ in millions



1) Twelve-month trailing average.
2) Subject to Annual General Meeting approval.
3) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.


ROCKPORT
Reebok CCM
TaylorMade
TaylorMade
adidas
ASHWORTH
adidas
adidas
adidas
adidas
Reebok

We know the commitment it takes to achieve success, from the world's biggest sporting events to the finest details in our latest product innovations. We know how it all fits together. Our employees, athletes and products together with our brands, heritage, talents and aspirations. Our strengths. Our passion. One Team. Thinking smarter, pushing harder and playing stronger.
Our Group is fit. Fit for Route 2015. Fit for growth. Fit to win. We are ...

FIT FOR THE FUTURE »

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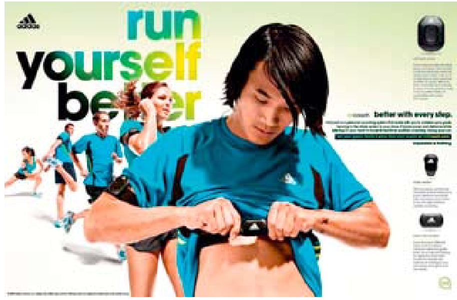
adidas Running Campaign

Running is the soul of sport. In 2011, consumers will see adidas running in a new way: young, social, bright and fun – targeting all "next generation athletes". All athletes run either to get better for their sport or just to enjoy the experience of running. adidas helps them do so, with its authentic running products.

01

To Our Shareholders

Operational and Sporting Highlights 2010



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First Quarter

January

07.01. adidas unveils the new miCoach, a digital coach and interactive training service developed to motivate runners and enable them to reach their individual training goals ⋙ Picture 01.

12.01. adidas Originals launches its Star Wars collection consisting of footwear, apparel and accessories for men, women and kids ⋙ Picture 02.

12.01. Reebok announces its partnership with the successful TV show "Germany's next Topmodel" to promote Reebok's ground-breaking shoe EasyTone.

14.01. TaylorMade introduces the Burner SuperFast driver and fairway woods. The driver weighs an amazingly light 284 grams, promoting faster swing speed and more distance ⋙ Picture 03.

15.01. Giorgio Armani S.p.A. and Reebok announce a global alliance, combining active style with sport and technology ⋙ Picture 04.

28.01. Reinhold Messner and adidas Outdoor announce their renewed partnership and introduce the latest version of the legendary Super Trekking boot.

February

05.02. Reebok ambassadors Thierry Henry and Lewis Hamilton present Reebok's revolutionary training shoe ZigTech.

06.02. Reebok launches its "Reefreshed" website www.reebok.com and kicks off the new "Ree" marketing campaign with TV spots highlighting the two key products, EasyTone and ZigTech.

12.02. Olympic and World Champion gold medallist and former Canadian women's ice-hockey captain Cassie Campbell will act as a Rockport brand ambassador going forward.

22.02. adidas Golf presents Powerband 3.0, the first golf shoe in the customisable mi adidas product family ⋙ Picture 05.

25. 02. Reebok and Cirque du Soleil launch Jukari Fit to Flex, the second innovative workout to come out of the partnership ⋙ Picture 06.

28.02. The Vancouver 2010 Olympic Games are a huge success for adidas Group athletes, with 42 medals won (16 gold, 14 silver, 12 bronze).

March

09.03. adidas presents the "Finale Madrid", the official match ball for the UEFA Champions League Final in Madrid.

10.03. Lewis Hamilton and Reebok unveil the alternate reality game "Lewis Hamilton: Secret Life" in which Lewis features as the central character.

18.03. adidas Originals launches its TV campaign "The street where originality lives", with icons like David Beckham and Snoop Dogg.

24.03. adidas and the National Basketball Association (NBA) announce the extension of their global partnership giving adidas exclusive rights to all NBA apparel in Europe beginning with the 2010/11 NBA season.

26.03. TaylorMade-adidas Golf dominates the GolfMagazin Awards 2010, taking the honours for best driver, best hybrid and best golf footwear.

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Second Quarter

April

09.04. Supermodel Helena Christensen endorses Reebok and Cirque du Soleil's Jukari Fit To Flex workout in London »» Picture 07.

15.04. TaylorMade ranks as the No. 1 driver brand at The Masters for the 10th consecutive year.

20.04. adidas unveils the special match ball for the final of the 2010 FIFA World Cup South Africa. Jobulani is a gold-coloured version of the Jabulani »» Picture 08.

27.04. adidas Originals and Burton Snowboards announce a limited adidas Originals x Burton lifestyle collection.

May

11.05. adidas football superstars Lionel Messi and David Villa present the adiZero F50. Weighing an impressive 165 grams (at UK size 8.5), this is the lightest adidas football boot ever.

13.05. adidas and Volkswagen join forces and unveil the special edition Golf GTI adidas.

17.05. adidas and Disney Consumer Products present the new fall/winter 2010 kids and infants collection from adidas, coinciding with the release of "Disney-Pixar's Toy Story 3" »» Picture 09.

19.05. The adidas Group opens its largest distribution centre in Spartanburg/South Carolina, USA.

19.05. TaylorMade-adidas Golf introduces the R9 SuperDeep TP, a pure player's driver for tour pros and highly skilled players »» Picture 10.

26.05. Reebok launches the campaign "Get Stronger With Every Step", supporting the market introduction of its men's toning shoe range in the US »» Picture 11.

June

11.06. The 2010 FIFA World Cup kicks off in South Africa. adidas is the Official Sponsor, Supplier and Licensee of the event. In the 2010 World Cup, adidas equips more than 200 players and 12 teams »» Picture 12.

22.06. adidas miCoach, the personal coaching and training system, wins a prestigious Stevie Award in the 2010 American Business Awards.

23.06. Reebok announces its partnership with basketball phenomenon and No. 1 NBA draft pick John Wall.

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Third Quarter

July

11.07. adidas team Spain secure their first World Cup title. With the winning team, award-winning players, exciting product innovations and record sales, adidas is the clear winner of the 2010 FIFA World Cup ⋙ Picture 01.

18.07. Reebok's Nicolas Almagro captures his sixth ATP World Tour title at the Swedish Open in Bastad. Two weeks later, he wins the Suisse Open in Gstaad.

19.07. adidas Outdoor wins the OutDoor industry award for the Terrex Solo shoe.

22.07. adidas presents its Fluid Trainer, the new multi-purpose training shoe for men and women.

August

02.08. adidas presents the new miCoach personal training app ⋙ Picture 02.

10.08. adidas and the Mexican Football Federation extend their partnership until 2018.

15.08. TaylorMade-adidas Golf introduces the Burner SuperLaunch iron and Rescue set, especially designed for players with slower swing speed, and for women and seniors.

16.08. TaylorMade Tour Staff professional Martin Kaymer wins the PGA Championship ⋙ Picture 03.

20.08. The official adidas match ball Torfabrik enters the German Bundesliga, just a few days before adidas launches the official match balls for the UEFA club competitions.

21.08. Reebok Germany launches ZigTech at the Urbanathlon in Hamburg ⋙ Picture 04.

30.08. adidas and the US soccer league Major League Soccer (MLS) extend their partnership until 2018.

September

08.09. TaylorMade-adidas Golf introduces Burner 2.0 irons, engineered to combine legendary Burner distance with more feel and playability ⋙ Picture 05.

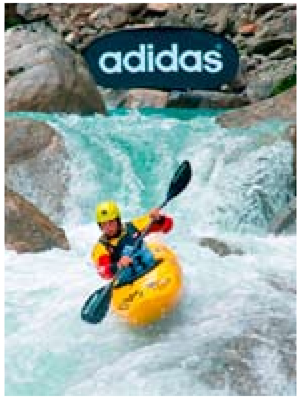
10.09. adidas AG is included in the Dow Jones Sustainability Index for the eleventh time in a row.

14.09. Y-3 presents its spring/summer 2011 collection in New York.

16.09. Reebok and Fitness First announce a long-term partnership in Germany.

22.09. adidas Basketball unveils the NBA Revolution 30 collection, the lightest and most technologically advanced NBA uniforms, at the NBA Store in New York City.

26.09. adidas athlete Patrick Makau wins the Berlin Marathon. adidas sponsored Aberu Kebede takes the women's title ⋙ Picture 06.



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Fourth Quarter

October

08.10. The adidas Sickline Extreme Kayak World Championship takes place in Tyrol, Austria with adidas athlete Sam Sutton winning the tournament ⋙ Picture 07.
11.10. adidas AG converts its no-par-value bearer shares to registered no-par-value shares (registered shares).
11.10. PGA champion and TaylorMade Tour Staff professional Martin Kaymer wins the Alfred Dunhill Links Championship in St. Andrews, Scotland.
25.10. adidas announces the continuation of its contract as Official Sponsor and Sportswear Supplier of Chelsea FC for the next eight years.

November

08.11. At its Investor Day, the adidas Group presents its 2015 strategic business plan: Route 2015.
11.11. adidas opens its first Italian flagship store for Y-3 in Milan ⋙ Picture 08.
17.11. Reebok launches a new EasyTone commercial, introducing the innovative toning apparel line which is designed to create resistance and helps tone key muscles with every move.
18.11. adidas Group CEO Herbert Hainer is chosen as "Manager of the Year" by the German Manager Magazin.
26.11. Top model Eva Padberg is announced as a Reebok brand ambassador starting in 2011 ⋙ Picture 09.
29.11. Martin Kaymer is crowned European No. 1 after winning the 2010 Race to Dubai.
30.11. adidas and FIFA unveil the adidas Speedcell – the official match ball of the 2011 FIFA Women's World Cup in Germany ⋙ Picture 10.

December

01.12. Footwear News names Reebok "Marketer of the Year".
09.12. TaylorMade redefines the forged iron with the introduction of three new and distinctly different models: TPMB (Tour Preferred Muscleback), TPMC (Tour Preferred Muscle Cavity) and TPCB (Tour Preferred Cavityback).
14.12. Herbert Hainer presents the adidas Golden Awards from the 2010 FIFA World Cup to adidas players Diego Forlán and Thomas Müller as well as Reebok player Iker Casillas in Herzogenaurach, Germany ⋙ Picture 11.

Interview with the CEO

The adidas Group took full advantage of its opportunities in 2010, generating record sales and a substantial improvement in profitability. The strong operating and financial performance facilitated another year of significant debt reduction. As a result, Management is proposing a dividend to shareholders of € 0.80, more than twice the prior year level. In 2010, the adidas Group also outlined its most comprehensive and aligned strategic plan to date – Route 2015. Through its premium brands, leadership in innovation and strong financial position, the Group is expecting a mid- to high-single-digit top-line increase and 10% to 15% earnings growth in 2011.

In the following interview, Herbert Hainer, adidas Group CEO, reflects on 2010, discusses the strategic and financial outlook, and explains why the Group is "fit for the future".

Herbert, how has the Group performed in 2010, and have you met your targets?

After the financial crisis and economic difficulties of 2009, we rebounded strongly in 2010 and can reflect on an excellent year. The Group generated a record € 12 billion in sales, growing 9% currency-neutral, clearly outpacing our major competitors. Group gross margin was up 2.4 percentage points, driven by less clearance sales and a larger share of higher-margin Retail sales. At the same time, we reduced operating expenses as a percentage of sales, despite significant increases in marketing investments. This led to a jump in operating margin to 7.5%. As a result, our net income increased 131% to € 567 million and earnings per share were € 2.71, which was at the top end of our November guidance. In terms of our balance sheet and cash flow, the development in 2010 could not have been better. We shaved 3.5 percentage points from operating working capital as a percentage of sales, reaching our lowest ever level of 20.8%. And our operating cash flow generation, the most important driver for the creation of shareholder value, was an exceptional € 1.2 billion for the year. This allowed us to further reduce our net debt, which now stands at € 221 million, just one tenth of the level it was 24 months ago. Without question, this year's financial performance is an outstanding achievement. Not only did we meet all of our initial expectations for the year – we clearly beat them. This is a credit to the commitment, focus and hard work of all our employees.

Was there a segment that particularly drove this performance?

All of our segments hit the mark in 2010. However, an obvious highlight was the performance of our Retail segment where sales climbed 18% currency-neutral, driven by an impressive 11% comparable store sales increase. Particularly satisfying was the development of our concept stores, where comparable store sales growth was an even higher 14%. While this underscores the strength and desirability of our 2010 product collections, even more so it emphasises that the strategic direction we are taking to improve our proficiency as a retailer is already paying off. This segment's performance contributed more than half of the entire Group profitability improvement in 2010, as segmental operating margin increased 5.3 percentage points to 18.9%. The leverage we have in Retail is obvious. And this performance should give you confidence that our continued investment in this space will be a significant source of value for our company in the years to come.

Speaking of investments, 2010 saw a significant increase in your marketing expenses. Do you think it was money well spent?

Absolutely. Firstly, I am glad you haven't forgotten that I consider marketing an investment and not a cost. We increased total marketing spend to 13.3% of sales in 2010, returning it to pre-crisis levels. As with any marketing investment we make, I always scrutinise the returns carefully, benchmarking our performance versus our own expectations and the competition. And the results, no matter which brand I look at, speak for themselves, as we seized the enormous potential I saw for our company to leapfrog the competition out of the recession.

Let's look at a few examples. At adidas, sales increased 9% currency-neutral to € 8.7 billion, with our performance in the football category standing out. In South Africa, we witnessed the most successful World Cup we've ever had, generating record football sales well in excess of € 1.5 billion. Through our world-class partnership portfolio, adidas was front and centre on every podium with adidas long-term partner Spain winning the World Cup. The adiZero F50 was the top-scoring boot in the competition and one of the top-selling football boots in the industry. Another great example of marketing success in 2010 can be seen in our strong rebound in basketball. The Derrick Rose and Dwight Howard commercials, supporting our positioning as the fastest and lightest brand in the game, have generated our highest sell-throughs in the category for years. And on the streets, bold collaborations with the likes of Jeremy Scott and unexpected campaigns such as the highly successful Star Wars Cantina spot, have catapulted sales of our adidas Sport Style sub-brands up 23% to a record € 2.2 billion. adidas Originals alone now has over 7 million followers on Facebook, making it the most popular lifestyle brand in our industry.

For Reebok, investments to promote our new initiatives have also been a home run. Reebok's sales expanded 12% currency-neutral to € 1.9 billion. EasyTone has been a magnificent hit with global consumers and customers. Supported by exciting campaigns and fitness testimonials such as those with Helena Christensen and Kelly Brook, we ended the year on the top spot in the toning category. Even more pleasing, however, is that we created a second engine for growth in 2010, with the highly successful launch of ZigTech. This was driven by our largest ever online viral pre-launch campaign. The commercial success has been phenomenal. Taking these initiatives together, Reebok was among the top three selling footwear brands during the Christmas period in the USA.

We also made sure that our Other Businesses had the right support to reach their goals. No more so than TaylorMade-adidas Golf. Sales grew to € 909 million in 2010. And in doing so, TaylorMade-adidas Golf became the global leader in the golf industry in 2010.

North America and Greater China were key priorities for you in 2010. How did the Group fare in these and your other geographies last year?

I am pleased to report that the growth and successes of 2010 were broad-based and robust in most of our key markets. For North America, we significantly exceeded our targets with notable upticks at adidas and Reebok of 14% and 22% currency-neutral, respectively. Key initiatives such as lightweight and Originals at adidas as well as toning and ZigTech at Reebok resonated right across the consumer spectrum. In addition, our mission to build a strong connection to the next generation athlete and to increase our prominence in the important mall channel is taking shape. In Greater China, although sales declined modestly for the full year, we returned to growth in the second half, with an increase of 10% for the six-month period. We dramatically attacked our inventory levels and rationalised our store base in 2010. And through the improvements we have implemented in our merchandising, product offering and operational processes, I am confident we are now in a position to sustain this growth trajectory, at a time when some of our competitors are starting to weaken.

Turning to other markets, in Europe we significantly increased market share in 2010, supported by a strong performance in the football category and our dominance in the region's emerging markets. Revenues in Western Europe increased 7% on a currency-neutral basis, primarily as a result of double-digit sales growth in the UK, Germany and Spain. In European Emerging Markets, Group sales increased 16% on a currency-neutral basis. Russia/CIS in particular was a major standout. In this market, which is predominantly own retail, comparable store sales increased 25%. And we extended our commanding market share lead in Russia, with Reebok now the number two sporting goods brand behind adidas. In Other Asian Markets and Latin America, sales increased 6% and 14% respectively in 2010. Even in Japan, we grew against a difficult consumer market and, in doing so, extended our market leadership position, with an impressive 45% currency-neutral increase at Reebok being a major highlight.

Looking at your financials, one thing that is striking is the reduction of net debt. How have you managed to achieve this and can you give us an update on your policies towards capital management and dividends?

With the difficulties in the financial markets, we set clear targets over the last two years to significantly reduce our financing obligations. And we have achieved this through our commitment to increasing operating cash flow, which was an exceptional € 2.8 billion over the past 24 months. With net debt at year-end standing at € 221 million, the ratio of net borrowings over EBITDA is now 0.2 times, comfortably within our long-term guideline of below two times. In terms of capital allocation and capital management, we will continue to maintain a conservative policy towards debt management, until we have seen a sustainable recovery in the macro-environment. In the short term, we intend to largely use excess cash to invest in our Route 2015 growth initiatives, and to further reduce net borrowings. In addition, we are fully committed to our dividend policy, which was expanded in 2010 to a payout range of 20% to 40% of net income attributable to shareholders. This year, we intend to pay out € 167 million, up from € 73 million a year ago. This equates to a dividend per share of € 0.80, which is more than double the € 0.35 we paid last year. By striking the balance between investment and shareholder returns, I am convinced we will provide significant value for our shareholders over time.

In November, you revealed your strategic plan for the next five years called Route 2015. What is the rationale behind the plan, and can you share with us the key aspirations it contains?

When we are focused, we are a formidable competitor to any brand that may choose to compete with us – and it is with this attitude and rationale that we have established Route 2015. It is the most comprehensive and aligned strategic business plan this Group has ever created and is based on our long-term mission to be the global leader in the sporting goods industry. This strategy starts and ends with the consumer.

Our key aspiration in the plan is to outperform total market growth, both GDP and sporting goods market, as well as our major competitors. Because, it is only by sustaining quality growth that we will be able to unleash the incredible value we all know our Group can create. We aim to achieve high-single-digit currency-neutral sales growth annually over the five-year period, which represents a 45% to 50% revenue increase from 2010 levels. From a brand perspective, adidas and Reebok will account for more than 90% of the increase, with the rest coming from our Other Businesses. Our three key attack markets North America, Greater China and Russia/CIS are targeted to deliver 50% of the growth. In terms of earnings per share, which will be the litmus test of our ability to create value, we intend to achieve a compound annual growth rate of 15% over the five years. This will be achieved through balancing the investment required to secure top-line growth, and leveraging this through to the bottom line. As part of this goal, we are committed to achieving an 11% operating margin sustainably at the latest by 2015.

There is absolutely no denying that the growth in sales and earnings which we are outlining will yield unprecedented levels of cash flow for our Group over the next five years. And, I am sure you will agree that this is how value should be created.

Rising input costs and price inflation are currently two widely discussed topics in the financial markets. Do you foresee major impacts on gross margin from these risks?

These market forces are not just topical, but headwinds we, and indeed everyone in our industry, must face. Let's look at the facts. Raw material, labour and transportation costs have all gone up – some quite excessively. Take cotton as an example. Prices almost doubled last year, and are still rising sharply, up over 20% already in 2011. To mitigate these negative developments, our Global Brands and Global Operations functions are working hard on optimising our product creation, manufacturing and distribution processes to bring our products to market more cost-efficiently. These efforts will provide us with some relief. However, with the extreme raw material price increases towards the end of last year, they will not be enough to fully offset the entirety of the cost pressures. Therefore, pricing and thus inflation in our industry is an economic reality. When it comes to pricing power, we can be very confident. Even in the midst of the worst global recession in living memory, we have seen that consumers will pay a premium for exciting, new products from brands renowned for quality, innovation and service. We have those brands and those products. And, we have the marketing prowess to support them and to further increase their desirability. Ultimately, the consumer will decide and we will watch carefully how price and volumes develop over the year.

Obviously, for our financial results, the most impacted metric will be our gross margin. While the above factors may end up being a negative, nevertheless, there are also other factors that will play in our favour in 2011. These include regional mix, as we expect to grow faster in the emerging markets, and also the increasing portion of higher-margin own-retail sales. As a result, we expect Group gross margin to remain largely unchanged in 2011, in the range from 47.5% to 48.0% compared to 47.8% in 2010. However, if input costs continue to rise at such a pace, then the challenge will undoubtedly intensify and lead to further margin pressure for our industry beyond 2011.

Will adidas grow in 2011 without any major sports events? What key initiatives and product launches for the brands should we watch out for in 2011?

Too much is made out of event versus non-event years. Beyond the phasing of our business between the quarters, there is actually very little difference, given how diverse the adidas brand is today. Last year is a great proof of that. Outside of football and adidas Sport Style, which we already talked about, we had outstanding growth in running and outdoor, where sales grew 8% and 21%, respectively. In running, highlight collections such as adiZero, Supernova and Response all grew at double-digit rates.

I also wouldn't say 2011 is eventless. The sporting calendar is packed, and with great regional diversity, which can only be good for a brand as global as adidas. Events such as the Cricket World Cup in India, the Rugby World Cup in New Zealand, the Copa América in Argentina, the Women's Football World Cup in Germany and the IAAF World Championships in Korea are just a few we will leverage to our advantage this year. The Copa América will attract half a billion viewers alone in Latin America. And don't forget towards the end of the year, we will start prepping for the highly anticipated London 2012 Olympic Games and the UEFA European Championship 2012.

At the end of the day, our success in any year is only as good as the initiatives we have in place to excite the consumer. And I am extremely enthusiastic about our campaigns and product launches, which will show up everywhere in a big way in 2011. In mid-March, we will kick off our "all adidas" global brand campaign. The campaign showcases adidas' distinctive presence across and into different sports, cultures and lifestyles – fusing the worlds of sport, music and fashion. We also have an incredible pipeline of products coming to market this year. Take running again. With products like the adiZero F50 Runner and Clima CC Ride, I expect we will see growth accelerate in this cornerstone Route 2015 category and grow at a double-digit rate. In football, the Predator has been completely redesigned to give maximum impact both technically and visually. It will also be fully integrated with adidas miCoach, and you will see it on the field of play with a new younger breed of stars such as Nani who just recently joined the adidas family. We will also build on our credibility as the lightest brand in the game of basketball with the launch of the adiZero Crazylight. And adidas Sport Style has another string of intriguing collections, including the first year of our own Originals Denim collection.

We have seen a strong turnaround for Reebok in 2010. With signs that the toning market is slowing, can Reebok maintain its momentum in the near term?

Yes, definitely. I can only reiterate what I said in November. We have built our presence in toning in the right way, taking our time, choosing selectively how and with whom we distribute, and matching demand carefully with supply. We have also remained committed to our endeavours, making sure we give our partners the right support to drive sales through to the consumer.

More importantly, however, with every quarter the top-line drivers are becoming more broad-based and, indeed, more international. Our presence at retail is also getting bigger and bolder. And our partners are showing great confidence in the brand. I only have to look at our exposure at Finish Line in February, where we ReeZig'd all 680 Finish Line stores in the USA with ZigTech imagery for four weeks. In 2011, we are also gearing up for our third key technology platform launch – RealFlex. RealFlex promotes natural movement and is equally striking in terms of design and functionality as Reebok's toning and Zig platforms. In addition, we will also re-launch Reebok Classics. To support the Classics franchise, Reebok has recently announced a multi-faceted partnership with producer, artist and designer Swizz Beatz, who will work initially on creative content to bring our new Classics positioning to life. The reaction to RealFlex and Reebok Classics has been really encouraging, adding further momentum to an already energised brand.

Can you give us an update on your strategy for Other Businesses? What kind of contribution do you expect from TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey over the mid term?

I see good growth potential and a lot of value in the Group's Other Businesses. As we announced at our Investor Day, we expect to reach € 1.8 billion in sales by 2015 from € 1.4 billion today. TaylorMade-adidas Golf as the largest segment will be the key driver. Here, we will not only extend our market leadership in metalwoods, but intend to take further market share in irons, golf balls and footwear. In 2011, TaylorMade is already painting the game a new colour with the launch of the R11 driver. The striking white colour of the clubhead is taking the industry by storm, with accolades from media, Tour pros and retailers. It's a great example of the initiatives coming out of TaylorMade-adidas Golf, and really epitomises the energy and passion that we now have. In the same vein, at Rockport we have developed a compelling strategy around walkability – creating a clear point of differentiation in the highly fragmented brown shoe market. This will be highly visible in the coming months, with new lightweight technologies in our DresSport collection just one example. And at Reebok-CCM Hockey, we will continue to bring together two important Group principles in a powerful and impactful way – innovation and validation by professional athletes.

Taking everything we have discussed into account, how do you expect 2011 to shape up from a financial point of view?

As we begin our journey in 2011, I think it is fair to say that the company has never been in a better financial situation and is very well equipped to exploit the opportunities and master the challenges of the future, especially the rising input costs which we just spoke about. The feedback for our products and campaigns that we received from our retail partners gives us great confidence that we can continue to capture share in an improving consumer environment. We forecast our Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis and to reach new record highs in 2011. Group sales growth will be driven by all segments and brands, as well as by expansion in all of our regions. We will continue our commitment to our brands by investing in marketing and controlled space in order to secure brand awareness amongst our consumers and premium distribution partners. Nevertheless, operating expenses as a percentage of sales will decline. Therefore we project the Group operating margin to increase to a level between 7.5% and 8.0%. As a result, earnings per share will improve at a rate of 10% to 15% to a level between € 2.98 and € 3.12. We have every advantage a company could possibly desire – strong brands, premium products, superior marketing assets, tremendous global reach and distribution and a very healthy balance sheet. I look forward to 2011 as the first year of our Route 2015 plan. In every sense, we are fit for the future.

Herbert, thank you for this interview.


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Executive Board

Our Executive Board is comprised of four members who reflect the international character of our Group. Each Board member is responsible for at least one major function within the Group.

Herbert Hainer ⋙ 1

was born in Dingolfing, Germany, in 1954. Following his business studies, Herbert Hainer spent eight years with Procter & Gamble in various sales and marketing positions. He joined adidas Germany in 1987 and has held numerous management positions within the Group, including Managing Director Germany and Senior Vice President for Sales and Logistics in Europe, Africa and the Middle East. Herbert Hainer joined the Executive Board in 1997 and became CEO of adidas AG[1] in 2001. He is married, has two daughters and lives in Herzogenaurach.

Herbert Hainer is also:

- Deputy Chairman of the Supervisory Board, FC Bayern München AG, Munich, Germany
- Member of the Supervisory Board, Allianz Deutschland AG, Munich, Germany
- Member of the Supervisory Board, Deutsche Lufthansa AG, Frankfurt, Germany, since April 29, 2010
- Member of the Supervisory Board, Engelhorn KGaA, Mannheim, Germany

Glenn Bennett ⋙ 2

was born in New Hampshire, USA, in 1963. With a degree in computer science, he began his professional career with Reebok International Ltd. in 1983, where he worked for ten years in various operations and product functions of which the latest was Director of Footwear Development. In 1993, Glenn Bennett joined adidas AG and began working as the Head of Worldwide Footwear Development. He was promoted to Senior Vice President of Footwear Operations a few months later. In 1997, Glenn Bennett was appointed to the Executive Board where he assumed responsibility for all Footwear, Apparel and Accessories & Gear Operations activities shortly thereafter. Glenn Bennett lives in Boston/Massachusetts, USA.

Robin J. Stalker ⋙ 3

was born in Palmerston North, New Zealand, in 1958. In 1982, following his degree in business studies, he began his professional career and qualified as a Chartered Accountant. He worked for Arthur Young in New Zealand and London and subsequently held financial and controlling positions in the entertainment industry, including United International Pictures and Warner Bros. International as well as working as an independent consultant. Robin J. Stalker joined adidas AG in 1996. Since February 2000, he has been Chief Financial Officer of adidas AG[1] and was appointed to the Executive Board, responsible for Finance, in 2001. In 2005, he assumed additional responsibility as Labour Director. Robin J. Stalker is married and lives near Herzogenaurach.

Robin J. Stalker is also:

- Member of the Supervisory Board, Schaeffler GmbH, Herzogenaurach, Germany, since August 13, 2010

Erich Stamminger ⋙ 4

was born in Rosenberg, Germany, in 1957. After obtaining a degree in business studies, he started his career at GfK, a German consumer research institute. In 1983, Erich Stamminger joined adidas Germany. He served in numerous marketing positions before becoming Managing Director for Germany and later Europe and Asia/Pacific. In 1997, he was appointed to the Executive Board and became Head of Global Marketing in 2000. Four years later, he was named President of adidas North America, while maintaining his position as Head of Global Marketing. In 2006, he was named President of the adidas brand, and in 2009 he assumed responsibility for Global Brands. Erich Stamminger is married and lives in Nuremberg.

1) adidas-Salomon AG from December 19, 1997 to May 29, 2006.

Supervisory Board

Supervisory Board Members

Igor Landau
Chairman
Former Chief Executive Officer of Aventis S.A., Paris, France
- Member of the Supervisory Board, Allianz SE, Munich, Germany
- Member of the Board of Directors, Sanofi-Aventis S.A., Paris, France
- Member of the Board of Directors, HSBC France S.A., Paris, France

Sabine Bauer[1]
Deputy Chairwoman
Chairwoman of the Central Works Council[2], adidas AG

Willi Schwerdtle
Deputy Chairman
General Manager, Procter & Gamble GmbH, Schwalbach am Taunus, Germany

Dieter Hauenstein[1]
Chairman of the Works Council Herzogenaurach, adidas AG

Herbert Kauffmann
Management Consultant, Stuttgart, Germany

Roland Nosko[1]
Trade Union Official, IG BCE, Headquarters Nuremberg, Nuremberg, Germany
- Deputy Chairman of the Supervisory Board[3], CeramTec AG, Plochingen, Germany

Alexander Popov
Chairman, RFSO "Lokomotiv", Moscow, Russia

Hans Ruprecht[1]
Sales Director Customer Service, Market Central, adidas AG

Dr. Wolfgang Jäger [1]
Managing Director, Hans-Böckler-Stiftung,
Düsseldorf, Germany

Dr. Stefan Jentzsch
Partner, Perella Weinberg Partners UK LLP,
London, Great Britain
››› Member of the Supervisory Board,
Sky Deutschland AG, Unterföhring, Germany

Heidi Thaler-Veh [1]
Member of the Central Works Council, adidas AG

Christian Tourres
Former Member of the Executive Board of adidas AG
››› Member of the Board of Directors, Beleta
Worldwide Ltd., Guernsey, Channel Islands [4]

Standing Committees

Steering Committee: Igor Landau (Chairman), Sabine Bauer, Willi Schwerdtle
General Committee: Igor Landau (Chairman), Sabine Bauer, Roland Nosko, Willi Schwerdtle
Audit Committee: Herbert Kauffmann (Chairman), Dr. Wolfgang Jäger, Dr. Stefan Jentzsch, Hans Ruprecht
Mediation Committee: Igor Landau, Sabine Bauer, Willi Schwerdtle, Heidi Thaler-Veh
Nomination Committee: Igor Landau (Chairman), Willi Schwerdtle, Christian Tourres

Other Committees

Committee for Real Estate Projects: Herbert Kauffmann (Chairman), Dr. Wolfgang Jäger, Dr. Stefan Jentzsch

1) Employee representative.
2) Since January 1, 2010; formerly Senior Manager Quality Analysis & Reporting, Global Operations, adidas AG.
3) Since May 18, 2010; formerly Member of the Supervisory Board, CeramTec AG, Plochingen, Germany.
4) Until November 1, 2010.

Supervisory Board Report

Igor Landau
Chairman of the Supervisory Board

Dear Shareholders,

After entering 2010 with cautious optimism, the adidas Group can now look back on a year characterised by recovery and success. For the adidas Group, this was a year of major sports events such as the FIFA World Cup and the Olympic Winter Games. Furthermore, thanks to innovative products and marketing campaigns, all of our brands met with a very positive response among our consumers. The Group grew in almost all regions. The positive effects of the new organisational structure also contributed to the significant improvement of the Group's results in 2010.

Supervision and advice in dialogue with the Executive Board
In the past financial year, we regularly advised the Executive Board on the management of the company and carefully and regularly supervised its activities. In particular, we examined the legality, expediency and regularity of the Executive Board's management.

The Executive Board informed us regularly, extensively and in a timely manner through oral and written reports, both at Supervisory Board meetings and in the periods between our meetings. This information covered the Group's business policy as well as all relevant aspects of business planning, including finance, investment and personnel planning. We were also kept up-to-date on the course of business, the operational position of adidas AG and the Group (including the risk situation and risk management), the Group's financial position and profitability, as well as all major decisions and business transactions.

We were directly involved in all of the Group's fundamental decisions. After in-depth consultation and examination of the detailed information submitted to us by the Executive Board, we approved transactions requiring Supervisory Board approval and in cases where, in our opinion, review by the Supervisory Board was necessary in the best interest of the Group.

We held five Supervisory Board meetings in 2010, one of them in the form of a conference call. In individual cases, we passed written circular resolutions. In addition, we held a meeting in February 2011, at which we discussed matters relating to the 2010 financial year. Apart from one meeting which one member was unable to attend due to an urgent business appointment that could not be postponed, all Supervisory Board members attended all meetings in the year under review. The same applies to the committee meetings. The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), attended four meetings of the Supervisory Board and all meetings of the Audit Committee. The Supervisory Board Chairman and the Audit Committee Chairman, an independent financial expert as defined by the German Stock Corporation Act, also maintained regular contact with the Chief Executive Officer and the Chief Financial Officer between the Supervisory Board meetings and informed themselves on the current developments of the business situation and major business transactions. The Executive Board regularly provided us with detailed reports for the preparation of our meetings. After in-depth examination and consultation, we resolved upon the Executive Board's resolution proposals.

Main topics discussed and examined by the entire Supervisory Board

The development of sales and earnings, the employment situation as well as the financial position of the Group and the business development of individual markets were presented to us in detail by the Executive Board at all but one of our meetings and were subsequently discussed together. Other Supervisory Board agenda items included numerous individual topics, which we discussed in depth with the Executive Board. These discussions did not give rise to any doubt as to the legality, expediency or regularity of the Executive Board's management in carrying out its duties.

At our February 10, 2010 meeting, which the Executive Board did not attend, we discussed in detail and resolved upon the 2010 Performance Bonus Plan for the Executive Board including the relevant criteria and targets as proposed by the General Committee. Furthermore, we amended the wording of the Rules of Procedure of the Executive Board, to be in line with the German Corporate Governance Code, and aligned the business allocation plan to the new segmental reporting. Subsequently, we resolved upon the Declaration of Compliance which had been prepared in detail by the Audit Committee at its previous meeting.

The main topic on the agenda of the March 2, 2010 financial statements meeting was the review of the consolidated financial statements and the adidas AG annual financial statements as well as the respective Management Reports for the year ending December 31, 2009, as certified by KPMG. We also reviewed the Executive Board's proposal regarding the appropriation of retained earnings. Following initial Audit Committee examination and consultation, we discussed material aspects of these financial statements with the Executive Board and KPMG. Both the Executive Board and KPMG provided us with detailed responses to all of our questions. After having carefully considered adidas AG's financial position and the expectations of shareholders and the capital market, we approved the proposal submitted by the Executive Board regarding the appropriation of retained earnings. Following the discussion and resolution on the agenda items for the 2010 Annual General Meeting, we dealt comprehensively with the budget and investment plan for 2010, which we subsequently approved.

At our May 5, 2010 meeting, the Executive Board reported in detail on the current business development and the financial situation of the Group after the first quarter of 2010. Furthermore, we discussed the method and scope of the upcoming efficiency examination of the Supervisory Board. Additionally, we dealt with the economic situation and the potential for development of the Retail segment and the eCommerce distribution channel. Following a detailed presentation by the Executive Board and subsequent discussion of this topic, we approved the transfer of shares held in FC Bayern München AG from adidas International B.V. to adidas AG.

The main focus of our August 3, 2010 meeting were the results of the first half year, which were well above market expectations, as well as the anticipated development of business for the remainder of 2010. Moreover, the Executive Board extensively reported on the IT strategy of the Group and we dealt in detail with the new provisions of the German Corporate Governance Code which came into force in July 2010. Furthermore, we renewed Erich Stamminger's mandate as Executive Board member and approved the conclusion of his new service contract prepared by the General Committee.

At our Supervisory Board meeting held on November 3, 2010, discussions centred on the report for the first nine months of the year and the outlook for the remainder of the 2010 financial year. Following the Executive Board's detailed presentation of the strategic business plan "Route 2015" for the years 2011 to 2015, we focused on the medium-term business development of the Group. Furthermore, the Executive Board informed us about the growth potential of the adidas Outdoor category. Another major point of focus was the report of the Audit Committee Chairman on the key contents of the Audit Committee meetings held on September 29, 2010 and November 2, 2010, which dealt with the Audit Committee's examination of the effectiveness of the updated risk management system, the internal control system and the compliance system. The Audit Committee, to which we have delegated monitoring of the effectiveness of these systems, explained that the systems comply with statutory regulations.

At our meeting on February 9, 2011, at which the Executive Board was present only part of the time, we discussed and approved the budget and investment plan for 2011 based on the detailed presentations provided by the Executive Board. Following a comprehensive report by the Executive Board, we furthermore approved the sale of Herzo Base real estate. We subsequently focused on the objectives for the future composition of the Supervisory Board and, in addition, we also resolved upon the content of the 2011 Declaration of Compliance. Furthermore, we resolved upon the General Committee's proposal concerning the amount of the 2010 Performance Bonus to be granted to each member of the Executive Board.

Report from the committees

In order to perform our tasks in an efficient manner, we have five Supervisory Board standing committees and also the project-related Committee for Real Estate Projects, which was established ad hoc in 2009 ⋙ see Supervisory Board, p. 18. These committees not only have the task of preparing topics and resolutions of the Supervisory Board, they partly also make decisions on behalf of the Supervisory Board.

The committees' work in the year under review is summarised as follows:

- The **Steering Committee**, which is authorised to pass resolutions on behalf of the entire Supervisory Board in particularly urgent cases, did not meet in the year under review. All Supervisory Board resolutions were able to be passed by the Supervisory Board as a whole.

- The **General Committee**, which is responsible for preparing personnel decisions of the Supervisory Board and for submitting proposals with regard to the Executive Board compensation and also the contents, structure and conclusion of the Executive Board members' service contracts, met twice in 2010. A further meeting, dealing with topics of the year under review, took place in February 2011. At the meetings of the General Committee, the resolution proposals on the criteria and targets for the 2010 Performance Bonus Plan to be submitted to the Supervisory Board were prepared following detailed discussion. In addition, the committee comprehensively dealt with the service contract to be concluded in connection with the reappointment of Erich Stamminger as a member of the Executive Board. Furthermore, the members of the committee discussed the Performance Bonus payments to be made to the members of the Executive Board for the 2010 financial year.

– The **Audit Committee** held five meetings in 2010, and also one meeting in February 2011 dealing with topics of the year under review. The auditor and the Chief Financial Officer were present at these meetings. The committee members focused on the examination of the annual financial statements and the consolidated financial statements including the Management Reports for 2009 as well as the discussion of the audit reports with the auditor and the detailed examination of the first half year report and quarterly financial reports prior to their publication. The auditor reported to the committee members in detail on his auditing activities and results. Furthermore, the Audit Committee obtained the required auditor's declaration of independence and prepared the Supervisory Board proposal for the Annual General Meeting recommending the auditor for the 2010 financial year. Together with the auditor, the Audit Committee established the priority topics for the audit of the 2010 annual financial statements and consolidated financial statements and resolved upon the assignment of the audit to the auditor. In addition, the committee members focused on monitoring the independence of the auditor, the auditor's qualification as well as the other advisory services rendered and the audit fees. In the course of the examination of the effectiveness of the updated risk management system, the internal control system as well as the internal audit system and the compliance organisation, the members of the Audit Committee were informed in detail on applied methods, systems and the efficiency thereof through written and oral reports. They discussed these matters in depth, inter alia with the auditor, and assured themselves of the effectiveness of the systems. Furthermore, the Audit Committee, which under the Rules of Procedure of the Supervisory Board is also responsible for matters relating to corporate governance, dealt with the new provisions of the German Corporate Governance Code as amended on May 26, 2010 and discussed the contents of the Declaration of Compliance to be issued by the Supervisory Board. At its last meeting in the financial year under review, the members of the committee discussed the draft budget and investment plan for 2011 as explained by the Chief Financial Officer. The Audit Committee Chairman reported orally on the results of the Audit Committee meetings in the following Supervisory Board meetings and furthermore regularly provided the Supervisory Board with written information.

– The **Mediation Committee** again had no reason to meet in 2010.

– The **Nomination Committee** also had no reason to meet, as there are no Supervisory Board elections scheduled.

– The **Committee for Real Estate Projects**, which had been established ad hoc in 2009, also did not meet in 2010.

Corporate Governance and Declaration of Compliance

In the past financial year, we comprehensively dealt with the new provisions of the German Corporate Governance Code and their implementation within the Group. In the second half of the year, the Supervisory Board examined the efficiency of its activities including the collaboration with the Executive Board by means of detailed questionnaires. Following the respective self-assessment by the members of the Supervisory Board, an external consultant critically analysed the results and presented them to the entire Supervisory Board. This analysis did not give rise to any doubts concerning the efficiency of the activities of the Supervisory Board. In the year under review, our Supervisory Board members again had no conflicts of interest as defined by the German Corporate Governance Code. After detailed discussions on corporate governance topics within the Audit Committee, we followed the recommendation of the Audit Committee and on February 11, 2011, issued an updated Declaration of Compliance pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG), which is permanently available to shareholders on the corporate website at ⋙ www.adidas-Group.com/corporate_governance. Further information on corporate governance including the compensation of the Executive Board and the Supervisory Board is contained in the Corporate Governance Report including the Declaration on Corporate Governance ⋙ see p. 25.

Examination of the adidas AG annual financial statements and consolidated financial statements

KPMG audited the consolidated financial statements and the Group Management Report for 2010 prepared by the Executive Board in accordance with § 315a German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2010 annual financial statements and the Management Report of adidas AG prepared in accordance with HGB requirements. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed to all Supervisory Board members by the Executive Board in a timely manner. We examined them in depth in the presence of the auditor at the Audit Committee meeting held on February 25, 2011 and at the Supervisory Board's March 1, 2011 financial statements meeting during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported on the material results of the audit with focus on the priority topics for the year under review as agreed with the Audit Committee. The auditor did not report any significant weak points with respect to the system for early risk detection and the internal control system. The auditor was available for questions and the provision of additional information to the Audit Committee and the other Supervisory Board members. Based on our own examinations, we are convinced that there are no objections to be raised. Following the recommendation of the Audit Committee, at our financial statements meeting we therefore approved the audit results and the financial statements prepared by the Executive Board. The annual financial statements of adidas AG were thus approved. We also discussed with the Executive Board the proposal concerning the appropriation of retained earnings with regard to the dividend policy and adopted it in light of the position of the company and the expectations of shareholders and the capital market.

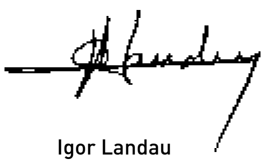
In memoriam

We will always honour the memory of our long-standing Supervisory Board Chairman, Mr. Henri Filho, who passed away on December 25, 2010 at the age of 79. As a member of the Supervisory Board from April 1993 and Chairman of the Supervisory Board from April 1994 until November 2007, he provided the adidas AG Executive Board with outstanding supervisory and advisory support to the benefit of the adidas Group. During his tenure, the adidas Group became one of the global leaders in the sporting goods industry.

Expression of thanks

The Supervisory Board wishes to express its appreciation of the tremendous personal dedication, the performance and the ongoing commitment of the Executive Board, the management of the Group companies, the Works Council and all adidas Group employees, which was decisive for achieving the Group's excellent results.

For the Supervisory Board



Igor Landau
Chairman of the Supervisory Board
March 2011

Corporate Governance Report including the Declaration on Corporate Governance

Responsible and transparent management and company control orientated towards a sustainable increase in value are the principles of our actions. We are convinced that good corporate governance supports a sustainable increase of the value of the company and enhances the confidence placed in our company by our shareholders, business partners, employees and the financial markets.

The following report includes the Corporate Governance Report and the Declaration on Corporate Governance issued by the Executive Board and Supervisory Board.

Dual board system

In accordance with statutory provisions, adidas AG has a dual board system, which assigns management of the company to the Executive Board and advising and supervision of the Executive Board to the Supervisory Board. These two boards are strictly separated in terms of membership and duties and responsibilities.

Composition and working methods of the Executive Board

Our Executive Board consists of four members ››› see Executive Board, p. 16. There are no Executive Board committees. The Executive Board is responsible for independently managing the company, developing the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. In doing so, it is bound to the company's interests and obliged to achieve a sustainable increase in company value.

Irrespective of the Executive Board's overall responsibility, its members are individually responsible for managing their respective business areas. The CEO is responsible in particular for leading the entire Executive Board as well as for management of the Group's business policy. In addition, he is in charge of various fields such as Global Sales, Internal Audit and Social & Environmental Affairs as well as Compliance. The business areas Finance, Global Brands and Global Operations are each assigned to a different member of the Executive Board. The Rules of Procedure and the Business Allocation Plan of the Executive Board set out the tasks and responsibilities of the Executive Board. These documents specifically stipulate requirements for meetings and resolutions as well as for cooperation with the Supervisory Board.

At the Supervisory Board meetings, the Executive Board reports in writing and orally on the agenda items and resolution proposals and answers all questions from the individual Supervisory Board members. Furthermore, the CEO discusses the Group's strategy and business development with the Chairman of the Supervisory Board on a regular basis.

Composition and working methods of the Supervisory Board

Our Supervisory Board consists of six shareholder representatives and six employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG) ››› see Supervisory Board, p. 18. The Supervisory Board currently has two female members. Five members of the Supervisory Board have many years of international experience. The composition of the Supervisory Board is characterised by a high degree of diversity and comprehensive knowledge of the industry resulting from the different professional backgrounds of the members. The members of our Supervisory Board neither exercise directorship or similar positions or advisory tasks for key competitors of the company nor do they have business or personal relations with adidas AG or the Executive Board.

Further information on Corporate Governance

Additional information on the following topics can be found on our website under ››› www.adidas-Group.com/corporate_governance:
- Articles of Association
- Rules of Procedure of the Executive Board
- Business Allocation Plan (excerpt)
- Rules of Procedure of the Supervisory Board
- Rules of Procedure of the Audit Committee

In accordance with the recommendations of the German Corporate Governance Code ("Code"), the Supervisory Board determined the following objectives for its composition at the meeting held on February 9, 2011:

- Maintain the composition of the Supervisory Board including members with an international background to the current extent
- Maintain two female members on the Supervisory Board until the next election of the Supervisory Board in 2014
- Increase the degree of female representation on the Supervisory Board as of the next election of shareholder representatives and employee representatives in 2014; the Supervisory Board strives for at least three female members on the Supervisory Board, at least one of them on the side of the shareholder representatives
- Maintain the independence of all Supervisory Board members while considering the work relationships of the employee representatives vis-à-vis the company
- Consider the age limit of, in general, 72 at the time of election.

In addition, further important criteria for the qualification of the Supervisory Board members such as expert and industry knowledge as well as particular knowledge of and experience in applying accounting principles and internal control systems, are taken into account when nominating suitable candidates for election.

Irrespective of the consideration of the aforementioned objectives and criteria, the best interests of the company will continue to play a decisive role for the Supervisory Board when nominating candidates for election. The Nomination Committee was provided with the aforementioned objectives that are to be taken into account when nominating candidates. Although the Supervisory Board cannot influence the employees' decisions concerning their Supervisory Board candidates, the Supervisory Board also recommends to the employee representatives that, as far as possible, they strive to consider the set objectives with regard to the election nominations to be made by the relevant employee bodies.

The Supervisory Board supervises and advises the Executive Board in matters relating to management of the company. The Executive Board reports to the Supervisory Board regularly, expeditiously and comprehensively on business development and planning as well as the risk situation and coordinates the strategy of the company and its implementation with the Supervisory Board. Moreover, the Executive Board provides the Supervisory Board with the annual financial statements of adidas AG and the annual consolidated financial statements of the adidas Group for its approval, taking into consideration the auditor's reports. Certain business transactions and measures of the Executive Board are subject to Supervisory Board approval.

In order to increase the efficiency of its work, the Supervisory Board has formed five permanent expert committees from within its members, which, inter alia, prepare its resolutions and, in certain cases, pass resolutions on its behalf. Those committees are the Steering Committee, the General Committee, the Audit Committee, the Mediation Committee in accordance with § 27 section 3 MitbestG and the Nomination Committee. In addition, a committee responsible for the handling of real estate matters was established ad hoc in 2009. The chairmen of the committees report to the entire Supervisory Board on the results of the committee work on a regular basis.

The composition of the committees and their respective tasks can be found on our website.

Apart from the tasks and responsibilities, the Rules of Procedure of the Supervisory Board and of the Audit Committee also set out the individual requirements expected of the members and the procedure for meetings and passing resolutions. These Rules of Procedure are available on our website.

The activities of the Supervisory Board and its committees in 2010 are outlined in the Supervisory Board Report ⋙ see p. 20.

The members of the Supervisory Board are individually responsible for undertaking any necessary training and further education measures required for their tasks. The company supports the Supervisory Board members by offering a professional training programme tailored to the needs of the Supervisory Board, informs the Supervisory Board regularly about current legislative changes and provides the Supervisory Board with relevant specialist literature.

Every two years, the Supervisory Board examines the efficiency of its work. In the year under review, the Chairman of the Supervisory Board and his Deputy Chairwoman dealt intensively with the efficiency examination. The efficiency examination was conducted through detailed questionnaires. The analysis was carried out by an external consultant, who presented the results at the Supervisory Board meeting in November 2010 and chaired the subsequent discussion. Based on the discussion, possibilities for improvement were debated which, however, did not leave any room for doubt concerning the efficiency of the Supervisory Board's activities.

Avoiding conflicts of interest

In the year under review, conflicts of interest of Executive Board members and Supervisory Board members were not reported to the General Committee, which is responsible in this case.

adidas GROUP

Declaration by the Executive Board and Supervisory Board of adidas AG pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG) on the German Corporate Governance Code

The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG on February 11, 2010. For the period from the publication of the last Declaration of Compliance to July 2, 2010, the following Declaration refers to the German Corporate Governance Code (hereinafter referred to as the "Code") as amended on June 18, 2009. For the period as of July 3, 2010, the following Declaration refers to the recommendations of the Code as amended on May 26, 2010, which was published in the electronic Federal Gazette on July 2, 2010.

The Executive Board and Supervisory Board of adidas AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" have been and are met with the following deviations:

Deductible with regard to the D&O liability insurance (section 3.8)
The D&O liability insurance for the members of our Executive Board and Supervisory Board, a group insurance for a number of executives, had not provided for a deductible until June 30, 2010. With effect from July 1, 2010, a deductible which complies with the provisions of the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) was agreed for the Executive Board of adidas AG. A corresponding deductible was also agreed for the members of the Supervisory Board with effect from July 1, 2010.

Agreeing severance payment caps when concluding Executive Board service contracts (section 4.2.3 subsection 4)
In accordance with the recommendations of the Code, contracts with a term of more than three years provide for a severance payment cap. We believe that for contracts with a term of up to three years the short contractual term agreed in connection with further contractual provisions offers sufficient protection from inappropriate severance payments. Hence, no formal severance payment cap is planned.

Age limit for Supervisory Board members (section 5.4.1 sentence 2 old version)
Composition of the Supervisory Board (section 5.4.1 subsection 2 and 3 new version)
An age limit for Supervisory Board members has not been set so far. The Audit Committee and the entire Supervisory Board discussed the recommendations of the Code regarding concrete objectives for the composition of the Supervisory Board. Subsequently, at its meeting on February 9, 2011, the Supervisory Board resolved upon the objectives and also set an age limit for Supervisory Board members. The new recommendations of the Code will thus be met when appointing new Supervisory Board members.

Number of mandates of an Executive Board member (section 5.4.5 sentence 2 new version)
As the Executive Board member Herbert Hainer currently holds two supervisory board mandates in Group-external listed companies and two mandates in supervisory bodies of companies with similar requirements, there has been a deviation from the recommendation since section 5.4.5 sentence 2 new version came into force. With effect from February 28, 2011, Herbert Hainer will resign his position at Engelhorn KGaA. Given the long period of membership in this supervisory body, the amended recommendation of the Code can only be met following a certain period of preparation. We regard this temporary deviation as justified. As of March 1, 2011, all Executive Board members will meet the recommendation of the Code.

Compensation of the Supervisory Board (section 5.4.6 subsection 2)
The members of our Supervisory Board do not receive any performance-related compensation in order to exclude any potential conflicts of interest with regard to decisions of the Supervisory Board, which might influence performance criteria.

Disclosure of the shares held by the individual members of the Executive Board and Supervisory Board or financial instruments related thereto (section 6.6 sentence 1)
Insofar as no further statutory obligations exist, we report the ownership of shares if it exceeds 1% of the shares issued by adidas AG but we do not report this on an individual basis for the members of the Boards. Instead, we publish the total holdings of all members of the Executive Board and all members of the Supervisory Board separately in order to safeguard the Board members' interests worthy of protection.

Herzogenaurach, February 11, 2011

For the Supervisory Board	For the Executive Board
Igor Landau Chairman of the Supervisory Board	Herbert Hainer Chief Executive Officer

The above Declaration of Compliance dated February 11, 2011 has been published on our website, where it can be downloaded at »» www.adidas-Group.com/corporate_governance.

Suggestions of the German Corporate Governance Code fulfilled to a large extent

adidas AG complies with the suggestions of the Code with one exception: Pursuant to section 3.6 of the Code, Supervisory Board meetings should be prepared separately by the Supervisory Board members representing the shareholders and by those representing the employees. The members of our Supervisory Board meet for such preparation meetings if required.

Relevant management practices

Our business activities are orientated towards the legal systems in the various countries and markets in which we operate. We furthermore bear significant responsibility for the environment and for the people living in these regions. Performance, passion, integrity and diversity are the values of our company, which are actively lived by our Executive Board members, Supervisory Board members and the employees in all areas of our company.

Compliance within the adidas Group

Our compliance system creates the organisational requirements for Group-wide awareness of the respective governing law as well as of our internal rules and guidelines and for ensuring their observance. The adidas Group perceives compliance as being all-embracing, orientated towards the product cycle and extending from the supply chain to the final consumer.

Our Social & Environmental Affairs team deals with the rights of employees in the supply chain and coordinates product safety standards. Before our products reach the market, our Intellectual Property department researches the technologies, trademarks, logos and designs to identify possible infringements of the rights of third parties.

In order to ensure standardised and exemplary actions and behaviour, we implemented a Code of Conduct in our company, which has been applicable in all regions and business areas since 2006. Guidelines for day-to-day behaviour in everyday work are stipulated in this Code. The Code of Conduct is available on our website.

The internal compliance programme includes, inter alia, consistently implemented web-based training which is available to all employees worldwide in ten languages. Furthermore, on a global level we have designated local compliance officers reporting directly to the Chief Compliance Officer of the Group as contact persons, to whom complaints and information concerning possible compliance infringements can be reported. In the area of data protection, we also have a web-based training programme for all employees in ten languages. Additionally, the Group has a "Marketing Guide" to raise our employees' awareness with regard to data protection when in contact with customers. As a next measure, additional online training programmes in the fields of anti-trust law and contract law are being prepared.

Compliance with working and social standards

The development of company guidelines with regard to social minimum standards, work safety as well as health and environmental protection and the monitoring thereof at the production facilities of the adidas Group and its business partners is an integral component of our company policy. Our Group has an individual Code of Conduct for the supply chain, the "Workplace Standards". These standards »» see www.adidas-Group.com/sustainability are orientated towards the conventions of the International Labour Organization (ILO) and follow the code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). They help us to only choose such business partners who fulfil the Group's Workplace Standards and business practices in accordance with our values. We have appointed an expert team specifically for the coordination of compliance with and control of the Workplace Standards. We report on our sustainability programme in this Annual Report »» see Sustainability, p. 120 and publish sustainability reports regularly.

Further information on the principles of our management

Additional information on the following topics can be found on our website under »» www.adidas-Group.com:
- Code of Conduct
- Sustainability
- Social commitment
- Information and documents on the Annual General Meeting
- Directors' Dealings
- Accounting and Annual Audit

Environmental responsibility and social commitment

Sustainable actions are an important requirement for management that is successful in the long term and particularly embraces social and environmental responsibility towards present and future generations.

With our "Green Company" initiative as part of our Group-wide environmental strategy, we combine all approaches regarding climate protection and resource conservation at our locations under one roof in order to realise the long-term goal of becoming a carbon-neutral company on a global level.

We promote the positive development of the regions in which our Group operates by cooperating with charity organisations in order to improve the lives of local people by means of sports. Moreover, we are involved in education projects as well as science and humanitarian initiatives in various projects in Africa, Latin America and Asia.

With the objective of producing and selling affordable shoes for the poorest of the poor, we have realised a successful pilot project in Bangladesh within the framework of our cooperation with Nobel Peace Laureate Professor Muhammad Yunus. The project is based on the adidas Group's core competencies and is positioned within the Reebok brand. Currently, a feasibility study is being conducted to examine to what extent the project can be realised as a working "Social Business" in accordance with the scientific principles of Professor Yunus.

Transparency and protection of shareholders' interests

It is our goal to inform all institutional investors, private shareholders, financial analysts, employees and the interested public about the company's situation, at the same time and to an equal extent, by regular open and up-to-date communication. We publish all essential information such as press releases, ad hoc announcements and voting rights notifications as well as all financial reports online. In addition, we also provide all documents and information on our Annual General Meeting on our website. At our next Annual General Meeting, taking place on May 12, 2011 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service. All shareholders can follow the Annual General Meeting live and in full length online.

Through our Investor Relations activities, we are in close contact with our shareholders ⋙ see Our Share, p. 34.

Appropriate risk management

The adidas Group has a company-wide risk management system which was comprehensively analysed in 2010. Within the scope of this system, strategic and operational risks, compliance-related risks as well as financial risks are identified, assessed and reported throughout the company and cross-divisionally by key decision-makers. This approach aims to ensure that significant risks are reported to management in good time and that appropriate measures for minimising the risks are developed and initiated ⋙ see Risk and Opportunity Report, p. 158.

Share ownership of the Executive Board and Supervisory Board

At the end of the 2010 financial year, the total number of shares held by the members of the Executive Board of adidas AG amounted to less than 1% of the shares issued by the company.

At the same time, the members of the Supervisory Board owned 1.96% of the shares issued by the company.

A detailed overview of Directors' Dealings in 2010 is published on our website under ⋙ www.adidas-Group.com/directors_dealings.

Accounting and annual audit

adidas AG prepares the annual financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the AktG. The annual consolidated financial statements are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2010 annual financial statements and annual consolidated financial statements by the Annual General Meeting. The Supervisory Board had previously convinced itself of the auditor's independence.

Compensation Report [1]

For the adidas Group, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board are essential elements of good corporate governance. In the following, we summarise the principles of the compensation system and outline the structure and level of Executive Board and Supervisory Board compensation. We are also reporting on the benefits the members of our Executive Board will receive if they resign from office or retire.

Compensation system for the Executive Board

Following preparation by the General Committee, the compensation system for our Executive Board and the total compensation of each member of the Executive Board is determined and regularly reviewed by the entire Supervisory Board. The compensation system and compensation level are intended to form an incentive for sustainable long-term management.

The compensation of the Executive Board members is designed to reflect the size and global orientation of the company as well as its economic situation and prospects and is orientated towards the typical structure and level of executive board compensation at comparable companies. Taking into account the compensation structure at the adidas Group, the tasks and the contribution of each Executive Board member to the Group's success, his individual performance as well as the performance of the entire Executive Board are considered. Thus, an appropriate level of compensation can be ensured.

Components of the compensation system

The target annual income of our Executive Board members provides for a fixed compensation component amounting to around 35% and a variable, i.e. performance-related, compensation component amounting to around 65% in the case of 100% target achievement.

- The fixed compensation consists of a contractually agreed, non-performance-related annual salary that is paid in twelve monthly instalments.

- The variable compensation consists of a Performance Bonus and a compensation component with a long-term incentive effect, the Long-Term Incentive Plan 2009/2011 (LTIP 2009/2011) measured over a three-year period. The variable compensation components are designed in such a way that the incentive to achieve the sustainable targets set by the LTIP 2009/2011 is significantly higher than for achieving the targets necessary for granting the Performance Bonus. Corresponding contractual provisions ensure that this weighting will also be maintained in the future.

- The Performance Bonus serves as compensation for the Executive Board's performance in the past financial year in line with the short-term development of the company. It is determined by the Supervisory Board in a two-stage process: At the beginning of the 2010 financial year, the Supervisory Board determined as performance criteria both the business-related criteria (increase in income before taxes and retail margin) and the individual performance of each Executive Board member and defined explicit targets. The target achievement of business-related criteria can be rated with a maximum of 150%. At the end of the financial year, the Supervisory Board stipulates a concrete bonus for each Executive Board member depending on the respective degree of target achievement.

- The bonus resulting from the LTIP 2009/2011 (LTIP Bonus) serves as compensation for the long-term performance of the Executive Board in line with corporate planning.

When determining the LTIP 2009/2011 of the Executive Board members, the Supervisory Board defined the following performance criteria with different weightings:

- Increase of consolidated net income
- Reduction of net debt (adjusted for non-operating effects)
- Sales growth with regard to the Reebok, Rockport and Reebok-CCM Hockey brands
- Absolute and relative share price development.

When calculating the LTIP Bonus payable following the three-year period, the degrees of target achievement of the performance criteria are accumulated and multiplied by the individual target amount. The payout of the LTIP 2009/2011, which is limited to a maximum of 150% of the individual target amount (Cap), will be effected following the adoption of the annual financial statements for the period ending on December 31, 2011. Should the degree of target achievement for the three-year period lie below the threshold value of 50%, the Executive Board members are not entitled to the LTIP Bonus.

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

1) This Compensation Report is a component of the audited Group Management Report and is also part of the Corporate Governance Report including the Declaration on Corporate Governance.

Executive Board compensation in detail

The total compensation paid to our Executive Board in the 2010 financial year amounted to € 11.494 million (2009: € 10.494 million).

Benefits in case of resignation from office as Executive Board member

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

Pension commitments

The retirement pension commences with the termination of the Executive Board mandate upon reaching the age of 65. In the case of permanent occupational disability or survivor's benefits in the case of death, different provisions apply.

- The retirement pension is determined in accordance with a modular system, i.e. starting from a base amount totalling 10% of the pensionable income, a module of 2% of the pensionable income is formed for each full year of tenure as an Executive Board member, which currently corresponds to the fixed annual salary indicated in the adjacent table.[2] The retirement pension can reach a maximum level of 40% of the pensionable income.
- In the event of occupational disability of an Executive Board member prior to reaching the retirement age, he receives a disability pension amounting to the pension entitlements achieved up to this point.
- If an Executive Board member dies during the term of his service contract or after retiring, the spouse is entitled to a survivor's benefit amounting to 50%, dependent children are entitled to a half-orphan's pension of 15% or an orphan's pension of 30% of the pension entitlements. The maximum limit of the survivor's benefits is 100% of the pension entitlements. If an Executive Board member dies during the term of his service contract, his spouse receives or, alternatively, any dependent children additionally receive the pro-rata annual fixed salary for the month of death and the following three months but no longer than until the agreed end date of the service contract.

In the event that an Executive Board member leaves the company prior to reaching the retirement age, the non-forfeiture of the pension entitlement will be in line with the legal provisions. From the second year of pension payments, the current pension payments will increase by at least 1% of the amount of the prior year pension and additionally by any income from the pension trust fund allocable to the respective Executive Board member.

2) Herbert Hainer and Erich Stamminger were both first appointed on April 1, 1997. Robin J. Stalker was first appointed on January 1, 2001. For Glenn Bennett, instead of his first appointment date (April 1, 1997), January 1, 2000, is used for the calculation of his pension entitlements. His base amount totals 20% of the pension entitlements.

Executive Board Total Compensation in 2010

€ in thousands

01

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect[1]	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2009/2011	
Herbert Hainer (CEO)	1,373	28[2]	1,752	1,680	4,833
Glenn Bennett[3]	497	14	510	840	1,861
Robin J. Stalker	550	16[2]	555	840	1,961
Erich Stamminger	700	37[2]	1,022	1,080	2,839
Total	**3,120**	**95**	**3,839**	**4,440**	**11,494**

1) The indicated amount corresponds to the amount placed in the reserves for the 2010 financial year based on the forecasted degree of target achievement as at the balance sheet date. The amount of a possible payout is not specified therewith. Only if targets are met will payment be due following the approval of the annual consolidated financial statements for the period ending on December 31, 2011.
2) Other benefits comprise entertainment expenses, contributions to pension insurance and non-monetary benefits resulting from the provision of a company car.
3) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 660,000, car allowance $ 18,000, Performance Bonus $ 677,000. An exchange rate of 1.3279 $/€ (annual average rate 2010) was used as the basis for calculation.

Executive Board Total Compensation in 2009

€ in thousands

02

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect[1]	Total
	Annual fixed salary	Other benefits	Performance Bonus	LTIP Bonus 2009/2011	
Herbert Hainer (CEO)	1,250	27[2]	1,512	1,400	4,189
Glenn Bennett[3]	431	25	581	700	1,737
Robin J. Stalker	500	13[2]	612	700	1,825
Erich Stamminger	700	36[2]	1,107	900	2,743
Total	**2,881**	**101**	**3,812**	**3,700**	**10,494**

1) The indicated amount corresponds to the amount placed in the reserves for the 2009 financial year based on the forecasted degree of target achievement as at the balance sheet date. The amount of a possible payout is not specified therewith. Only if targets are met will payment be due following the approval of the annual consolidated financial statements for the period ending on December 31, 2011.
2) Other benefits comprise contributions to pension insurance and non-monetary benefits resulting from the provision of a company car.
3) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 600,000, car allowance and other benefits $ 34,190, Performance Bonus $ 810,000. An exchange rate of 1.3932 $/€ (annual average rate 2009) was used as the basis for calculation.

Commitments to Executive Board members upon premature end of tenure

In the service contracts of the Executive Board members Glenn Bennett, Robin J. Stalker and Erich Stamminger, a severance payment cap in the case of premature termination of tenure which is not due to good cause is not provided for due to the relatively short contractual terms of up to three years. The service contract of Herbert Hainer, on the other hand, which has a contractual term of more than three years, does provide for a severance payment relating to payment claims for the remaining period of his service contract. However, the severance payment has been limited to a maximum of twice the overall annual compensation (Severance Payment Cap). In this respect, the overall annual compensation means the overall compensation for the last full financial year prior to his resignation from the Executive Board while considering the expected total compensation for the current financial year. If the service contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap.

Commitments to Executive Board members upon regular end of tenure

In case of regular termination of the service contract, i.e. in case of non-renewal of the service contract or termination due to reaching the retirement age, the respective Executive Board member is entitled to a follow-up bonus as individually agreed. This bonus amounts to 75% for Glenn Bennett, 100% for Robin J. Stalker and 125% for Herbert Hainer and is based on the Performance Bonus granted to the respective Executive Board member for the last full financial year. The follow-up bonus is payable in two tranches, 12 and 24 months following the end of the contract.

Instead of the follow-up bonus, the service contract with Erich Stamminger contains a severance payment of 100% of the last annual fixed salary in the event that adidas AG decides not to renew his contract although he would be willing to continue his function as Executive Board member under the existing conditions. In this case, the amount is based on the annual fixed salary of the financial year at the time of retirement from office. The severance payment is granted instead of the follow-up bonus. The Supervisory Board has aligned this contractual provision to the system valid for the other Executive Board members as of the 2011 financial year and set a follow-up bonus in the amount of 125%.

Other benefits and additional commitments to the Executive Board

- Except for the other benefits listed in the table, the Executive Board members did not receive any additional payments.
- The Executive Board members did not receive any additional compensation for mandates within the adidas Group.
- The Executive Board members did not receive any loans or advance payments from adidas AG.
- The company maintains a consequential loss and liability insurance for Board members of the adidas Group (D&O Insurance). It covers the personal liability in the event of claims raised against Executive Board members for indemnification of losses incurred in connection with their acts and omissions. For cases of damage occurring after July 1, 2010, there is a deductible in accordance with the statutory provisions and recommendations of the German Corporate Governance Code. This deductible amounts to 10% of the damage up to a maximum of one and a half times the fixed annual salary for all cases of damage within one financial year.

Payments to former members of the Executive Board and their surviving dependants

In the 2010 financial year, pension payments to former Executive Board members or to their surviving dependants amounted to € 3.235 million (2009: € 2.607 million). As at December 31, 2010, the provisions for pension entitlements of this group of persons totalled € 45.884 million (2009: € 45.658 million). The dynamisation of the pension payments is made in accordance with statutory regulations or regulations under collective agreements unless a surplus from the pension fund is used after the commencement of retirement for an increase in retirement benefits.

Compensation of the Supervisory Board

The compensation of our Supervisory Board members is determined by the Annual General Meeting and regulated by § 18 of the Articles of Association of adidas AG. The compensation is linked to the size of the Group and to the responsibility and scope of activities of the Supervisory Board members. After the respective financial year, the members receive fixed compensation for their function as well as compensation for the chairmanship of or membership in committees. There is no variable compensation granted in addition ⋙ see Corporate Governance Report including the Declaration on Corporate Governance, p. 25. Supervisory Board members who have not been members of the Supervisory Board for the entire financial year receive a pro-rated amount of compensation.

The fixed annual compensation for each member of the Supervisory Board amounts to € 40,000. Three times this amount is paid to the Chairman of the Supervisory Board and twice this amount is paid to each Deputy Chairperson. Members of the General Committee or the Audit Committee receive an allowance of € 20,000 and € 40,000, respectively. The Chairman of the General Committee receives an additional annual allowance of € 40,000, while the Chairman of the Audit Committee receives an allowance of € 60,000. The remuneration paid for committee chairmanship also covers the membership in such committee. The members of the Steering Committee, the Mediation Committee, the Nomination Committee and committees which are established ad hoc do not receive additional compensation. If a Supervisory Board member is in more than one committee, the member receives only compensation for his/her task in the committee with the highest compensation. The Supervisory Board members are reimbursed for all expenses incurred in connection with their mandates as well as for the VAT payable on their compensation, insofar as they charge for it separately.

With the new arrangement of memberships in committees and the chairmanships on May 7, 2009 following the election of the new Supervisory Board, the overall compensation of the Supervisory Board increased to € 920,000 in the 2010 financial year (2009: € 898,871).

Other benefits and additional commitments to the Supervisory Board

- The Supervisory Board members did not receive any loans or advance payments from adidas AG.
- The company maintains a consequential loss and liability insurance for Board members of the adidas Group (D&O Insurance). It covers the personal liability in the event of claims raised against Supervisory Board members for indemnification of losses incurred in connection with their acts and omissions. For cases of damage occurring after July 1, 2010, there is a deductible of 10% of the damage up to a maximum of one and a half times the fixed annual compensation for all cases of damage within one financial year in accordance with the recommendations of the German Corporate Governance Code.

Compensation of the Supervisory Board 03
in €

	2010	2009
Members of the Supervisory Board as at December 31, 2010		
Igor Landau (Chairman of the Supervisory Board, Chairman of the General Committee)	160,000	138,871
Sabine Bauer (Deputy Chairwoman of the Supervisory Board, Member of the General Committee)	100,000	78,871
Willi Schwerdtle (Deputy Chairman of the Supervisory Board, Member of the General Committee)	100,000	78,871
Dieter Hauenstein	40,000	25,914
Dr. Wolfgang Jäger (Member of the Audit Committee)	80,000	51,828
Dr. Stefan Jentzsch (Member of the Audit Committee)	80,000	65,914
Herbert Kauffmann (Chairman of the Audit Committee)	100,000	64,785
Roland Nosko (Member of the General Committee)	60,000	52,957
Alexander Popov	40,000	25,914
Hans Ruprecht (Member of the Audit Committee)	80,000	80,000
Heidi Thaler-Veh	40,000	40,000
Christian Tourres	40,000	40,000
Total	**920,000**	**898,871** [1]

1) This amount includes the compensation of the Supervisory Board members Dr. Hans Friderichs, Fritz Kammerer, Dr. iur. Manfred Gentz and Klaus Weiß, who retired from the Supervisory Board effective at the end of the Annual General Meeting on May 7, 2009, totalling € 154,946.

Our Share

In 2010, international stock markets and the adidas AG share increased markedly. The improving global macroeconomic environment, strong corporate earnings and rising consumer confidence supported equity market growth. These factors more than offset the negative impacts from the sovereign debt crisis in the euro area's peripheral countries. The strong recovery in adidas Group sales and earnings as well as the announcement of the Group's strategic business plan "Route 2015" drove the adidas AG share up 29% in 2010, thereby significantly outperforming the DAX-30, which gained 16% over the same period. As a result of the increase in the Group's net income attributable to shareholders in 2010, we intend to propose a higher dividend of € 0.80 per share at our 2011 Annual General Meeting compared to € 0.35 per share in the prior year.

International stock markets continue prior year momentum

International stock markets, the DAX-30 and the adidas AG share sustained the positive momentum of the prior year in 2010, continuing an upward trend with investor confidence returning to equities on relatively low valuations. Over the course of the year, the adidas AG share price increased 29%. Our share outperformed the DAX-30, but underperformed the MSCI World Textiles, Apparel & Luxury Goods Index, which gained 16% and 44%, respectively see 02. The strong performance of the latter was mainly attributable to the high share of luxury goods companies in the index, which on average outperformed companies in the sporting goods sector.

At the beginning of the year, international stock markets were spurred by the continuation of liberal monetary policies adopted by central banks, improving economic data points as well as positive news flow during the 2009 full year earnings season. However, throughout the second quarter, the emergence of signals indicating a slowdown of the global economic recovery in tandem with the sovereign debt crisis in the euro area's peripheral countries resulted in a decline across all major global indices.

In the third quarter, market sentiment reversed, with most international indices gaining substantially. This was attributable to strong corporate earnings announcements for the first half of 2010 and the better than expected outcome of the European bank stress test. Signs of sustained liberal US Federal Reserve policies also contributed to the positive development. In the fourth quarter, global equity markets continued to increase. Despite the emergence of inflationary pressure in China, positive investor sentiment prevailed due to an increasing number of data points indicating that the global economy and corporate earnings will continue to improve in 2011.

adidas AG share price reflects strong operational improvements

The adidas AG share increased strongly at the beginning of the year, outperforming peers and the general market as investor confidence in a successful turnaround of the Reebok brand increased. Although our 2009 results were well received by investors and analysts, market reaction to our 2010 outlook was subdued. Nevertheless, in line with rising equity markets and positive analyst commentary which added to generally improving sentiment, the adidas AG share reversed the downward trend towards the end of the first quarter.

The adidas AG share 01

Number of shares outstanding	
2010 average	209,216,186
At year-end 2010 [1]	209,216,186
Type of share	Registered no-par-value share
Free float	100%
Initial Public Offering	November 17, 1995
Share split	June 6, 2006 (in a ratio of 1:4)
Stock exchange	All German stock exchanges
Stock registration number (ISIN) [2]	DE000A1EWWW0
Stock symbol	ADS, ADSG.DE
Important indices	DAX-30
	MSCI World Textiles, Apparel & Luxury Goods
	Deutsche Börse Prime Consumer
	Dow Jones STOXX
	Dow Jones EURO STOXX
	Dow Jones Sustainability
	FTSE4Good Europe
	Ethibel Index Excellence Europe
	ASPI Eurozone Index
	ECPI Ethical Index EMU

1) All shares carry full dividend rights.
2) On October 11, 2010, adidas AG converted its shares to registered no-par-value shares. As a result, adidas AG registered shares are now traded under a new ISIN DE000A1EWWW0 on the stock exchange (previously: DE0005003404).

The preliminary announcement of better than expected first quarter results at the end of April helped our share price to resist the general market depression throughout the second quarter and to gain slightly. Positive feedback from a Reebok investor event in London as well as our increased sales outlook for the football category published in mid-May also contributed to this development.

Following the preliminary announcement of better than expected first half year results in July, the adidas AG share price gained markedly towards the end of the month. The favourable momentum was sustained after the final results release in August, and an increased full year outlook helped the adidas AG share outperform international indices during the third quarter.

In the fourth quarter, strong third quarter results as well as the sales and earnings per share outlook for 2011 published at the beginning of November, while well received by most investors and analysts, did not provide further stimulus to the share price. However, following the announcement of the adidas Group's strategic business plan "Route 2015" on November 8, market participants expressed their confidence in our Group's medium- to long-term strategic goals. This was reflected in further share price gains during the last weeks of the year. As a result, the adidas AG share closed 2010 at € 48.89, representing a 29% increase over the course of the year. This implies a market capitalisation of € 10.2 billion at the end of 2010 versus € 7.9 billion at the end of 2009 see 04.

Conversion from bearer to registered shares

Following the approval of resolution 13 at our Annual General Meeting on May 6, 2010, the no-par-value bearer shares of adidas AG were converted to registered no-par-value shares (registered shares) on October 11, 2010. Since this date, adidas AG registered shares are traded on the stock exchange under a new ISIN DE000A1EWWW0 (previously: DE0005003404) or WKN A1EWWW (previously: 500340). The stock symbol ADS remains unchanged. The legal position of the shareholders who are entered in the share register as well as their holding in adidas AG has not been affected by the conversion to registered shares. Further, shareholders' rights to sell their shares or purchase shares are not limited or made more complicated.

adidas AG share member of important indices

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index.

The DAX-30 is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

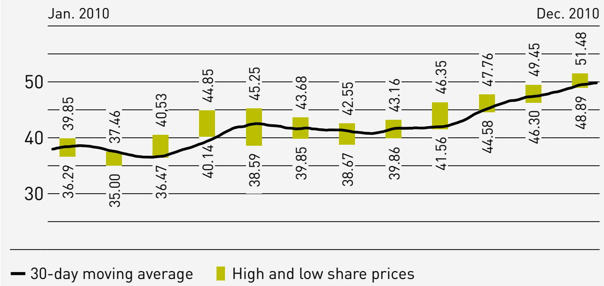
The MSCI World Textiles, Apparel & Luxury Goods Index comprises our Group's major competitors. At December 31, 2010, our weighting in the DAX-30, which is calculated on the basis of free float market capitalisation and 12-month share turnover, was 1.69% (2009: 1.49%). Our increased weighting compared to the prior year was mainly a result of our higher market capitalisation, which more than offset a more pronounced decline in share turnover compared to the rest of the market. Average daily trading volume of the adidas AG share on all German stock exchanges (excluding bank trades) declined from 1.4 million in 2009 to 1.2 million shares in 2010. Within the DAX-30, we ranked 16 on market capitalisation (2009: 17) and 23 on turnover (2009: 22) at year-end 2010. However, the average daily trading volume of the adidas AG share on alternative trading systems increased more than 40% to 0.7 million shares versus 0.5 million shares in 2009.

Historical performance of adidas AG share and important indices at year-end 2010[1] in % **02**

	1 year	3 years	5 years	10 years	since IPO
adidas AG	29	(5)	22	196	406
DAX-30	16	(14)	28	7	215
MSCI World Textiles, Apparel & Luxury Goods	44	28	71	154	243

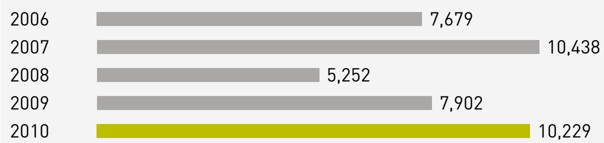
1) Source: Bloomberg.

adidas AG high and low share prices per month[1] in € **03**



1) Based on daily closing prices.
Source: Bloomberg.

adidas AG market capitalisation at year-end € in millions **04**



Strong sustainability track record reflected in index memberships

In recognition of our social and environmental efforts, adidas AG is listed in several sustainability indices. For the eleventh consecutive time, adidas AG has been included in the Dow Jones Sustainability Indexes (DJSI). The indexes analyse and track the social, environmental and financial performance of more than 300 companies worldwide.

In addition, adidas AG was again included in the FTSE4Good Europe Index. This positive reassessment acknowledges the Group's social, environmental and ethical engagement, and encourages us to continue and intensify our efforts to improve our sustainability performance. Also, adidas AG was again included in the Vigeo Group's Ethibel Excellence Sustainability Index Europe as well as in the ASPI Eurozone Index. The Vigeo Group is a leading European supplier of extra-financial analysis that measures companies' performance in the fields of sustainable development and social responsibility. Further, the adidas Group was included for the sixth consecutive time in the list of The Global 100 Most Sustainable Corporations in the World. This is a project initiated by Corporate Knights Inc. with Innovest Strategic Value Advisors Inc., a research firm specialised in analysing extra-financial drivers of risk and shareholder value. Launched in 2005, the annual list of The Global 100 Most Sustainable Corporations in the World is unveiled each year at the World Economic Forum in Davos.

adidas AG historically outperforms benchmark indices

The adidas Group is committed to continuously enhancing shareholder value. The long-term development of our share price reflects investor confidence and the growth potential of our Group. Over the last ten years, our share has gained 196%. This represents a clear outperformance of both the DAX-30, which increased 7%, and the MSCI Index, which increased 154% during the period.

ADR performs in line with common stock

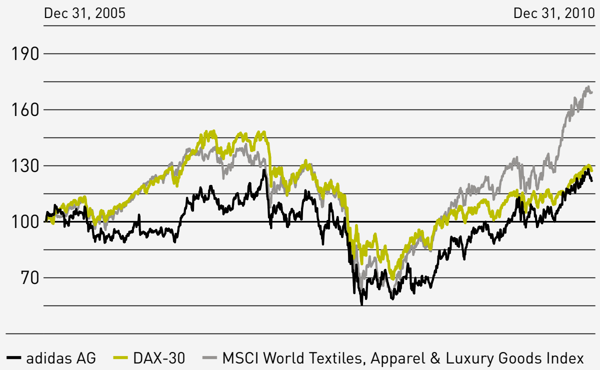
Since its launch on December 30, 2004, our Level 1 American Depositary Receipt (ADR) facility has enjoyed great popularity among American investors. In January 2010, we removed The Bank of New York Mellon as depositary bank and appointed Deutsche Bank Trust Company Americas to run our Level 1 ADR Programme. Our Level 1 ADR closed the year at US $ 32.60, representing an increase of 20% versus the prior year (2009: US $ 27.15).

The less pronounced increase of the Level 1 ADR price compared to the ordinary share price was due to the appreciation of the US dollar during 2010. The number of Level 1 ADRs outstanding increased to 6.4 million at year-end 2010 (2009: 5.4 million). The average daily trading volume decreased 60% compared to the prior year. Since November 2007, the adidas AG ADR is quoted on the OTCQX International Premier market, the highest over-the-counter market tier. This electronic trading forum includes leading international companies with substantial operating businesses and credible disclosure policies. Further information on our ADR Programme can be found on our website at »» www.adidas-Group.com/adr.

Dividend proposal of € 0.80 per share

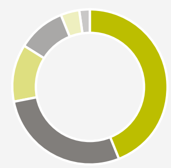
The adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 0.80 to shareholders at the Annual General Meeting (AGM) on May 12, 2011 (2009: € 0.35). Subject to the meeting's approval, the dividend will be paid on May 13, 2011. This represents an increase of 129% and reflects the strong improvement in profitability in 2010. The total payout of € 167 million (2009: € 73 million) reflects a payout ratio of 30% of net income, as in the prior year. This is in line with our dividend policy where we intend to pay out between 20% and 40% of net income attributable to shareholders.

Five-year share price development [1]   05



1) Index: December 31, 2005 = 100%.

Shareholder structure [1]   06



- 44% Rest of Europe
- 28% North America
- 12% Other, undisclosed holdings
- 10% Germany
- 4% Rest of the world
- 2% Management

1) In February 2011.

Recommendation split [1]   07

- 55% Buy
- 28% Hold
- 17% Sell

1) At year-end 2010.
Source: Bloomberg.

Strong international investor base
Based on our share register, we estimate that adidas AG currently has around 60,000 shareholders. In our latest ownership analysis conducted in February 2011, we identified 88% of our shares outstanding. Shareholdings in the North American market account for 28% of our total shares outstanding. Identified German institutional investors hold 10% of shares outstanding. The shareholdings in the rest of Europe excluding Germany amount to 44%, while 4% of institutional shareholders were identified in other regions of the world. adidas Group Management, which comprises current members of the Executive and Supervisory Boards, holds 2% in total see Corporate Governance Report, p. 25. Undisclosed holdings, which also include private investors, account for the remaining 12% see 06.

Voting rights notifications received
In 2010, adidas AG received twelve voting rights notifications in accordance with § 21 section 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). All voting rights notifications received in 2010 and thereafter can be viewed on our corporate website www.adidas-Group.com/voting_rights_notifications. Information on investments that have exceeded or fallen below a certain threshold can also be found in the Notes section of this Annual Report see Note 25, p. 204.

adidas Group again receives strong analyst support
The adidas Group continued to receive strong analyst support in 2010. Around 35 analysts from investment banks and brokerage firms regularly published research reports on our Group. The majority of analysts are confident about the medium- and long-term potential of our Group. This is reflected in the recommendation split for our share as at December 31, 2010. 55% of analysts recommended investors to "buy" our share in their last publication during the 12-month period (2009: 54%). 28% advised to "hold" our share (2009: 22%). 17% of the analysts recommended to "sell" our share (2009: 24%) see 07.

Award-winning Investor Relations activities
adidas AG strives to maintain close contact to institutional and private shareholders as well as analysts. In 2010, Management and the Investor Relations team spent more than 35 days on roadshows and presented at 19 national and international conferences. In addition, in order to present the adidas Group's new strategic business plan "Route 2015", we hosted an Investor Day in Herzogenaurach on November 8, which was attended by more than 70 investors and other representatives of the financial markets.

Our efforts to deliver best-in-class services to our investors and analysts were again highly acknowledged in an investor relations survey conducted by Thomson Reuters. In the sector Consumer/Luxury Goods, the adidas Group was ranked number two by buy-side analysts in this survey.

The print version of our 2009 Annual Report also achieved high recognition, taking fifth place in the DAX-30 ranking by Manager Magazin.

Extensive financial information available online
We offer extensive information around our share as well as the Group's strategy and financial results on our corporate website at www.adidas-Group.com/investors. Our event calendar lists all conferences and roadshows we attend and provides all presentations for download. In addition to live webcasts of all major events such as our Analyst Conferences, the Annual General Meeting and Investor Days, we also offer podcasts of our quarterly conference calls. Furthermore, in order to give a regular update about the latest developments of the adidas Group and the adidas AG share, we also offer our shareholders and the financial market community the opportunity to subscribe to our quarterly Investor Relations Newsletter.

Share ratios at a glance 08

		2010	2009
Basic earnings per share	€	2.71	1.25
Diluted earnings per share	€	2.71	1.22
Operating cash flow per share	€	4.28	6.11
Year-end price	€	48.89	37.77
Year-high	€	51.48	38.76
Year-low	€	35.01	22.73
Dividend per share	€	0.80 [1]	0.35
Dividend payout	€ in millions	167 [2]	73
Dividend payout ratio	%	29.5	29.8
Dividend yield	%	1.6	0.9
Shareholders' equity per share	€	22.06	18.02
Price-earnings ratio at year-end		18.0	31.0
Average trading volume per trading day [3]	shares	1,170,523	1,392,613
DAX-30 ranking [4] at year-end			
by market capitalisation		16	17
by turnover		23	22

1) Subject to Annual General Meeting approval.
2) Based on number of shares outstanding at year-end.
3) Based on number of shares traded on all German stock exchanges.
4) As reported by Deutsche Börse AG.

Originals Denim Campaign

In spring/summer 2011, the adidas Originals Blue collection presents a fashionable streetwear range with contemporary looks for men and women. Completing the holistic offer with styles from head to toe, the first in-house Originals denim line is presented together with a collection of premium accessories led by an assortment of soft fine leather bags. The collection's name is homage to the iconic adidas Originals blue colour tone "bluebird", a signal well known to adidas Originals fans around the globe.

02

Fit for the Future

adidas
Sport Performance ⋙ Running

⋙ THE BEST COMES LAST – RUNNING.

Silvia Felt, German,
Category Manager Outdoor,
adidas

Four figures are my constant companion: 3.86, 180.2, 42.195 and 10. In other words: swimming, cycling and running – all in under ten hours. And at the end, one sentence: "You're an Ironman!". These are the words that carry every athlete who has successfully completed the Ironman in Hawaii over the finish line, as they did for me when I first took part in 2009. It all began in 2004 when I competed in my first triathlon – just for fun. Five years later, I stood on the winners' podium as the third fastest woman in my age category in the world's toughest triathlon. In-between, there was a long phase of hard training throughout which adidas, my employer, supported me. Job-wise I've achieved all I ever wanted to achieve, and on the sports front I have also celebrated numerous successes. Yet I still have one big goal ahead of me: to compete in Hawaii in the pro category. You have to train very hard in each single discipline if you want to complete the triathlon successfully. Fail in one and all is lost. This means meticulous time management and discipline are extremely important, because at the end of the day you have to perform at your very best in three different disciplines. People often ask me how I manage to combine sport with a full-time job. I'm committed to both with heart and soul and always give my best. And I'm proud to be part of a brand that writes the stories of top athletes. Because sport is my passion.

Find out more about adidas running and training:
www.adidas.com/running
www.adidas.com/training

adiZero Climaproof Top

No need to let the rain dampen runners' enthusiasm, with the adiZero Climaproof top. Light and breathable, this running top delivers the protection runners need to stay dry and comfortable on even the rainiest days and wettest runs. Three-layer Climaproof protection ensures optimum body climate, as warm air is "trapped" close to the skin and perspiration wicked away to the outside. This top is extremely wind- and waterproof and offers maximum protection, even on long runs.

adiStar Ride 3

adidas presents the latest version of its high-performance adiStar running shoe – the adiStar Ride 3. This shoe fuses advanced technologies with luxurious workmanship. With its midfoot support element for stability and motion control and the intelligent cushioning system adiPrene at the forefoot and heel, this is the ideal shoe for athletes who want to perform at their best. As the adiStar Ride 3 is miCoach compatible, runners can choose to be accompanied by the miCoach training system on the road to achieving their goals.

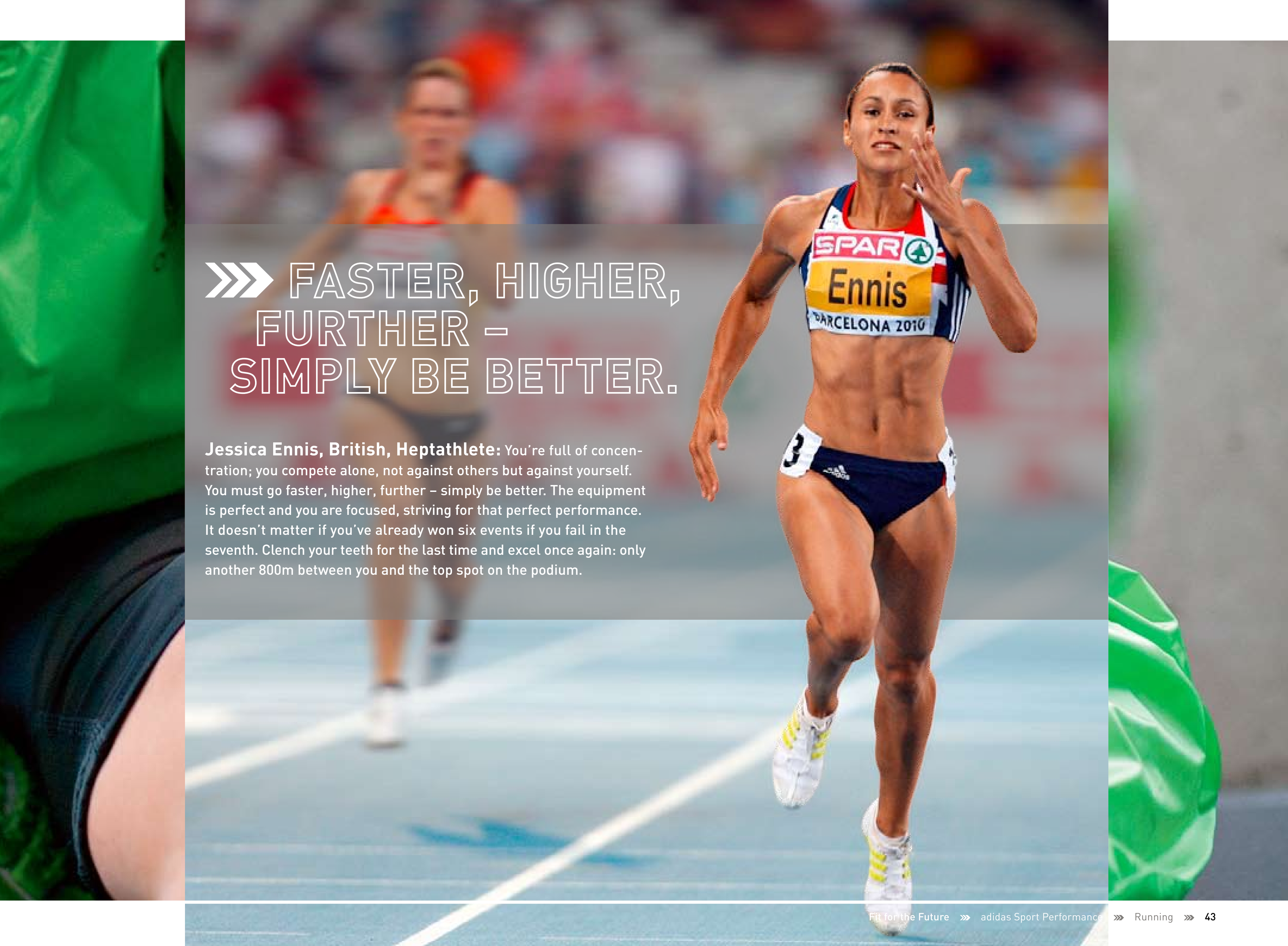
Find out more about adidas miCoach:
www.miCoach.com

miCoach

miCoach turns personal potential into results by telling, showing and teaching athletes how to become better in their sport. miCoach already offers cardio-based conditioning plans for athletes looking to train for a specific sport. In 2011, adidas will continue to evolve and improve the miCoach personal coaching system with the launch of miCoach strength and flexibility programmes. Users will be able to define goals for speed and strength, making miCoach a uniquely robust system with the goal of making athletes better. All those interested can sign up at »» **www.miCoach.com**, choose their gear, choose their plans, and get coached.

Fluid Trainer Light

In 2010, adidas successfully launched the versatile and comfortable Fluid Trainer – a new product concept in an ergonomic design which adapts optimally to the natural movements of the foot. The completely seam-free mesh upper offers the ultimate in flexibility, comfort and freedom of motion. The sock-like fit and breathable upper ensure superior comfort. In 2011, adidas will introduce a new Fluid Trainer collection, again in a great variety of colours, including the pictured Fluid Trainer Light.



FASTER, HIGHER, FURTHER – SIMPLY BE BETTER.

Jessica Ennis, British, Heptathlete: You're full of concentration; you compete alone, not against others but against yourself. You must go faster, higher, further – simply be better. The equipment is perfect and you are focused, striving for that perfect performance. It doesn't matter if you've already won six events if you fail in the seventh. Clench your teeth for the last time and excel once again: only another 800m between you and the top spot on the podium.

adidas
Sport Performance ››› Football

››› I LIVE MY DREAM IN A DIFFERENT WAY.

Aubrey Dolan, Irish,
Senior Product Manager Football, adidas

My sport: football. My passion: winning. My fascination: No matter what country you're in, football is a language that is spoken all over the world. My motto: Be better today than you were yesterday. I started playing club football at the age of six, and right from the outset I had only one dream: to become a professional. I played from sunrise to sunset, twelve training sessions a week, in four different teams. I'll never forget what it felt like to win the Football Association of Ireland Challenge Cup twice as team captain. I'm still in touch today with my coaches, team mates and former opponents. Then, in Germany, I was given the opportunity to work as a professional – not on a football pitch, but on the product side. Ever since, I've been making sure that the professionals on the field of play are equipped with the very best products. In my job as Senior Product Manager in the Business Unit Football at adidas, I'm closer to the football stars than I ever dreamed I could be. Together with my team, we develop football boots, right from the very first idea to the finished shoe. We always work closely with the players, and so it was that my biggest dream came true: In the summer of 2008, I was able to work with my big idol, Lionel Messi. When I met him for the first time, all I had with me was a prototype of the new adiZero F50 shoe and I wanted to get his opinion. Messi became a part of the team and together we developed the most successful football boot of the 2010 FIFA World Cup in South Africa. Today, I still train three or four times a week. This gives me the feeling I'm prepared for anything. And it enables me to test our products. And live my dream – in a different way.

Find out more about adidas football:
www.adidas.com/football

Speedcell

The official match ball of the FIFA Women's World Cup 2011, Speedcell stands for speed, power and team spirit. It combines futuristic texture for perfect grip in all conditions, exceptionally stable flight behaviour through aerodynamically placed grooves, spherically moulded 3-D panels for perfect roundness and a 360 degree sweet spot in one ball. The design is inspired by the rotating, fast and dynamic movements in football.

MY HOME MATCH.

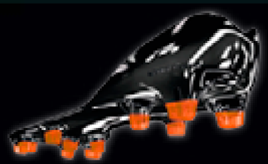
Martina Mirschberger, German,
Manager Product Testing,
adidas

I've been playing football since I first learned to walk and I've always dreamed of being part of a Women's World Cup. In 2011, the tournament is taking place in Germany, and for me, working for adidas, the official sponsor and supplier of this event, it is a dream come true: to be there live in the stadium and see the products that I've tested myself, in my job and on the pitch.

Find out more about adidas football:
www.adidas.com/football

adiZero F50 Prime

Building on the success the adiZero F50 celebrated during the 2010 FIFA World Cup in South Africa as the top-scoring boot, adidas is introducing the adiZero F50 Prime – the lightest adidas football boot the world has ever seen. Weighing a mere 150 grams, the adiZero F50 Prime is 15 grams lighter than its predecessor and comes in blazing neon colours.



Sprint Frame Construction
- Stability through geometry to create the lightest football outsole on the planet

Internal TPU Support Bands
- Lateral stability and support
- Reinforce a single-layer material

New TPU Bottom Frame
- Lateral stability and support
- Transfers forces from outsole to upper
- Protects against upper abrasion

Climalite Jersey und Short

The Climalite jersey is designed for athletes who like to stand out from the crowd. Soft, breathable fabrics conduct heat and sweat away from the body to keep players cool and dry in warm conditions. The athletic Slim Fit cut and the sporty crewneck guarantee superior comfort. The design of the jersey and shorts is inspired by the UEFA Champions League.

ON THE PITCH I CAN REPAY THE FANS.

Lionel Messi, Argentinean, Footballer: In that moment in the players' tunnel just before you come out onto the pitch, you can hear the fans cheering. You feel the adrenalin rushing through your veins and you've got goose bumps. The fans' singing carries you onto the pitch. The atmosphere is electric. You take one last look down at your boots – my F50s, a perfect fit. The match can begin. You're ready to give it your all and have only one mission: to leave the pitch victorious. You're living the dream of millions of children. They believe in you. Every time you go out onto the pitch, it's your turn to give something back to them and the fans.

adidas

Sport Performance »» Basketball

IT'S ALL ABOUT TEAM AND TRUST.

Robert Zimmermann, German,
Marketing and License Manager
for Olympic and Regional Sports,
adidas

Vince Jackson, American,
Global PR Manager Basketball,
adidas

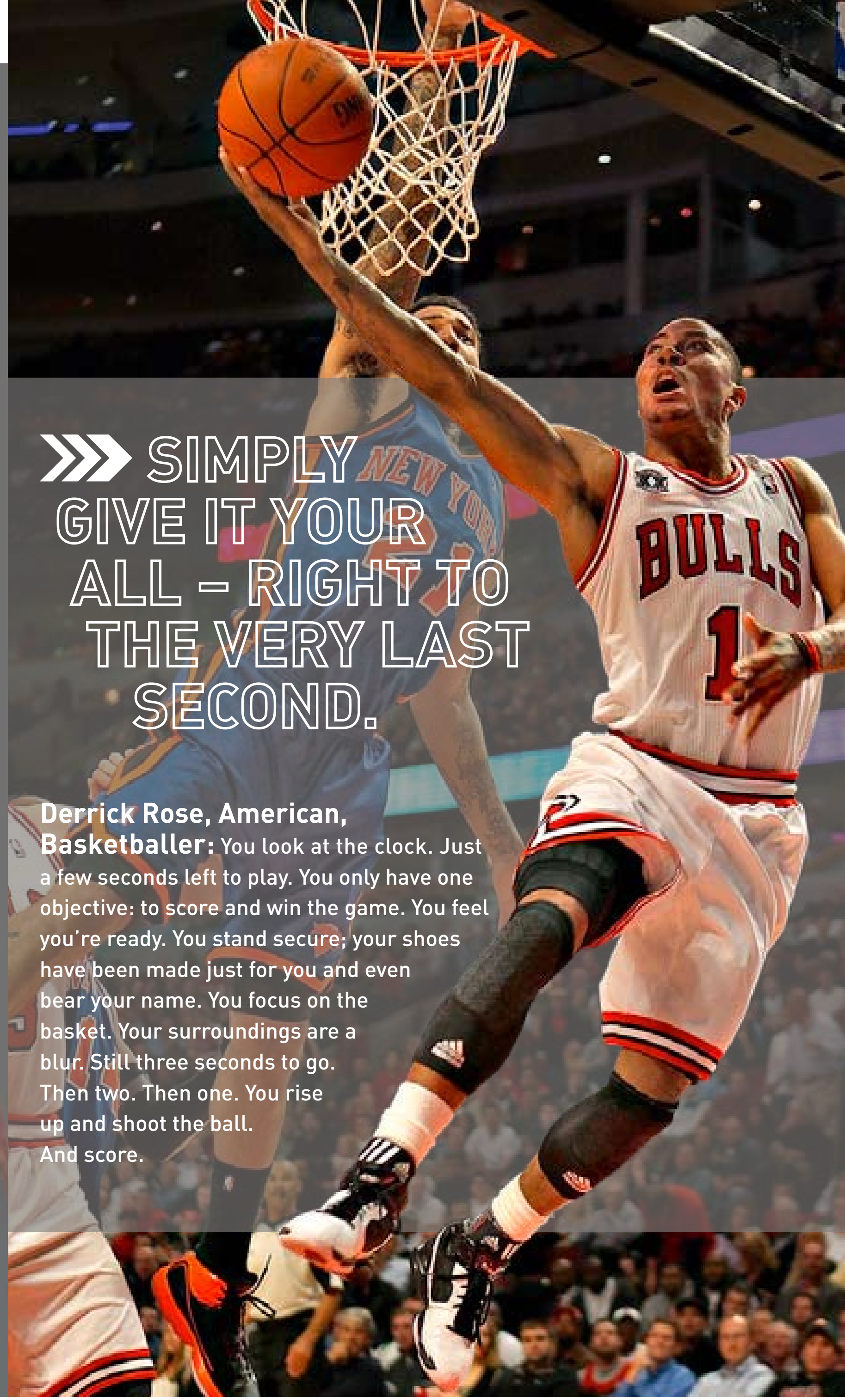
Robert: In basketball, everything is about team and trust. And it's about playing! That's why I love to organise open runs, friendly games and tournaments for us adidas ballers, on top of my everyday job. When we play together, we are all united by the same passion for the sport, no matter where we come from or what language we speak. Through basketball I made great friends in this company and I am grateful to work for an employer who supports us in living our sport.

Vince: I literally was hooked on basketball from birth – and I haven't stopped playing since. When you grow up in Brooklyn, New York, it's almost impossible to not fall in love with the game. As a child, I played puff basketball in my room and could not keep my eyes off the TV when the Knicks were on. As I grew up, I would see the older guys playing in the park and would think "I want to be as good as them". At the age of nine, I joined a team. Eventually, the sport got me an athletic scholarship for college and laid the ground for my future career. Today, I'm still hooked on basketball: I am fortunate to be the Global PR Manager for adidas Basketball and regularly play with my colleagues in our company sports basketball team. Being among employees who share the same passion for the game makes me feel at home even when I'm actually thousands of kilometres away.

adiZero Rose 1.5

adidas kicked off the NBA season with signature shoes for two of the NBA's most dynamic players: Derrick Rose and Dwight Howard. The pictured adiZero Rose 1.5 is a high-performance basketball shoe with the ideal balance of support and light weight that gives Derrick Rose the edge to help him do the impossible. It is Rose's second signature shoe and at 368 grams it is one of the lightest adidas basketball shoes to date.

Find out more about adidas basketball:
www.adidas.com/basketball



SIMPLY GIVE IT YOUR ALL – RIGHT TO THE VERY LAST SECOND.

Derrick Rose, American, Basketballer: You look at the clock. Just a few seconds left to play. You only have one objective: to score and win the game. You feel you're ready. You stand secure; your shoes have been made just for you and even bear your name. You focus on the basket. Your surroundings are a blur. Still three seconds to go. Then two. Then one. You rise up and shoot the ball. And score.

»» A NEW ROUTE IS LIKE A BLANK PIECE OF PAPER.

Zuzanna Asztemborska, Polish,
Senior Product Manager Outdoor,
adidas

For me, there's no better feeling than climbing a mountain – as fast as possible. Standing at the foot of the mountain, after all the preparations and planning, what counts for me first and foremost is the time. My focus is on the athletic perspective, following the motto "fast and light". My speed on the mountain is also a safety factor, especially in the high-alpine area. I go to the mountains to challenge myself, physically and mentally. Beforehand, you actually never know how a tour is going to end – whether you will reach the top or not. You never know what the weather is going to be like. That's what makes it so hard to compare performance in the mountains. What counts is your performance – on a particular day, in a particular place, at a particular time. Basically, it's all just a particular moment. For me, the thrill lies in capturing these moments. Risk is your constant companion, it's an integral part of it all. You have to be fully focused at all times, in order to identify and respect your personal limits. Once, I was on an expedition on Ojos del Salado in Chile, the highest volcano in the world. I was climbing alone, and extreme weather conditions made it impossible for me to climb the last three metres to the top. I decided to turn back – and yet it was one of my biggest successes. It's not by chance that today I work at adidas as Senior Product Manager for the Outdoor category. It means I can test our products, and from my own experience I know what mountain sports enthusiasts really need.

Find out more about adidas outdoor:
www.adidas.com/outdoor

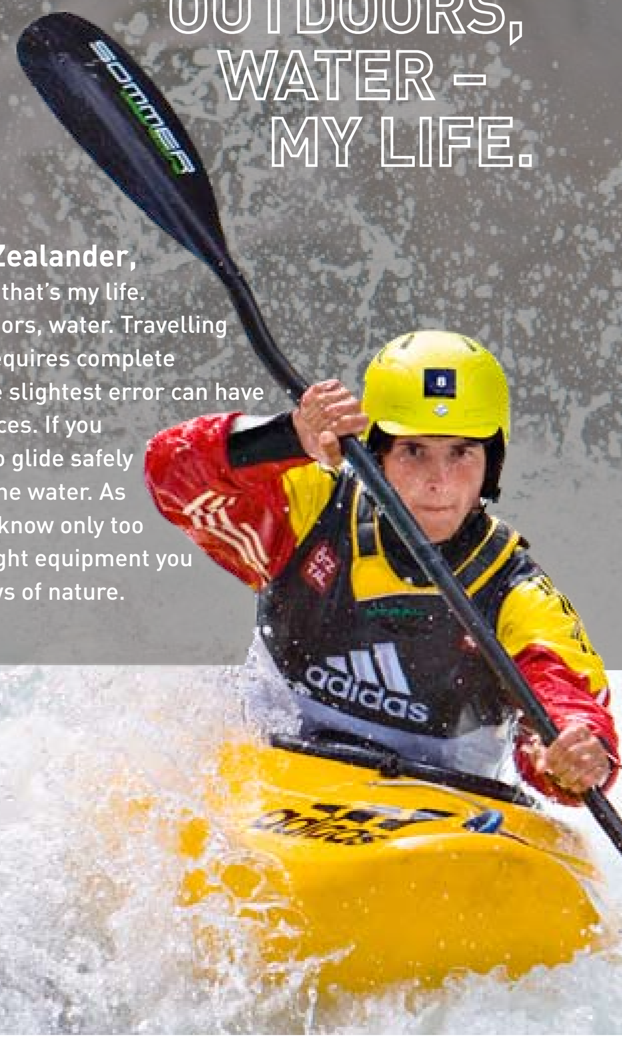
Terrex Hybrid Jacket

With the Terrex Hybrid jacket adidas has created an all-round talent in wind and rain and therefore the perfect equipment for outdoor sporting activities. The ultra-light and hard-wearing soft-shell jacket is resistant to cold, wind and damp and can be worn either as an outer layer or a mid layer.

Terrex Fast X FM Mid GTX

Lightweight, fast and multifunctional – these are the attributes that best describe the Terrex Fast X FM Mid GTX. Featuring a sporty last – tightly fitted in the midfoot area and with plenty of room for the toes – this shoe offers outdoor athletes support and cushioning for all their fast activities in the mountains. In addition, the Formotion technology enhances motion control in rough terrain and downhill comfort.

⋙ NATURE, THE GREAT OUTDOORS, WATER – MY LIFE.



Sam Sutton, New Zealander, Kayaker: Kayaking – that's my life. Nature, the great outdoors, water. Travelling in fast-flowing rivers requires complete concentration. Even the slightest error can have devastating consequences. If you want to win, you have to glide safely and perfectly through the water. As an outdoor athlete you know only too well that without the right equipment you won't overcome the laws of nature.

adidas
Sport Style ⋙ Originals

⋙ BEING ORIGINAL IS MY SECRET OF SUCCESS.

B.O.B., American, Rapper and Producer: In hip hop – it's all about image. You have to be authentic, with your own style. You have to know where your roots are, where you come from. Being original is my attitude and the key to my success. I try to unite all this in my songs. Music is my life. It's my way to show people that there are endless possibilities for what you can do and achieve.

Find out more about adidas Originals:
www.adidas.com/originals

Originals Denim

With its spring/summer 2011 collection, adidas Originals introduces for the first time an in-house denim collection and takes the lead in implementing Originals Denim as a constant and long-term part of its holistic streetwear offer. The denim collection will consist of two styles for both men and women, in a variety of washings, and with a special feature that is worthy of a famous sneaker provider presenting its own denim.

Originals Mega Soft Cell BHM

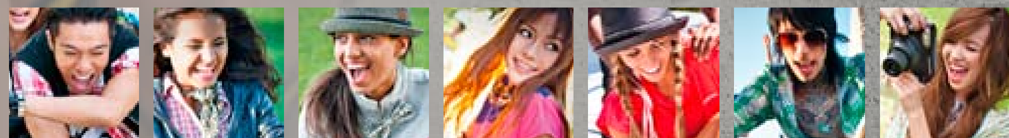
The adidas Originals footwear concept Mega consists of fresh sneaker models featuring two of the most iconic adidas technologies amplified for modern street style – "Torsion" and "Soft Cell". Bringing more style and comfort to every step, the pictured adidas Mega Soft Cell BHM has a taller, more rugged street basketball build, with textured embossing, a chunky collar and tongue, and Soft Cell cushioning in the heel.

adidas

Sport Style » NEO

LIVING LIFE TO THE FULLEST.

adidas NEO label's Go Squad: With its NEO label, adidas Sport Style expands in the fast fashion business, targeting young, style-adopting consumers. For spring/summer 2011, the adidas NEO label introduces the Go Squad, a group of up-and-coming teens who embody the NEO label identity and are actively pursuing their respective passions. Featuring an array of rising musicians, models, actors and fashion icons, the Squad unites Trace Cyrus (USA), Jessica Brando (Italy), Tal (France), Chau Pak Ho (Hong Kong), Angela Yang "Angelababy" (Hong Kong), Anita Bhoumik (Russia) and Kylee Saunders (Japan).



Pak Ho Anita Tal Angelababy Jessica Trace Kylee

Live with style with adidas NEO and find out more about adidas NEO: **www.adidas.com/neo**

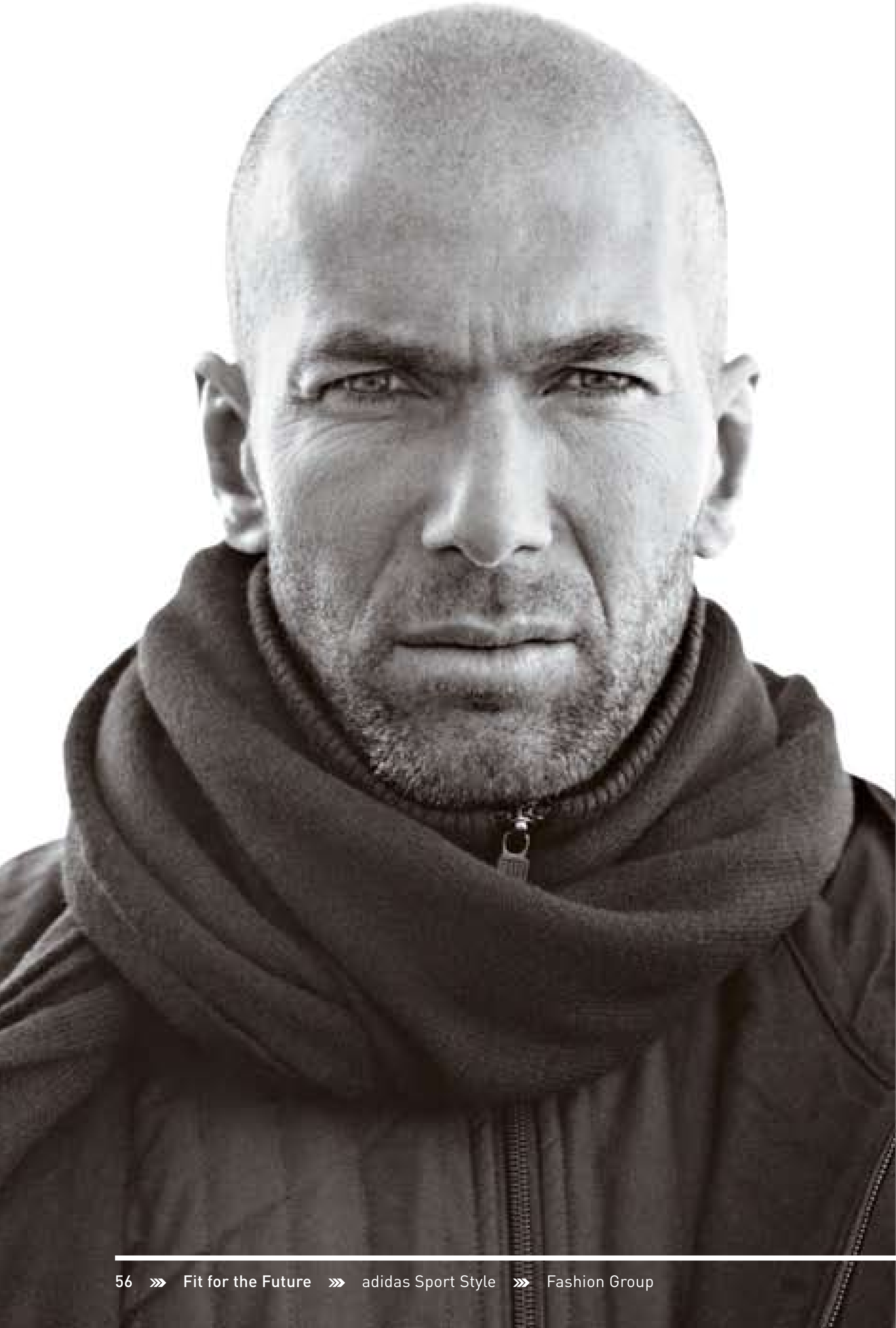
NEO Label Spring/Summer 2011 Collection

For spring/summer 2011, the adidas NEO label reinvents wardrobe must-haves with an assortment that fuses sport and style, creating casual head-to-toe looks for young, style-minded consumers. The guys' assortment features graphic tees, cargo shorts and hoodies in vivid colours, and parts of the collection also incorporate inspiration from world-renowned athlete and style icon David Beckham.

NEO Cup

Streetwise with a splash of tennis shoe style, the adidas NEO label NEO Cup steps out with a mix of leather and suede uppers, plus Vibe Complete comfort in every step.

adidas
Sport Style ⋙ Fashion Group



FOOTBALL MEETS FASHION.

Zinédine Zidane, French, Footballer: Probably everyone knows that sport is my greatest passion. However, few people are aware that fashion comes next. I like to feel comfortable in my own skin and I make this happen with training and through my own style. On the pitch and in my daily life, I value passion, foresight and a clear vision. In no other label is the symbiosis of fashion and sport as evident as it is in Y-3. adidas represents sport, Yohji Yamamoto represents design. This is why I am a big fan of Y-3.

Porsche Design Sport Driver's Jacket

Inspired by the adrenalin-fueled technical demands of open road racing, the Porsche Design Sport Race Edition range – debuting in spring/summer 2011 – is engineered with performance-enhanced details like climate regulation and wind and rain protection. The Driver's Jacket, for instance, is engineered from two highly functional fabrics: a 3-layer water-repellent blend with 4-way stretch for front and sleeves; bonded 2-layer knit on the back.

SLVR Clima Wedge

Targeted at consumers between 24 and 36, adidas SLVR stands for sophisticated, classic, yet fresh and confident sportswear that lasts longer than one season. adidas SLVR continues to evolve, reflecting the tone and pace of today's world. It stresses the importance of living, working and designing in smarter and more efficient ways. On the footwear front, in spring/summer 2011 adidas SLVR introduces a graphic mesh wedge for women in sorbet colours.

Y-3 Kubo

The Y-3 Kubo defines a new footwear style and comes in a mid- and high-top version. Each model is available only in small, medium or large as it features an expandable sole. This lightweight Kubo shoe for men and women boasts a fully foldable sole for the first time within the Y-3 range and feels a bit like walking on air.

Find out more about adidas Sport Style:
www.adidas.com

»» I AM A FITNESS ADDICT.

Sharon Wright, English,
Marketing Manager Women's,
Reebok

Variety, fun and a trained body – these are the reasons that made me become a fitness addict. I like to define and shape my body through a good and diverse workout. What I don't like in my training is uniformity. I've been exercising since school and I can safely say: Fitness is an important part of my life. I love the feeling a good workout gives me. After the workout I really feel a huge sense of achievement at reaching my daily goal. It amazes me how much I can push myself to the limit and give everything that I can to complete the exercises. This is a very powerful experience and a great belief system to take away from sport into everyday life. My lunchtime workouts are part of my daily to-do list and I appreciate the fact that Reebok as my employer makes that possible. My gym kit is nearly as big as my wardrobe, but my favourite product is probably the EasyTone. My role as Marketing Manager Women's fits perfectly to me as it revolves around my passion: fitness. I often have to take fitness instructors from different studios through Jukari classes, CrossFit sessions or toning exercises and explain the benefits of the workouts. And I am creating new fitness classes for the brand and can put all my experience into this creative process. How cool is that?

EasyTone Long Bra Top

With the launch of EasyTone apparel in the second half of 2010, the brand introduced the first head-to-toe toning offer in the marketplace. One of the highlight features are Reebok's proprietary ResisTone bands which provide resistance, helping to enhance activation of the muscles with every move. The pictured EasyTone long bra top is designed to help tone key upper body muscles and promote greater postural alignment.

EasyTone Reenew

Building on the success EasyTone celebrated globally in 2010, Reebok launches its 2011 EasyTone collection in many stylish silhouettes and colourways. All shoes in this collection feature Moving Air Technology with balance ball-inspired pods and are designed to create micro-instability and tone key leg and butt muscles. The pictured EasyTone Reenew offers a layered mesh-based shoe providing breathability and a stylish look with any workout outfit or weekend wear.

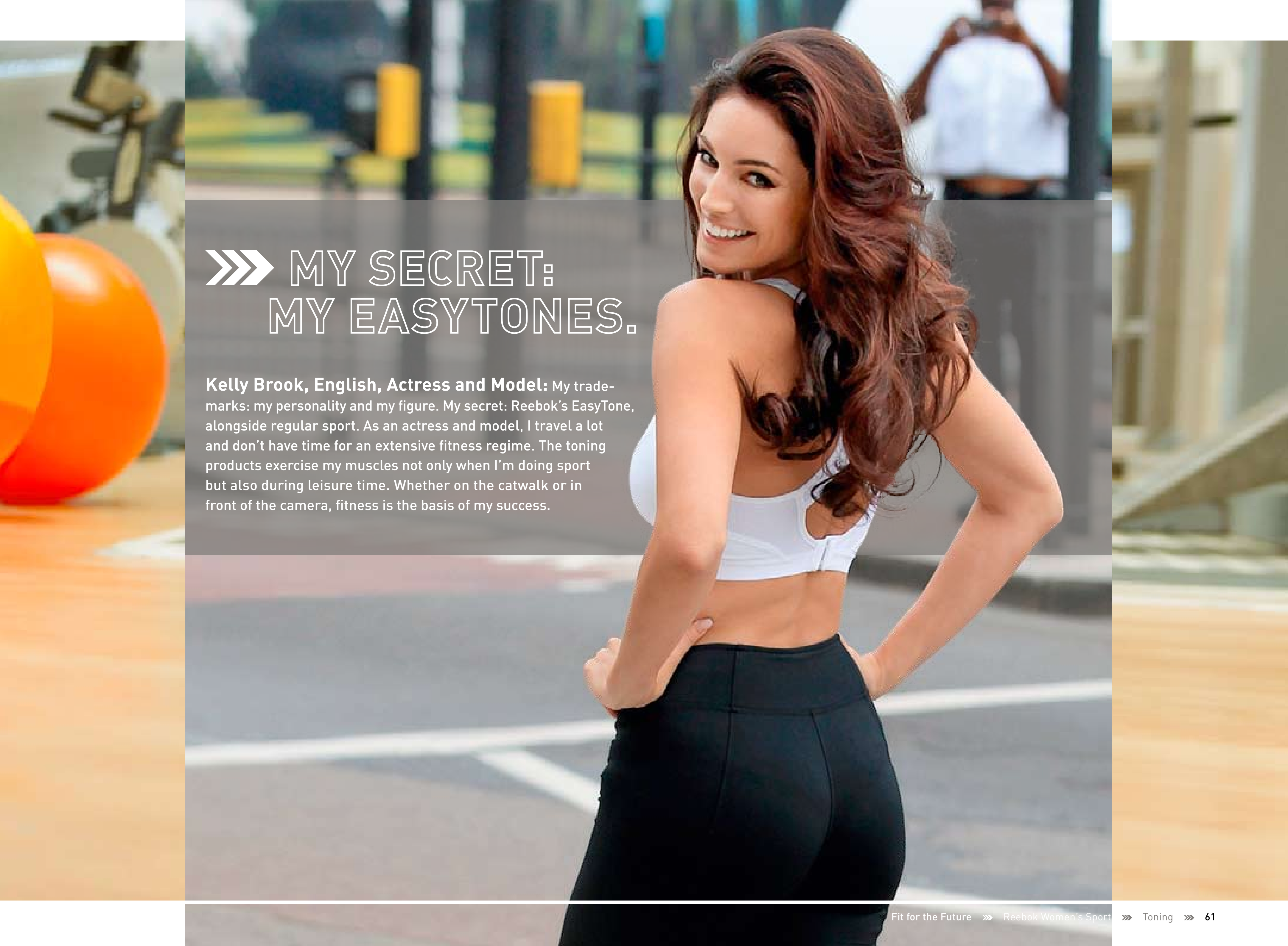
Find out more about Reebok Toning:
www.reebok.com

EasyTone Capri Pants

Part of the new EasyTone apparel collection, EasyTone capri pants are designed to help tone the hamstring, quadriceps and butt muscles with every step. EasyTone capri pants feature Reebok's proprietary ResisTone bands, which provide muscle resistance. The fitted pants feature back pocket detailing and are perfect to wear during everyday activities or while training at the gym.

RunTone Ready

The RunTone Ready provides women with a running shoe that creates micro-instability and softness that is designed to help tone key butt and leg muscles while she runs. The RunTone Ready comes in a variety of great colourways.



MY SECRET: MY EASYTONES.

Kelly Brook, English, Actress and Model: My trademarks: my personality and my figure. My secret: Reebok's EasyTone, alongside regular sport. As an actress and model, I travel a lot and don't have time for an extensive fitness regime. The toning products exercise my muscles not only when I'm doing sport but also during leisure time. Whether on the catwalk or in front of the camera, fitness is the basis of my success.

⋙ MY FITNESS TRAINING – FAST, INTENSE AND DIVERSE.

Jeremy Bauer, French,
Marketing Director Market Central,
Reebok

My job as Marketing Director is just like my fitness training – fast, intense and diverse. And that suits me down to the ground, because what I don't like is boredom. My job always comes first of course, but when I find time for training I need new challenges, fun and energy. In sport, I really want to exert myself, reduce stress and be challenged. Reebok ZigTechs play a big role in my training. I always have them with me. They give me that extra energy kick, as they did in Hamburg in August, in Germany's first Urbanathlon. This fitness race involved running a distance of 10 km with 891 steps, 12 obstacles and 200 metres difference in altitude. Whether running pros or newbies, you could tell that all 2,000 participants knew this wasn't going to be a walk in the park. I had to scramble over containers, navigate through a traffic jam and make my way over a five-metre high halfpipe. It felt like being in an action film, and there were 15,000 spectators cheering me on. Next year, we're going to compete with our entire Reebok Market Central Marketing Team. What better team bonding can you have than training together and working towards a shared goal? I can't imagine any other job that combines performance, fun and enthusiasm for a brand and its products to this extent.

Find out more about Reebok ZigTech:
www.reebok.com

ZigTech Nano

Reebok's ZigTech footwear utilises a unique zig zag geometry that delivers energy transfer back to a runner's stride. The result is reduced muscle fatigue in the shins. In spring 2011, the next category-specific evolution of ZigTech follows with the launch of ZigTech Nano: a lower-profile version of the original ZigTech, which offers a lightweight ride for the more efficient running consumer.

ZigTech Track Jacket

Like ZigTech footwear, ZigTech apparel is all about energy. ZigTech apparel is engineered with special fibres which are knit or woven into the fabric of each garment. These fibres are made with a collection of natural minerals that absorb and reflect energy emitted by the body and recycle it back to the body through the skin. As this recycled energy returns to the body, it helps to increase oxygen levels.

BASKETBALL – A GAME? IT'S MUCH MORE THAN THAT.

John Wall, American, Basketballer: Basketball – a game? It's much more than that. It's a culture and a lifestyle. Basketball is the dream of a lot of kids. It's intense: sprinting, jumping, and changing direction quickly.

You need a great deal of strength and energy – the more you have, the better you'll play. I'm a point guard in the NBA, so I'm constantly moving around during a game. Whether I'm dribbling, passing, or scoring the ball, I'm never standing still. My ZigSlash basketball kicks give me that extra edge of energy I need.

Reebok
Classics

TEN STEPS AHEAD OF WHAT'S HAPPENING.

Swizz Beatz, American, Artist, Designer and Producer: I love to be ten steps ahead of what's happening on the scene. I am weaving through the parallel worlds of fashion, music and art. In each world, I don't want to be typical. Reebok Classics fits perfect to my chameleon-like quality. For me, style and sound double as a conduit of inspiration for my art. With my work and style I want to inspire others to be creative and innovative, too – using creative influence to mobilise the youth.

Classic Heritage Sport Apparel Collection

The Classic Heritage Sport Woven Coach's jacket is part of the spring/summer 2011 Heritage Sport Woven Label collection which launched in January 2011. It features the Classics dropped R branding on the left chest, which is exclusively used in Reebok's Classics collection. The collection for spring/summer 2011 is characterised by the retro look in the American college sports style.

Classic Lite Footwear Collection

The new Classic Lite collection features iconic Reebok styles together with lightweight materials to deliver the perfect blend of form and function. The traditional EVA rubber outsoles have been replaced by lightweight 3-D Ultralite outsoles that also offer superior cushioning. The shoes in the Classic Lite collection come in bright colourways such as "fearless purple" or the trend colour "malibu blue", making them real eyecatchers on the streets or at the club.

Find out more about Reebok Classics:
www.reebok.com/us/classics

TaylorMade-adidas Golf

SOMETIMES ALL IT TAKES IS ONE SHOT.

Steve Olsen, American,
Social Media and eMarketing Coordinator,
TaylorMade-adidas Golf

My job interview was a 50-day golf adventure across nine countries on three continents, that included more than 20 rounds. I took on the Wear in the World Adventure. In June 2010, TaylorMade-adidas Golf sent two candidates on a golf adventure with the winner earning a position in the company's marketing department. I have been playing golf since the age of two and always dreamed of working in the golf industry. This challenge was my once-in-a-lifetime opportunity. For me, the Wear in the World Adventure was part golf challenge and part growing as an individual. It pushed me to my limits, both mentally and physically. All the practice time at the driving range, all the years of playing golf, it all led to this moment. One of the greatest experiences along the way was playing in Herbert Hainer's Pro-Am tournament with TaylorMade-adidas Golf PGA Tour Staff. I knew if I stayed focused, I'd succeed – and I did. Being a part of the Wear in the World Adventure and ultimately winning has been my greatest success in life. I am 25 years old and now have my dream job working for the No. 1 golf company in the world.

Find out more about TaylorMade-adidas Golf:
www.taylormadegolf.com
www.adidasgolf.com

R11 Driver

The R11 takes metalwood adjustability further than ever by incorporating Adjustable Sole Plate Technology, Flight Control Technology and Movable Weight Technology. This allows golfers to customise the driver more specifically to the individual swing, promoting 100 yards of side-to-side trajectory change.

adiComfort Golf Shoe

Available in multiple widths and extended sizes, adiComfort shoes are engineered to provide a fit for every foot and highest comfort from heel to toe. Golfers experience maximal walking comfort and performance together with a sportive, classic look.

Burner SuperFast 2.0 Driver

Improved SuperFast technology and a more aerodynamic clubhead shape make the Burner SuperFast 2.0 driver longer, lighter and faster than any previous TaylorMade driver. The ultra-large face promotes higher launch and lower spin, all for more distance.

adiPure Z Golf Shoe

Designed for the competitive purist, adiPure Z features a modern approach to a classic footwear design characterised by elegant lines, exquisite detailing and premium materials. Hand-finished full-grain leather and a newly styled upper provide a rich look and feel while adiPrene cushioning technology ensures enhanced impact absorption in the heel for long-lasting comfort.

THE SOUND WHEN YOU TEE OFF: MUSIC TO MY EARS.

Martin Kaymer, German, Golfer: The test swing felt good. You approach the tee and position the ball, full of concentration. The driver sits perfectly in your hands. Its lightness makes it unique. You raise your arms for the swing. Driven on by meticulousness and perfection, you want to be the best. The club hits the ball – the sound is music to your ears and the ball doesn't stop until it reaches the green.

Reebok-CCM Hockey

IMAGINE MY LIFE WITHOUT HOCKEY? IMPOSSIBLE.

Jean-Claude Bergeron, Canadian,
Pro Product Director,
Reebok-CCM Hockey

Ice hockey is part of me – it made me into who I am today. It all started as a life dream that turned into reality. When I was four years old and started playing hockey my greatest dream was to become a pro. Making it into the NHL wasn't easy, as many knock on that door and don't succeed. But to play for the Montreal Canadiens for sure was my greatest success as an athlete. After retiring from playing as a pro, I had to transit from on-ice to off-ice, because I could not imagine my life without ice hockey. When I was offered a job at Reebok-CCM Hockey, I was happy to have the opportunity to combine my love for hockey with my everyday work life. As Pro Product Director I work closely with the research and development team to bring to market the best possible product for our pro athletes, and the great thing: I get the chance to test as many new products as possible and give valuable feedback. Currently I play with the U+ Crazy Light stick. Having had the chance to play the game at the highest level gives me an edge and advantage in understanding the business better. And it enables me to provide the best players in the world with the equipment they need to play at their best.

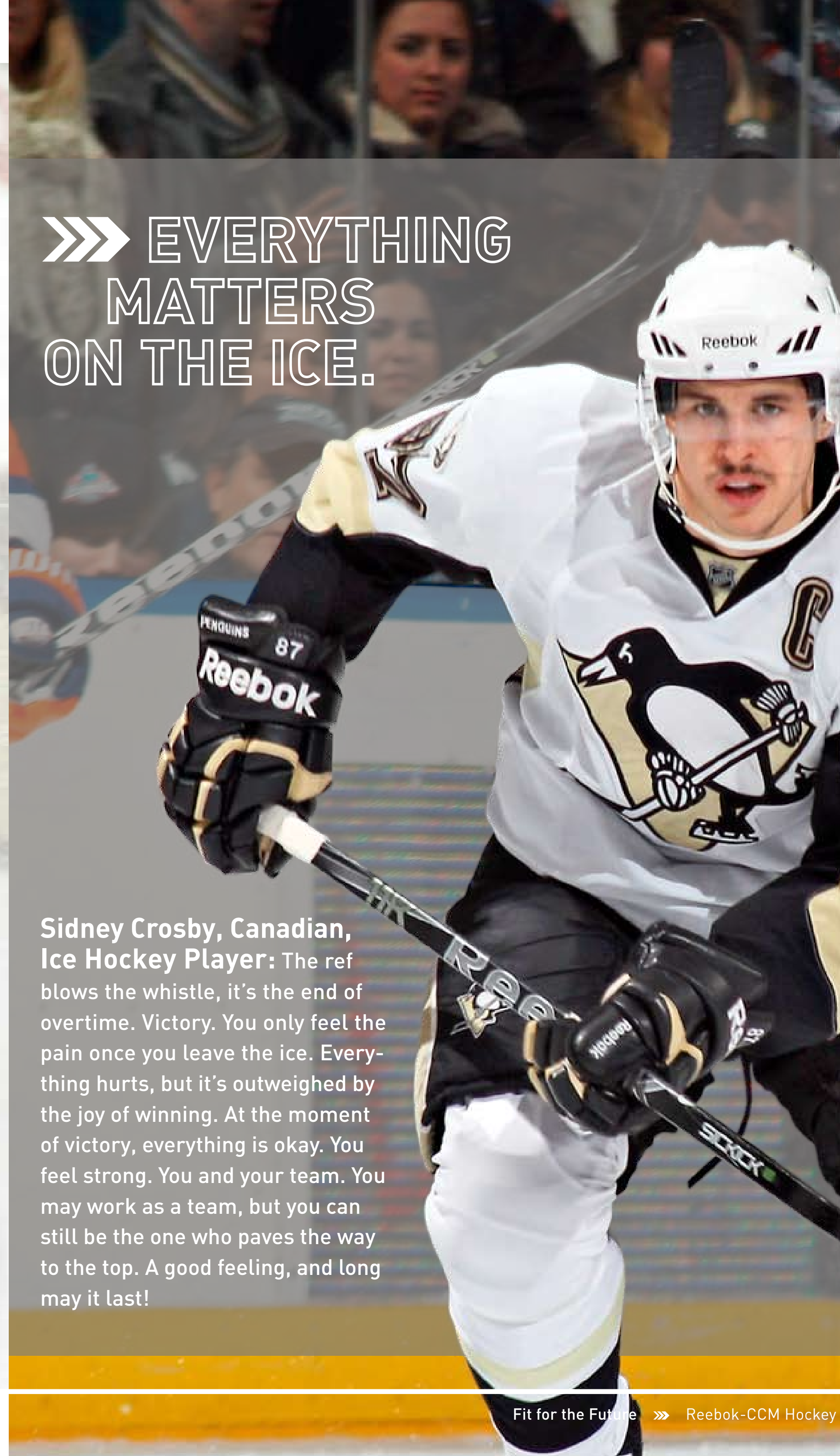
Find out more about Reebok-CCM Hockey:
www.ccmhockey.com
www.reebokhockey.com

CCM U+ Crazy Light Stick

Still the lightest stick in its category, the new U+ Crazy Light allows for quicker reaction time, a faster swing speed and a faster shot. Two vertical and parallel carbon bridges run the length of the blade, enhancing the sweet spot from the heel all the way to the toe.

CCM U+ Crazy Light Skate

Built to meet the needs of today's best players, this U+ Crazy Light skate offers a perfect fit. Its Fluid Fit System creates an environment of instant step-in comfort for the foot prior to thermo-forming. Beyond comfort, the U+ Crazy Light is also CCM's most customisable skate due to UForm-3D, a technology featuring highly heat-reactive UFOAM material, which moulds to the 3-dimensional surfaces of the foot.



EVERYTHING MATTERS ON THE ICE.

Sidney Crosby, Canadian, Ice Hockey Player: The ref blows the whistle, it's the end of overtime. Victory. You only feel the pain once you leave the ice. Everything hurts, but it's outweighed by the joy of winning. At the moment of victory, everything is okay. You feel strong. You and your team. You may work as a team, but you can still be the one who paves the way to the top. A good feeling, and long may it last!

STYLE MADE COMFORTABLE.

Audry Qtr Strap Woven

The Audry Qtr Strap Woven permits personalised fit and belongs to Rockport's Craftsmanship collection. Harkening back to an earlier era of workmanship, Rockport has taken the tradition of hand-finished details, treated leathers and woven accents to the next level with this collection. With adiPrene by adidas, a heel height of 85mm, and a 20mm platform, the shoe guarantees a glamorous appearance to the consumer.

Fairwood Hillandale

The Fairwood Hillandale shoe incorporates burnished leathers that are buffed and finished by hand for a vintage look. The shoe is part of the Craftsmanship collection. Rockport's design team was inspired by the range of craftsmanship they encountered while travelling through open-air markets and artisan studios all over the world.

Hydromotion 2 Hydro-Sail

This sporty comfortable style belongs to the In Motion collection which is Rockport's expression of the saying: Form meets function. Rockport has revisited classic patterns and styles and applied advanced technologies and materials to create technologically modern footwear with contemporary styling. This sailing shoe was worn by the Mascalzone Latino Audi Team for the 2010 Louis Vuitton Trophy.

Find out more about Rockport:
www.rockport.com

Tone While You Live

In February, Reebok launched the 2011 women's campaign "Tone while you live" with six inspirational EasyTone fans, known as the "ReeToners". They represent women from around the world who fit fitness into their busy lives even more with EasyTone. Joining the ReeToners as a global celebrity ambassador is actress and global icon Eva Mendes. The campaign officially launched the EasyTone apparel collection.

03

Group Management Report – Our Group

Corporate Mission Statement

Our Mission

THE ADIDAS GROUP STRIVES TO BE THE GLOBAL LEADER IN THE SPORTING GOODS INDUSTRY WITH BRANDS BUILT ON A PASSION FOR SPORTS AND A SPORTING LIFESTYLE.

We are committed

to continuously strengthening our brands and products to improve our competitive position.

We are innovation and design leaders

who seek to help athletes of all skill levels achieve peak performance with every product we bring to market.

We are consumer focused

and therefore we continuously improve the quality, look, feel and image of our products and our organisational structures to match and exceed consumer expectations and to provide them with the highest value.

We are a global organisation

that is socially and environmentally responsible, that embraces creativity and diversity and is financially rewarding for our employees and shareholders.

We are dedicated

to consistently delivering outstanding financial results.

Group Brands

adidas GROUP

Wholesale

68% of Group sales

Retail

20% of Group sales

Other Businesses

12% of Group sales

adidas (72% of Group sales)

adidas Sport Performance (75% of adidas sales)
The guiding principle of adidas Sport Performance is "Play to Win". Inspired by the motivation of our founder Adi Dassler, Sport Performance brings passion for great products to athletes in all sports, allowing them to be faster, stronger, smarter, cooler and natural. The main focus of adidas Sport Performance is on five key categories: football, basketball, running, training and outdoor.

adidas Sport Style (25% of adidas sales)
adidas Sport Style houses two groups. The Originals Group is the authentic, iconic sportswear label for the street and its message is Celebrate Originality. The Fashion Group is defined as the Future of Sportswear and includes the labels Y-3[1], Porsche Design Sport, adidas SLVR and adidas NEO. Through these four labels adidas brings authentic sportswear to the full spectrum of lifestyle consumers.

Reebok (16% of Group sales)

Throughout its history and again today, Reebok's success is based on its commitment to challenge convention: developing innovative products, creating new markets, and setting the latest athletic style. Inspired by its roots in fitness, Reebok is a global sports brand that is committed to preparing consumers to be fit for life.

TaylorMade-adidas Golf (8% of Group sales)

TaylorMade (66% of TaylorMade-adidas Golf sales)
TaylorMade leads the golf industry in metalwood sales and is the No. 1 driver brand on the world's major professional golf tours. The brand is recognised globally for its capacity to develop innovative and performance-enhancing technologies for drivers, fairway woods, hybrids, irons, putters and balls.

adidas Golf (31% of TaylorMade-adidas Golf sales)
adidas Golf targets active, serious, athletic-minded golfers who recognise that advanced technologies can significantly improve the performance of golf footwear and apparel.

Ashworth (3% of TaylorMade-adidas Golf sales)
Ashworth is an authentic golf apparel brand known for quality, comfort and distinctive design that moves effortlessly from the golf course to the clubhouse and beyond.

Rockport (2% of Group sales)

Building on four decades of engineering expertise and a commitment to innovation, Rockport designs and markets dress, casual and outdoor footwear that fuses contemporary style and engineered comfort targeting the metropolitan professional consumer.

Reebok-CCM Hockey (2% of Group sales)

Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of hockey equipment and apparel with two of the world's most recognised hockey brand names: Reebok Hockey and CCM Hockey.

1) From a segmental perspective, Y-3 is consolidated as part of Other Businesses.

Major Locations and Promotion Partnerships

The adidas Group sells products in virtually every country around the world. As at December 31, 2010, the Group had 169 subsidiaries worldwide with our headquarters located in Herzogenaurach, Germany. Our Group has also assembled an unparalleled portfolio of promotion partnerships around the world, including sports associations, events, teams and individual athletes. Our Group's most important locations and upcoming sporting events are highlighted on the world map.

Major Locations

Europe

adidas Group Headquarters, Herzogenaurach, Germany ⋙ 01
adidas International Trading, Amsterdam, Netherlands ⋙ 02
adidas Group Russia, Moscow, Russia ⋙ 03

North America

adidas North America, Portland/Oregon, USA ⋙ 04
Reebok International Headquarters, Canton/Massachusetts, USA ⋙ 05
The Rockport Company Headquarters, Canton/Massachusetts, USA ⋙ 06
Reebok–CCM Hockey Headquarters, Montreal/Quebec, Canada ⋙ 07
TaylorMade-adidas Golf Headquarters, Carlsbad/California, USA ⋙ 08

Asia

adidas Global Sourcing, Hong Kong, China ⋙ 09
adidas Group China, Shanghai, China ⋙ 10
adidas Group Japan, Tokyo, Japan ⋙ 11

Latin America

adidas Group Latin America, Panama City, Panama ⋙ 12

Major Promotion Partnerships 2011

IHF Men's World Championship, Sweden January 13 – 30, 2011 ⋙ A
adidas Official Partner of International Handball Federation

NHL All-Star Game, Raleigh/North Carolina, USA January 30, 2011 ⋙ B
Reebok Official Outfitter of National Hockey League

NFL Super Bowl, Arlington/Texas, USA February 6, 2011 ⋙ C
Reebok Official Outfitter of National Football League

NBA All-Star Game, Los Angeles/California, USA February 20, 2011 ⋙ D
adidas Official Outfitter of National Basketball Association

Flora London Marathon, London, UK April 17, 2011 ⋙ E
adidas Official Sponsor

Boston Marathon, Boston/Massachusetts, USA April 18, 2011 ⋙ F
adidas Official Apparel and Footwear Outfitter

UEFA Europa League Final, Dublin, Ireland May 18, 2011 ⋙ G
adidas Official Match Ball Supplier for UEFA Europa League

French Open, Paris, France May 22 – June 5, 2011 ⋙ H
adidas Official Partner of Roland Garros

UEFA Champions League Final, London, UK May 28, 2011 ⋙ I
adidas Official Match Ball Supplier for UEFA Champions League

FIFA Women's World Cup, Germany June 26 – July 17, 2011 ⋙ J
adidas Official Sponsor

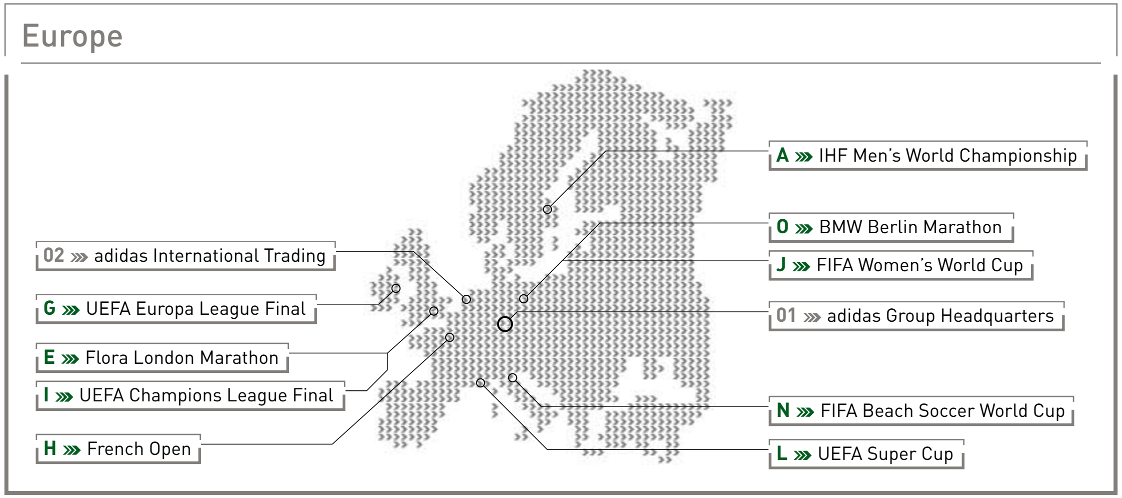
MLB All-Star Game, Phoenix/Arizona, USA July 12, 2011 ⋙ K
Reebok Official Licensee of Major League Baseball fan and lifestyle apparel and Official Authentic Collection Footwear Supplier

UEFA Super Cup, Monaco August 26, 2011 ⋙ L
adidas Official Match Ball Supplier

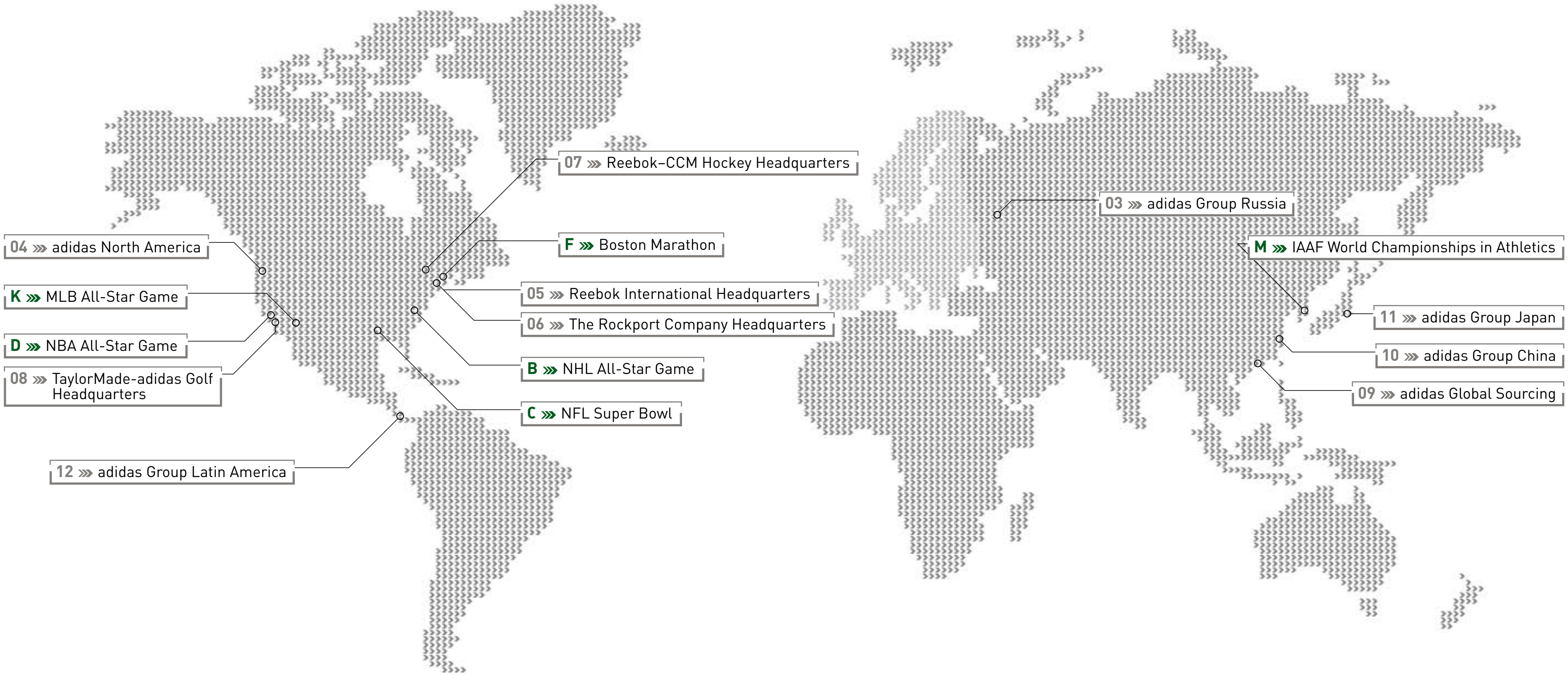
IAAF World Championships in Athletics, Daegu, South Korea August 27 – September 4, 2011 ⋙ M
adidas Official Partner

FIFA Beach Soccer World Cup, Italy September 1 – 11, 2011 ⋙ N
adidas Official Sponsor

BMW Berlin Marathon, Berlin, Germany September 25, 2011 ⋙ O
adidas Official Partner



Europe
A »» IHF Men's World Championship
O »» BMW Berlin Marathon
J »» FIFA Women's World Cup
01 »» adidas Group Headquarters
N »» FIFA Beach Soccer World Cup
L »» UEFA Super Cup
02 »» adidas International Trading
G »» UEFA Europa League Final
E »» Flora London Marathon
I »» UEFA Champions League Final
H »» French Open



07 »» Reebok-CCM Hockey Headquarters
03 »» adidas Group Russia
F »» Boston Marathon
M »» IAAF World Championships in Athletics
04 »» adidas North America
K »» MLB All-Star Game
05 »» Reebok International Headquarters
06 »» The Rockport Company Headquarters
11 »» adidas Group Japan
10 »» adidas Group China
D »» NBA All-Star Game
B »» NHL All-Star Game
09 »» adidas Global Sourcing
08 »» TaylorMade-adidas Golf Headquarters
C »» NFL Super Bowl
12 »» adidas Group Latin America

Group Strategy

Our goal as a Group is to lead the sporting goods industry with brands built upon a passion for sports and a sporting lifestyle. Inspired by our heritage, we know that a profound understanding of the consumer and customer is essential to achieving this goal. To anticipate and respond to their needs, we continuously strive to create a culture of innovation, challenging ourselves to break with convention and embrace change. By harnessing this culture, we push the boundaries of products, services and processes to strengthen our competitiveness and maximise the Group's operational and financial performance. This, in turn, will drive long-term value creation for our shareholders.

Creating shareholder value

Creating value for our shareholders through significant cash flow generation drives our overall decision-making process see Internal Group Management System, p. 126. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth, and ultimately cash flow. For each of our segments, we pursue the avenues for growth which we expect to be most value-enhancing, with particular emphasis on improving profitability. In addition, rigorously managing working capital and optimising our capital structure remain key priorities for us. As always, we are committed to increasing returns to shareholders with above-industry-average share price performance and dividends.

Presentation of Route 2015

In November 2010, the Group unveiled its 2015 strategic business plan named "Route 2015". This plan is the most comprehensive the adidas Group has ever prepared, incorporating all brands, sales channels and Group functions globally.

Based on our strong brands, premium products, extensive global presence and our commitment to innovation and the consumer, we aspire to outperform total market growth (both GDP and sporting goods market) and to grow our bottom line faster than our top line. In addition, the Group plans to lay the foundation for leadership in the sporting goods industry by outgrowing our major competitor over the next five years. The plan aims at growing the revenues of the adidas Group by 45% to 50% currency-neutral from 2010 to 2015. In addition, the Group targets a compounded annual earnings growth rate of 15% and aims to reach an operating margin of 11% sustainably by 2015 at the latest see Subsequent Events and Outlook, p. 174. To achieve these goals, we have made strategic choices and will prioritise our investments under our six key strategic pillars see 01.

Diverse brand portfolio

Consumers want choice. Whether it is the athlete looking for the best possible equipment, or the casual consumer searching for the next fashion trend, we are inspired to develop and create experiences that engage consumers in long-lasting relationships with our brands. To maximise our consumer reach, we have embraced a multi-brand strategy.

This approach allows us to tackle opportunities from several perspectives, as both a mass and a niche player, providing distinct and relevant products to a wide spectrum of consumers. In this way, each brand is able to keep a unique identity and focus on its core competencies, while simultaneously providing our Group with a broad product offering, increasing our leverage in the marketplace see Global Brands Strategy, p. 87.

Investments focused on highest-potential markets and channels

As a Group, we target leading market positions in all markets where we compete. However, we have prioritised our investments based on those markets which offer the best medium- to long-term growth and profitability opportunities. In this respect, we continue to place a considerable emphasis on expanding our activities in the emerging markets, particularly China and Russia, as well as building market share in underpenetrated markets such as the United States see Subsequent Events and Outlook, p. 174.

No matter in which market we operate, we recognise that consumer buying behaviour and the retail landscape are unique. Therefore, to fully exploit market opportunities, we tailor our distribution strategy to present our brands to the consumer in the most impactful way. This is achieved by following a distinctive but coordinated channel approach. To this end, we strive to provide our customers with superior service to secure prime shelf space for our brands, while continuing our commitment to building a strategic competency in own retail and e-commerce see Global Sales Strategy, p. 82.

Creating a flexible supply chain

Speed and agility are key to outpacing the competition. We are committed to meeting the full range of customer and consumer needs by ensuring product availability in the correct size and colour, providing game-changing technical innovations and also the latest high-end fashion product to the highest quality standards.

A key strategic priority is to shorten creation and production lead times by continuously improving our infrastructure, processes and systems. By sharing information from point of sale to source and vice versa, we strive to connect and more closely integrate the various elements of our supply chain, to enable quick reaction to changing consumer trends. To this end, we focus on building maximum flexibility. While leveraging the efficiency of common infrastructure and processes, the Group strives to provide tailored solutions for all our business models, be it the wholesale or retail channels, or the performance-oriented or style-oriented businesses ››› see Global Operations, p. 106.

Leading through innovation

Everyone in the adidas Group is responsible for driving innovation. Therefore, we foster a culture of challenging convention and embracing change, and require all areas of the Group to generate at least one new meaningful innovative improvement per year. In particular, we believe that technological evolution and cutting-edge design in our products are essential to achieving sustainable leadership in our industry ››› see Research and Development, p. 110. Beyond this, enhancing services for our customers, ››› see Global Sales Strategy, p. 82, and implementing more efficient and effective internal processes are other areas where our organisation strives to innovate.

Develop a team grounded in our heritage

Our culture is continuously shaped by influences from the past and the present as well as our future aspirations. We perpetuate our founders' commitment to the athlete/consumer, pride in what we do, quality and love of sport. We win as a team through open communication, collaboration and our shared values found in sport ››› see i "Shared values". Therefore, we foster a corporate culture of performance, passion, integrity and diversity by creating a work environment that stimulates innovation, team spirit, and achievement based on strong leadership and employee engagement ››› see Employees, p. 115.

Becoming a sustainable company

Like any global business, the adidas Group must manage wide-ranging commercial and competitive pressure to deliver increased financial returns and growth. At the same time, we are accountable for our employees and have a responsibility towards the workers in our suppliers' factories and also for the environment. We are committed to striking the balance between shareholder interests and the needs and concerns of employees and workers and the environment, or, in short, to becoming a sustainable company ››› see Sustainability, p. 120. We report publicly on the steps we take to have a more positive impact on society and the planet ››› see 2010 Social and Environmental Online Report and on our website at ››› www.adidas-Group.com/sustainability.

adidas Group strategic pillars 01

Shared values

The adidas Group values help us to create brands that our customers believe in, and they commit us to playing by the rules that society expects of a responsible company.
– Performance
– Passion
– Integrity
– Diversity

››› see Corporate Mission Statement, p. 76.

Global Sales Strategy

The Global Sales function is responsible for the commercial activities of the adidas and Reebok brands. The function is organised in three distinctive channels – Wholesale, Retail and eCommerce. By catering to these three business models, the Group aims to service multiple customer and consumer needs to fully leverage brand potential, be more responsive to market developments and manage channel synergies by establishing best practices worldwide.

Global Sales defines strategic priorities until 2015

The Global Sales function directs all local market organisations responsible for the distribution of the adidas and Reebok brands. The key priority of Global Sales is to design and implement state-of-the-art commercial strategies that ultimately engage consumers with rewarding point-of-sale experiences.

As part of our Group-wide strategic business plan (Route 2015), which defines strategies and objectives for the period up to 2015, the Global Sales function has defined three strategic priorities:

- Increase the share of controlled space to 45% of sales by 2015
- Implement an integrated distribution roadmap to ensure further growth and maximise brand potential in key demographic locations
- Support growth initiatives in the Group's three key markets North America, Greater China and Russia/CIS.

Focus on controlled space

Our brands must be competitive at the point of sale, based on availability, convenience and breadth of product offering. As a result, we are continuously refining our distribution proposition with a strong focus on controlled space. Controlled space includes:

- Own-retail business
- E-commerce
- Mono-branded franchise stores
- Shop-in-shops
- Joint ventures with retail partners
- Co-branded stores with sports organisations and other brands.

These formats provide us with a high level of brand control, as we either manage the stores ourselves (i.e. own retail and e-commerce, managed by our Retail segment) or we work closely with our partners (e.g. for mono-branded franchise stores, shop-in-shops, joint ventures, co-branded stores, managed by our Wholesale segment) to ensure the appropriate product offering and presentation at the point of sale. We intend to increase our controlled space initiatives to 45% of Group sales by 2015. This will mainly be driven by growth in our Retail segment and the expansion of our own-store base as well as by growth initiatives within our Wholesale segment, such as the expansion of our franchise business.

Integrated distribution roadmap to increase brand presence and market share

In order to increase our global brand presence and ensure further growth of our business, our Global Sales function has set up a comprehensive initiative called "integrated distribution roadmap". The initiative encompasses a joint approach between our three channels to identify where we want our brands to be represented and in which distribution format in key markets. The initiative will allow us to define how best to capture the consumer in the biggest and most attractive cities around the world without cannibalising our brands and distribution mix. The roadmap is designed to ensure market share growth in underpenetrated affluent cities.

Focusing on three "attack" markets

As part of our strategic business plan Route 2015, the Global Sales function has identified North America, Greater China, Russia/CIS, Latin America, Japan, UK and India as key growth markets ⋙ see Subsequent Events and Outlook, p. 174. Of those markets, the three attack markets North America, Greater China and Russia/CIS are targeted to contribute over 50% of the sales increase we anticipate over the period. To ensure these attack markets receive the focus and resources needed to achieve their goals, these markets report directly to adidas Group CEO Herbert Hainer.

Wholesale Strategy

The main strategic objective of the Wholesale channel is to deliver profitable market share growth by becoming the leading sales organisation in the sporting goods industry in terms of effectiveness and efficiency see 01. To realise this, Wholesale takes the go-to-market strategies handed over by Global Brands and commercialises them within a defined framework across various third-party retail channels.

Our most important third-party retail channels are sporting goods chains, department stores, independent sporting goods retailer buying groups, lifestyle retail chains and e-tailers. In this respect, Wholesale strives to establish strong partnerships with the most dynamic retailers in their respective channel of distribution by offering best-in-class and tailored services. The principles to achieve this include:

- Differentiating and segmenting product offering to match channel strengths.
- Harmonising and standardising selling models and processes to achieve efficiency and cost leverage and reduce working capital requirements.

Customer and range segmentation to exploit market potential

Rolling out standardised product range packages around the globe is an important part of the Group's Wholesale strategy. The initiative, which was first designed and implemented in Europe, involves a customer segmentation strategy that facilitates the systematic allocation of differentiated product packages to groups of comparable customers. With 40,000 different partners around the world that operate more than 100,000 points of sale, this segmentation is broadly based on a distinction between sports and lifestyle retailers that either have an up-market "brand-driven" positioning or a value-oriented "commercial" positioning. By best suiting their specific needs, this provides a platform to better exploit market potential, while at the same time supporting the reduction of complexity and costs. In addition, our Wholesale segment continues to partner with retailers on increasing the level and quality of sell-through information the Group receives on a regular basis. This creates a mutually beneficial understanding of their needs which helps us to become a more valuable and reliable business partner to our retailers. At the same time, this helps us to drive incremental business opportunities.

Retail Space Management to drive efficiency

Retail Space Management (RSM) comprises all business models helping our Global Sales function to expand controlled space in retail. Under the premise that the selling process is not finished until the consumer has bought the product ("It is not sold until the consumer has it"), Wholesale is cooperating with retailers along the entire supply chain to bring best-in-class service all the way through to the point of sale. By helping to increase profitability per square metre for the Group's retail partners as well as improving product availability, we can achieve higher customer satisfaction, thus driving share of retail shelf space.

The two predominant models to drive the success of RSM for the adidas Group are Franchising and Never-out-of-stock.

– **Franchising:** Mono-branded store franchising is one of the Group's prime growth opportunities, as it offers superior brand presentation. Franchise stores are financed and operated by franchise partners. The adidas Group normally contributes to the costs for brand-specific fixtures and fittings each store has to be equipped with. Further, we support our franchise partners with a comprehensive franchise concept, including range propositions, IT systems, training concepts, and guidelines for store building and store operations. This ensures that the quality of the brand presentation and the service offered to the consumer are at all times high and comparable to our own-retail stores.

Wholesale strategic pillars 01

– **Never-out-of-stock (NOOS):** The NOOS programme comprises a core range of basic articles, mostly on an 18- to 24-month lifecycle, that are selling across all channels and markets. Overall, the NOOS replenishment model secures high levels of product availability throughout the season, allowing for quick adaptation to demand patterns. Retailers have to provide dedicated retail space, co-invest in fixtures and fittings and commit to a "first fill" representing about 25% of total expected seasonal demand to participate in this programme. In return, customers can profit from significantly reduced inventory risk on these products. Most NOOS articles are on an end-to-end supply chain, thus limiting the adidas Group's inventory risk as we re-produce following customer demand.

Harmonisation and standardisation of processes to exploit leverage

Our Wholesale segment is constantly working on further leveraging the size of our Group and reducing complexity by implementing best operational practices across our wholesale activities. The harmonisation and standardisation particularly of back-end processes can help to further reduce cost through simplified IT systems and applications.

Similarly, and already started in Europe, we are rolling out a trade terms policy that rewards customer performance either by higher efficiency (e.g. in logistics) or better sell-out support (e.g. by point-of-sale activation). As part of this effort, we have established regular reporting, delivering meaningful benchmarks that allow us to tightly control our third-party retail support activities.

Innovation key to accelerate speed-to-market

Accelerating product creation, while reducing complexity is a key element to gain competitive edge and ultimately to increase shelf space at our customers. We have therefore developed a virtual sell-in tool which allows us to continuously offer a holistic sample range to our retail partners. This is giving the customer the benefit of having a "full range in his pocket". The reduced amount of samples used during the sell-in process as well as the streamlined image creation process increase speed-to-market, while at the same time reducing costs. This new tool has already been piloted in several markets and is targeted to cover 60% of all Wholesale pre-orders by 2013.

Retail Strategy

Our Retail segment's strategic vision is to become one of the top retailers in the world by delivering healthy, sustainable growth with improved return on investment see 02. Retail plays an important role for the growth of our Group and our brands. The reasons are manifold:

– As a place to showcase the breadth of our brands (i.e. concept stores)
– To create distribution in markets which do not have traditional wholesale structures
– The share of selling space via wholesale is in decline due to industry consolidation
– Everything we learn in own retail benefits the rest of the organisation
– Need for a clearance channel (i.e. factory outlets).

Reebok
Core Store in Warsaw

Over the past five years, the adidas Group has evolved into a significant retailer, operating 2,270 stores for the adidas and Reebok brands worldwide see Retail Business Performance, p. 153.

Going forward, we have simplified the shape of our store chain, by clustering it into three different formats, namely brand centres, core stores and factory outlets.

– Brand centres, i.e. large stores carrying the full range of each of our adidas sub-brands under one roof, are the bold and powerful statements about their strength, breadth and depth. This format will be kept to a limited number and only in exclusive locations.
– Core stores are the commercial engine for sales and profit across the Group's retail organisation, upholding and accentuating each brand's reputation. There will be adidas brand core stores, Originals core stores and Reebok core stores and, depending on their size, they will be categorised and clustered into A, B or C.
– Our factory outlets will facilitate the controlled sale of excess stock returned from our wholesale key and field accounts, franchise partners, e-commerce as well as own-retail stores. Through improved management of regional inventory and limited planned production, we want to improve and balance our product offering and therefore further increase our profitability.

In light of the increase in importance of retail to the Group's performance, a new central leadership team was established in 2009. This team is mandated to develop a global strategic framework and guidelines, represent retail store and market needs on a global level, and to act as a catalyst to drive commercial performance for the adidas and Reebok retail operations around the globe.

To become a world-class retailer, four strategic pillars have been defined:
– Focus on the consumer
– Achieve operational excellence
– Exploit portfolio of brands
– Leverage our global presence and scale see 02.

adidas Sport Performance Core Store in Berlin

By focusing on these four strategic pillars, we are confident to become one of the top retailers in the world. In line with our strategic business plan Route 2015, we will further invest in our own-retail activities and will open over 500 stores by 2015 across the existing store formats.

The majority of these store openings are planned in the emerging markets, particularly Russia. Another area of focus will be the further roll-out of Originals core stores to increase the number of distribution points for our apparel collection, and the implementation of the new vertical business model for the adidas NEO label see Global Brands Strategy, p. 87. To execute on these pillars, Retail has set its strategic priorities around improving its delivery on the "Five P's": People, Product, Premises, Processes and Profit.

People

The consumer and our employees are the primary reference points in order to be successful. Retail constantly strives to interpret and adapt to consumer demand, targeting a mix of new and loyal consumers, whether it be sports-active, sports-inspired or casual consumers. To make sure that consumer needs are being met, Retail will set up organisational teams and recruit store staff that are highly engaged and commercially- and consumer-minded. We want to build a retail back office and field workforce that thinks and "trades" like a vertical retailer and whose highest priority is to serve the consumer. To achieve this, in 2010, Retail introduced a new human resources people strategy called SHINE. The aim is to leverage existing best practices and create a single global standard for the field organisation, to ensure a high availability of broad and deep vertical retail and commercial skills to develop our staff globally.

Product

The key element of our product strategy in Retail is to ensure that relevant products are presented through the Group's various retail formats to match the intended consumer profile. This requires a product offering that is price-competitive, simple to understand, easy to find and, most importantly, available at the right time and the right place. To achieve this goal, we will leverage the product assortments, concepts and point-of-sale materials to match real-time consumer trends. Furthermore, the analysis of daily trading information will provide the capability to display our products in the correct proportionality and thus increase our full-price sell-through, especially on best sellers to "make the big bigger".

Premises

The start of a pleasant shopping experience is the store. It is the meeting point between the consumer and the brands. Therefore, it is of highest importance that our retail environments are inspirational, athletic, fun and interactive, while at the same time being laid out clearly and logically to make it easy to shop. In order to drive our sales per square metre, Retail has set a clear priority on optimising its real estate management process.

Retail strategic pillars 02

Dedicated real estate teams have been set up who make sure that:
– Store location and store size fit to the local market
– Store is designed to drive high sales per square metre
– Market share growth and increased market presence is in line with our integrated distribution roadmap, where Retail will focus on the top 100 cities globally.

adidas Originals
Core Store in Munich

Processes
Streamlining and harmonising retail store operations and supply chain processes to gain the necessary speed to respond to consumer requests remains a top priority for Retail in 2011. From a store perspective, a key initiative is to identify and promulgate best-in-class operations policies and procedures and ensure consistent adoption to the new retail standards. Globally consistent manuals will provide clear and commercial guidelines for store development, visual merchandising and in-store communication procedures to establish flawless execution and operational excellence.

We will also continue to work on adapting the supply chain, system landscape and buying and demand planning processes. This is essential as we strive to increase our in-season flexibility, be more responsive to changing trends and to achieve economies of scale for the Group's retail activities. Shifting our retail focus strictly onto the consumer also means changing our mindset from a sell-in (push model) oriented to a more sell-through (pull model) oriented perspective.

Profit
To increase the commerciality and profitability of the Group's existing retail assets is the primary focus of all retail teams, whether they are working in logistics, store operations, marketing or any other Retail function. Therefore we will close down stores not reaching their potential, as well as closely review and monitor each new store opening or remodelling to ensure that the targeted profitability and return on investment is accomplished. As part of Route 2015, a key area of focus is to increase four-wall profitability in existing brand centres and brand core stores. To support this strategy, in 2010, Retail introduced a new set of operational KPIs benchmarked to best-in-class retailers.

eCommerce Strategy

At the beginning of 2010, a leadership team was put in place to define and outline the strategic direction of the Group's eCommerce activities for the adidas and Reebok brands. Although both brands have made advances with their respective platforms in recent years, we believe there is considerable untapped potential for the Group in this channel of distribution.

As part of our Group-wide strategic business plan Route 2015, eCommerce has defined its strategic priorities which include:
– Establish eCommerce as the third sales pillar
– Balance Wholesale and eCommerce activities by implementing a new distribution policy
– Create one consumer destination by integrating brand, shop and customisation sites
– Build a best-in-class technology platform
– Drive attraction, conversion and retention by building enhanced e-marketing capabilities.

The success of our eCommerce strategy will rest on our ability to attract, convert and retain the consumer in a crowded marketplace. To attract the consumer, we need to better optimise the visibility of our site and how it ranks in online searches.

We also have to improve our management of paid placement and link our own site to social media to attract larger numbers of the right type of consumer. To drive higher conversion rates, we intend to simplify and improve functionality of our e-commerce platforms to create best-in-class shopping experiences. Finally, to retain consumers we will strive to create targeted communication as we gain a deeper knowledge through improved CRM solutions that will allow for more robust consumer interaction. In this respect, social media will play an important role as it facilitates a deepening of the dialogue with our consumers and a more evolving relationship with them.

With these initiatives, the Group targets to generate € 500 million in sales from eCommerce by 2015.

Global Brands Strategy

Global Brands is responsible for all the marketing functions and long-term development of the adidas and Reebok brands. The primary objective of this portfolio strategy is to ensure that our brands seize market and category opportunities through well-defined and coordinated go-to-market strategies. Each brand is responsible for the execution of its strategic focus by creating a constant stream of innovative and inspiring products and generating communication strategies that represent each brand and category in an engaging and compelling way with their target consumers.

Driving the long-term development of adidas and Reebok

To secure long-term sustainable growth for the Group, Global Brands is focused on driving the development of the adidas and Reebok brands. The overall strategic goal is to achieve qualitative, sustainable growth by building desirable brands in consumers' and customers' perception. In 2010, Global Brands played a central role in the creation of Route 2015, the adidas Group's five-year strategic business plan. The adidas and Reebok brands are expected to deliver 90% of the targeted growth for the Group in that period.

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

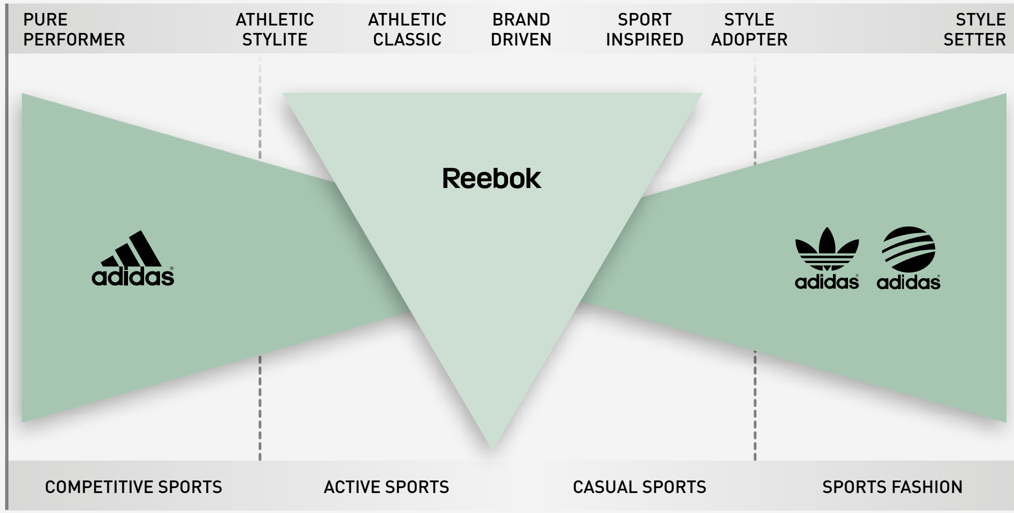
– Gaining sales and market share in the key global categories running and basketball with adidas Sport Performance
– Expanding adidas Sport Style into fast fashion with adidas NEO
– Establishing Reebok as the leading fitness and training brand
– Leading the industry in the fields of customisation and interactivity across categories.

Focus on the consumer

The consumer is at the heart of everything we do. This is the first and most important realisation, and we must adhere to it to deliver long-term success. As part of its function, Global Brands has mapped out our target consumer universe which spans from our roots in sport – the pure performer – through to today's style setters who have embraced sporting goods brands see 01.

Brand architecture – portfolio strategy

01



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

– **Fit for life:** Sport is no longer just about competing and winning. Sport is becoming more embedded in consumers' everyday lifestyles. Motivations and goals are becoming more holistic, relating to fun, socialising and quality of life.

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

– **Celebrating individuality:** Consumers increasingly fulfil their desire to differentiate from one another by being more creative – on the one hand mixing and matching products and services they need, and on the other hand seeking personalised offerings tailored for them.

– **Together is better:** There is an increasing need for meaningful social interaction, both online and offline, as consumers are forced to be more mobile, and the rise of digital technologies makes it easier for them to connect with like-minded people.

– **Back to basics:** For everyday life, products and services are desired to be simple and authentic, making consumers' lives easier, rather than complicating things further. There is a growing interest in outdoor activities, reflecting the desire to reconnect and be in tune with nature.

To match these trends and fulfil consumer demands, Global Brands teams will need to adhere to the following principles:
– Create the unexpected in terms of product and brand experience
– Create the highest emotional connection between our brands and the consumer
– Be prepared for the next generation, anticipating change
– Simplify to the maximum
– Show excellence in execution, meaning we have to make sure we are consistent in whatever we do, from the idea to the communication at the point of sale, and in the worldwide web.

Brand architecture and differentiation

We believe that our multi-brand structure gives us an important competitive advantage. Through our brand architecture, we seamlessly cover the consumer segments we have defined, catering to more consumer needs, while at the same time keeping clarity of brand message and values. In each case, the positioning of adidas and Reebok and their respective sub-brands is based on their unique DNAs – their history and their values.

As a true global brand with German roots, adidas through its sub-brands is targeting competitive sports based on innovation and technology with adidas Sport Performance. This sub-brand is the multi-sport specialist.

Our positioning here clearly starts in producing the best products for use in specific sports such as football, basketball, running and regional sports. We then seek to leverage brand loyalty and strength in innovation in other categories. adidas Originals and adidas Sport Style leverage the potential in sports lifestyle and fashion markets.

Reebok, conversely, is an American-inspired global brand and starts with fitness and training as the backbone for the brand's positioning, especially for active and casual sports. Consumers who identify with Reebok's values and positioning will subsequently also be attracted to the brand when they go for a run, or play basketball. Therefore, Reebok capitalises on the opportunity to leverage its technology concepts and designs also into specific sports categories. Reebok thus bridges the two ends of the consumer spectrum, from performance athletes to style setters see 02. Through these differences in positioning, we are therefore not cannibalising each other in the market, but rather challenging and supporting each other as friendly competitors with different target groups in mind.

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

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

Leadership in product innovation to excite and inspire the consumer

Through Global Brands, we are determined to address every consumer in a specific and unique way – with product initiatives that generate trade and consumer interest.

We believe that technological innovation is essential to sustainable leadership in our industry. By leveraging the extensive R&D expertise within the Group, adidas and Reebok continuously challenge the boundaries of functionality and performance. In addition, innovation plays a significant role in differentiating the adidas and Reebok product offerings in the minds of consumers.

For example at adidas, personalisation is one of the brand's lead innovation concepts, and it is an adidas goal to be the most personal sports brand by 2015. At Reebok, innovation focus is on fitness and training, where a priority is creating products that provide a material benefit to the consumer in terms of strength, conditioning and flexibility see Research and Development, p. 110.

By creating inspiring product and brand experiences, adidas and Reebok strive to enhance their positions as premium brands. This, in turn, is an important catalyst to sustaining and improving the brands' gross margins, therefore making continuous innovation an important enabler for future profitability improvements.

Brand differentiation 02

Marketing and communication leadership

To be competitive in the sporting goods industry, brands must have a clear profile towards their target consumer. To achieve this, adidas and Reebok are focused on creating inspirational and innovative brand marketing campaigns and communication techniques to build brand equity and support the achievement of the Group's commercial goals.

A key tenet of our marketing and communication strategy is to harness the emotion of sport and the benefits of a sporting lifestyle across all communication channels. Both adidas and Reebok regularly bring new global marketing concepts to life, which can be easily leveraged to create simple and powerful brand messages and support an array of product offerings. For example, adidas will use the "One Brand Anthem" platform to transcend its key categories and sub-brands in 2011. Reebok will continue its global campaign, which will use the motto "Ree" as a guiding theme for the brand's communication with consumers. The key message of the campaign is simple. Reebok "ReeDefines" sport and style, bringing fun and joy back into consumers' lives.

In addition, Global Brands also endeavours to ensure all of its brands are at the forefront of new communication techniques, particularly as information flow becomes faster and faster. Through investment in digital marketing and technologies, both adidas and Reebok are empowering and encouraging consumers to interact in personal dialogues with the brands. Whether through in-store or online customisation platforms, digital social networks or digital broadcast mediums, these methods are providing a new scope of consumer experiences in a real-time and cost-effective way.

Activation and validation via a relevant set of promotion partnerships

The utilisation of promotion partners such as federations, teams, leagues, events and individuals is an important part of endorsing brand positioning, and an area to which the Group dedicates significant resources. This not only serves as a vehicle to showcase the credentials of adidas and Reebok products in the performance arena, but also to facilitate the extension of the adidas and Reebok brands in the sports-inspired lifestyle market. Both adidas and Reebok follow a partnership strategy geared to best reflect their respective positioning in the market.

One of the guiding principles of adidas is to equip all athletes to achieve their "impossible". As such, adidas brings its passion for great products to the biggest stages in the world with sponsorship agreements for the FIFA World Cup, the NBA, the European Rugby Cup and the upcoming London 2012 Olympic Games. In addition, adidas has an extensive roster of high-profile sports teams such as AC Milan, Liverpool FC, FC Bayern Munich and Real Madrid in football, the New Zealand All Blacks in rugby, American universities like UCLA and Notre Dame, as well as high-profile individuals such as FIFA World Player of the Year Lionel Messi, football icon David Beckham, basketball stars Derrick Rose and Dwight Howard, marathon legend Haile Gebrselassie, athletic stars Tyson Gay and Jeremy Wariner and tennis stars Justine Henin, Caroline Wozniacki and Andy Murray.

To activate and validate its key concepts, Reebok is partnering with top women's and men's sport athletes. In Women's, Reebok is partnering with some of the world's top women's fitness instructors renowned for their inspirational approach to fitness. In Men's Sport, some of the most recognisable athletes support Reebok, including Peyton Manning, John Wall as well as Lewis Hamilton. In addition, the brand holds exclusive, long-term licensing agreements with the National Lacrosse League in North America, giving Reebok the exclusive rights to manufacture and market both authentic and replica uniform jerseys and sideline apparel.

Extending brand reach and appeal through strategic partnerships

adidas and Reebok have both successfully pursued design and co-branding strategies with complementary partners. For example, adidas has partnered with Yohji Yamamoto, Stella McCartney and Porsche Design, designing sports-inspired fashion, high-end functional ranges or even luxury sportswear. adidas Originals continues to engage in unique collaborations with well-known brands such as Burton, Vespa and Star Wars, that ensure adidas remains relevant to the style-conscious streetwear consumer.

In Women's Fitness, Reebok and Cirque du Soleil continue their strategic partnership, which has given rise to inspiring new workout experiences and product collections. In fall/winter 2010, Reebok launched its first collection with Giorgio Armani S.p.A. The global style credentials of the EA7 and Emporio Armani labels combined with Reebok's fitness and training heritage and technologies fit together to provide a new perspective and concept in the global sports style marketplace.

adidas Strategy

adidas – the performance brand and multi-sport specialist

adidas' mission is to be the leading sports brand in the world. One major lever to achieve this is the brand's broad and unique product portfolio spanning from apparel and footwear for professional athletes to premium fashion. It allows adidas to address multiple consumer needs, exploit market opportunities from various angles as well as be less affected by one-dimensional market risks. adidas' commitment to product innovation and its rich heritage differentiates the brand from competitors and provides a solid platform for future growth.

adidas Sport Performance – play to win

No other brand has a more distinguished history or stronger connection with sport than adidas. adidas is everywhere where the best meet the best, like the FIFA World Cup or the NBA All-Star Game, but also everywhere else around the globe where sports are simply played, watched, enjoyed and celebrated.

Everything at adidas Sport Performance reflects the spirit of our founder Adi Dassler. The main objective is simple: make athletes better. Therefore, innovation is at the core of all adidas Sport Performance products.

The target consumers of the sub-brand are clearly those consumers who call themselves athletes, are active in sport, or simply are inspired by and love sport.

While we have a pivotal strength with the 20- to 29-year-olds, going forward a clear focus will be the high school athlete and the 14- to 19-year-olds.

adidas Sport Performance offers products in most sports categories. The key focus categories are:
- Football
- Basketball
- Running
- Training
- Outdoor

Furthermore, adidas Sport Performance is focusing on interactive and customisation as key growth drivers across categories. A perfect example of this is adidas miCoach, which is the world's first web-based personalised training service. It combines state-of-the-art training with a personalised web service and real-time audio coaching.

adidas Sport Performance miCoach see p. 42

It is compatible with all MP3 players and is available as an application on various smart phones such as iPhone and Blackberry. miCoach is a clear highlight of our focus on innovation to help make athletes better and "fit for performance".

Five performance benefits

To be relevant to our target consumer as the performance brand, we have identified five consumer benefits which will form the basis of our innovation pipeline for the next five years. We believe that serving these benefits will keep us at the forefront of the industry, building brand image and allowing us to leverage our technologies and positioning seamlessly across categories.
- **Faster:** To help athletes be faster, we will focus on reducing product weight, making the lightest products on the market. The franchise will be built with the adiZero platform. Already prominent in 2010, this will be a key initiative for 2011 where we will introduce even lighter products in football, basketball and American football.
- **Stronger:** With adiPower, we intend to create a franchise to own power enhancement in sport. This platform will include products such as Predator in football, Barricade in tennis and Techfit apparel.

adidas at a glance 03

About adidas	**adidas Sport Performance:** The guiding principle of adidas Sport Performance is to make athletes better by making them faster, stronger, smarter, cooler and natural. The main focus is on five key categories: football, basketball, running, training and outdoor. **adidas Originals:** adidas Originals is the authentic, iconic sportswear label for the street, and its philosophy is Celebrate Originality. **adidas Sport Style:** adidas Sport Style is defined as the Future of Sportswear and includes the labels Y-3, Porsche Design Sport, adidas SLVR and adidas NEO. adidas Sport Style's positioning statement is "Style your Life".
Brand mission	To be the leading sports brand in the world.
Brand values	Authentic, passionate, innovative, inspirational, committed, honest
Brand attitude	Impossible is nothing
World presence	A true global brand with German roots
Focus areas	Football, Basketball, Running, Outdoor, Training, Originals, NEO, Customisation, Interactive
Key strategic pillars	– Gaining sales and market share with key growth categories such as running and basketball within adidas Sport Performance. – Leading the industry in the fields of customisation and interactivity across categories. – Expanding adidas Sport Style in the fast fashion business with NEO.
Net sales in 2010	€ 8.714 billion

– **Smarter:** Through interactive products, we will help athletes and consumers of all fitness levels to be, train and perform smarter. We work with the best athletes and coaches around the world. Through platforms such as miCoach, we will make this knowledge available to every consumer, helping them to define and work towards their individual goals.
– **Cooler:** These products will be geared to help the athlete to always have the right temperature (cooler, warmer, wind protection, etc.). This will be served through the Clima franchise, which is already one of our best-known franchises around the world.
– **Natural:** Natural motion is a major trend in our industry. Drawing on our long history, experience and understanding of the shape of the foot and movement of the body, we will create a new platform of products around natural motion over the next five years.

Football: expanding strong market position

Being the most popular sport worldwide, football is clearly one of adidas' key strategic priorities. For over 50 years, adidas has led all major developments in boot, ball and apparel technologies. Building on its success around major sporting events such as the 2010 FIFA World Cup, the brand strives to increase its strong market position by continuously creating the industry's top products and fully leveraging its outstanding portfolio of sports marketing partners.

Partners include leading football associations (e.g. FIFA, UEFA), events (FIFA World Cup, UEFA EURO Championship, UEFA Champions League), national federations (e.g. defending FIFA and UEFA Champion Spain, Germany, China, Russia, Greece, Argentina, Mexico, Japan), leagues (e.g. Major League Soccer in the USA), clubs (e.g. Real Madrid, AC Milan, Chelsea FC, Liverpool FC, FC Bayern Munich, River Plate Buenos Aires) and individual players (e.g. the adidas Golden Ball and Boot winners of the 2010 FIFA World Cup Diego Forlán and Thomas Müller, and also Lionel Messi, Kaká, Steven Gerard, David Beckham and Michael Ballack).

2010 was the most successful year in adidas Football history with all-time record sales exceeding € 1.5 billion.

The undisputable highlight was the 2010 FIFA World Cup where adidas sponsored the winning team Spain, and the adiZero F50 was the top-scoring boot of the event.

adidas Sport Performance
adiZero F50 Prime FG ››› see p. 46

And, last but not least, adidas Football saw its group on Facebook explode from 100,000 members to well over 3 million by the end of 2010.

The UEFA Champions League, the Copa América, the Women's FIFA World Cup 2011 and UEFA EURO 2012 will serve as focal points for showcasing the brand's key initiatives in 2011.

adidas Sport Performance
Speedcell ››› see p. 45

These include major updates to all three primary football footwear product lines (adiPower Predator, adiZero F50 and adiPure), the introduction of new federation jerseys and the official match ball for UEFA EURO 2012.

Basketball: increasing global footprint

adidas is committed to strengthening its position in basketball by expanding its footprint in the critical North American market and capitalising on the growing popularity of the sport in the emerging markets. To achieve this, adidas Basketball strives to build brand equity by leveraging its status as the official NBA outfitter, capitalising on relationships with some of the most promising stars of the NBA such as Derrick Rose and Dwight Howard, and building the best product in the game.

In the current season, adidas Basketball is focusing in particular on the "faster" franchise. With the introduction of the NBA Revolution 30 Uniforms, the lightest we have ever made, and the adiZero Rose shoe, adidas has positioned itself as the basketball brand that makes the lightest products in the game.

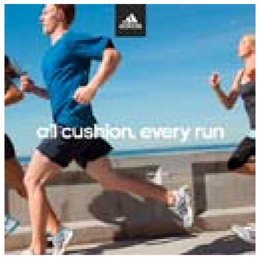
adidas Sport Performance
adiZero Rose 1.5 ››› see p. 49

In 2011, the NBA All-Star Game in Los Angeles will be a key platform to showcase the latest innovative technology stories.

Running: building credibility with high-performance athletes

Running continues to be high on adidas' agenda and is crucial to the brand's success moving forward. adidas' philosophy is to inspire and enable runners on all levels, with the aim to be the most trusted and desired runners' brand in the world. In recent years, the brand's focus has been on building credibility with the high-performance athlete and high-frequency fitness runner. This credibility now provides a strong foundation to leverage broader opportunities in running communities worldwide.

adidas Sport Performance
Running campaign ⋙ see p. 4



adidas sees significant market share opportunities among casual runners and young multi-sport runners in the future. To achieve growth and market share increases in this category in 2011, adidas Running will promote younger multi-sport running products allowing runners to be faster and cooler through the adiZero and Climacool ranges.

adiStar and Supernova offerings remain the lead franchises for core runners while miCoach is an integral part of all things running as part of the "smarter" franchise.

adidas Sport Performance
adiStar Ride ⋙ see p. 41

In addition, advances to the miCoach platform through the miCoach app and new online training programmes such as Finish Faster and Coaching Circles will ensure all runners have the ultimate in personalised free training.

Training: creating new consumer experiences

At adidas, training is the biggest category for both men and women. Training supports the preparation needs of serious athletes across all sports disciplines and is the industry's largest apparel category. Its positioning is driven by adidas' desire to support athletes to be "fit to win". To achieve this goal, adidas Training develops proprietary technologies and commercialises innovations for sport-specific categories to meet the needs of the everyday athlete.

adidas Sport Performance
Fluid Trainer Light ⋙ see p. 42

For example, in 2010, adidas Training continued to expand athlete usage of its industry-leading Techfit PowerWeb concept, expanding the offering into other sports categories (e.g. Women's).

A key strategic priority for future growth in the training category is adidas' dedication to complement its best-in-class product offering with revolutionary new consumer experiences that bring to life the adidas vision to be the leading personalised brand in the world. Throughout 2010, adidas Training intensified its activity with athletes and the world's leading authorities on athlete performance, subsequently launching its first true 360° concept – adidas Core Performance. This is a total training range designed to help athletes make the most of their workouts. Through a digital training website, adidas Core Performance interacts with consumers, providing exercise guidelines and advice on four key training pillars: mindset, nutrition, movement and recovery.

In 2011, adidas Training will continue to put focus on its performance essentials range through fully integrated business models such as Never-out-of-stock and other managed space initiatives ⋙ see Global Sales Strategy, p. 82. Further focus will also be put on improving quality, increasing colour offerings and strengthening in-store marketing support for the range. Spearheaded by the "adidas by Stella McCartney" concept, which fuses performance and style for the active women's market, Women's Training will remain a strategic priority.

Outdoor: the athletic brand in the outdoors

adidas has a long history in outdoor, going back as far as 1978, when adidas and Reinhold Messner developed a new generation of boots which he used to reach base camp on his way to becoming the first man to climb Mount Everest without the help of oxygen equipment. With this heritage and the growth in the outdoor sports sector, adidas has invested in building an authentic and performance-orientated outdoor market position, through product collections such as Terrex and Super Trekking.

As well as footwear, adidas also offers a holistic product range from head to toe comprising apparel, backpacks and eyewear including the latest adidas technologies and renowned partner technologies such as Gore-Tex, Windstopper and Nano-Tex.

adidas Sport Performance
Terrex Hybrid Jacket see p. 51

As in other categories, creating mind share, credibility and visibility through partnerships and icons is an important tool to drive market share growth.

adidas Outdoor ambassadors and athletes include Thomas and Alexander Huber (also known as the Huber Brothers), two of the world's best climbers, and other top athletes from various outdoor sports such as kayaking, slacklining, hang gliding and speed flying.

In 2011, adidas will continue to build on its growing momentum in particular with the Terrex product range, which will include highlight products such as the Terrex Feather jacket as well as the Terrex Fast X FM outdoor boots.

adidas Sport Performance
Terrex Fast X FM see p. 51

These products, as well as the brand's authenticity will be promoted by a fully integrated marketing campaign featuring expedition images of the Huber Brothers, as well as cooperation activities with key retailers in the sporting goods and specialty outdoor channels. In addition, adidas Outdoor will expand into the US market in fall/winter 2011.

adidas Originals – celebrating originality

The market for streetwear and lifestyle fashion represents a unique opportunity for sporting goods companies as it is more fragmented and larger in size than the market for products used in sports activity. In addition, profitability in the sports lifestyle market is typically higher as a result of lower product complexity. adidas was the first brand to credibly leverage its sports assets in the lifestyle arena and as a result is regarded as a legitimate sports lifestyle brand. adidas Originals with its Trefoil logo has become a relevant part of many people's lives, whether they are skaters, rockers, artists, musicians, sneakerheads, sports fans, etc.

adidas Originals
Mega Soft Cell BHM see p. 53

With a holistic offering in products and communications, adidas Originals is focusing on 16- to 24-year-old high school and college kids.

To address the needs of its diverse consumer groups and maximise business opportunities, adidas Originals takes a three-tier strategy to brand and product marketing:

- First, the brand invests and innovates in new concepts, whether it's street fashion collections, such as those designed by Jeremy Scott, or entering new market segments such as the snowboard community in alliance with one of the leading brands in this segment, Burton.
- Second, this permanent creation of newness and creating buzz around the Originals brand then allows us to broaden our messages and expand into wider business segments such as denim, skate or our women's offensive Sleek.
- Third, we commercialise the sub-brand to the widest audience with concepts such as adicolor, where the consumers can find their most-loved footwear and apparel silhouettes in a variety of colours and materials, and appealing seasonal themes such as Star Wars and Mega.

To stay connected to its core teenage consumers, adidas Originals uses a constant stream of digital content to keep them interested 365 days a year. On digital media such as Facebook, adidas Originals meanwhile has over 7 million fans. This is an area where adidas Originals is currently a leader in the digital marketplace.

adidas Sport Style – style your life

What once started as a niche business has developed into a significant contributor to the Group's top-line development. To best tap the potential of the sports fashion market, adidas Sport Style is targeting that market with a clear multi-label strategy.

Y-3: pioneering

The "Y" stands for Yohji Yamamoto, the "3" represents adidas' three signature stripes and the "-"signifies the link between the two. Y-3 targets a sophisticated, forward-thinking fashion consumer and has enabled adidas to enter the premium sports fashion market segment. Celebrating its tenth anniversary in 2011, it will remain the pioneering sportswear label that fuses sport and avant-garde design. Yohji Yamamoto's signature design aesthetic is combined with traditional Japanese tailoring in each collection.

adidas Sport Style
Y-3 Kubo »» see p. 57

Growing demand from consumers has led Y-3 to open its own mono-branded stores, and today it has stores in major cities such as New York, Los Angeles, Miami, Las Vegas, Paris, Milan, Dubai, Singapore, Shanghai and Beijing. 2011 will see the opening of additional Y-3 stores in other influential cities in the USA, Asia and Europe and it will expand its business by launching the global e-commerce site Y-3store.com.

adidas SLVR: smart design

In February 2009, adidas introduced the adidas SLVR label to expand its presence among mid-price-point consumers. adidas SLVR is the smart fashion sportswear label within adidas Sport Style. At adidas, we believe that there is a need in the market for sophisticated, classic, yet fresh and confident sportswear that lasts longer than one season. The adidas SLVR label fulfils this need.

adidas Sport Style
SLVR Clima Wedge »» see p. 57

Since launching adidas SLVR, adidas has opened mono-brand stores in New York and Bangkok. adidas SLVR is also carried in all major adidas brand centres in Berlin, Paris, Moscow and Beijing as well as in adidas online stores in the USA and Europe. In terms of third-party distribution, we have taken a conservative approach, working on a pilot phase with some leading department stores such as Harrods, Selfridges and Bloomingdales over the past 12 months. From the second half of 2011, we will broaden distribution including the addition of franchise stores in China.

adidas NEO label: fast and fresh

The adidas NEO label is targeted to appeal to the fashionable teen (12- to 16-year-old) who is fully engaged in life, be it through social networking, family, friends, outdoor or sporting activities. The NEO label brings stylish products for the more price-conscious consumer who is looking for seasonal fashion items with a sports-casual flavour, constant newness, expressing their personality and reflecting their lifestyle and values.

adidas Sport Style
NEO apparel »» see p. 55

Incorporating footwear, apparel and accessories, adidas NEO label focuses more on accessible price points, however maintaining a premium to competitors. From a gender split, we are targeting primarily the girls, which should account for two-thirds of the business over time. In further expanding the label, a vertical business model is considered the most effective way to approach the target group, taking into account the competitive environment and future demands of successful fashion brands and retailers. Therefore, we have to focus on creating retail solutions consisting of both own retail and controlled space with wholesale distribution partners.

adidas Sport Style
NEO apparel »» see p. 55

Reebok Strategy

In 2010, the Reebok brand continued to execute its strategy, positioning itself as a premium sports and lifestyle brand focused on fitness and training. Based on its roots and heritage in fitness, Reebok has developed a roadmap for its key businesses going forward: Own Women's Sport, Challenge in Men's Sport, Revive Classics >>> see 05.

Own Women's Sport and challenge in Men's Sport

Unlike many other brands, Reebok is committed to making fitness aspirational and fun again – by providing consumers with experiences, products and the inspiration to be fit for life.

With a holistic approach to fitness, Reebok provides consumers with proprietary technologies based on the three key elements of total fitness: strength, conditioning and flexibility. Through a focused approach to these elements, Reebok has developed three key product concepts:
– Toning (launched in 2009)
– ZigTech (launched in 2010) and
– RealFlex (to be launched in 2011)
>>> see 06.

These three product concepts are designed and will be commercialised across genders.

Strength: leveraging leading position in toning

In 2009, Reebok launched the EasyTone footwear collection that is designed to help tone key leg muscles. EasyTone is based on Reebok's proprietary "Moving Air" technology. It involves two balance pods under the heel and forefoot of the shoes that create natural instability with every step, forcing the muscles to adapt. Building on the success of EasyTone, in 2010 Reebok expanded its footwear offering into running with RunTone and training with TrainTone.

Reebok
RunTone >>> see p. 60

The brand also expanded its toning reach with a new offering of lifestyle, athletic and dress shoe models to capture additional consumer segments and distribution channels.

To continue driving its position as one of the leaders in the toning category, Reebok launched EasyTone apparel in the second half of 2010, therefore introducing the first head-to-toe toning story in the marketplace. EasyTone apparel includes stylish tops and bottoms which are designed to help tone key muscles as a part of a healthy fitness lifestyle. EasyTone apparel uses Reebok's proprietary ResisTone bands which create resistance with every move.

Reebok
EasyTone Long Bra Top >>> see p. 59

Reebok will evolve the toning platform for 2011 with the launch of the "Tone while you live" campaign. This campaign features inspirational EasyTone fans from around the world who fit fitness into their busy lives with EasyTone footwear and apparel.

Reebok
EasyTone >>> see p. 59

Conditioning: successful market launch of ZigTech

In spring 2010, Reebok introduced its second innovative technology with ZigTech, an innovative running and training shoe concept for conditioning activities. ZigTech not only created outstanding buzz among consumers but also saw strong sell-through success for men, women and kids at key accounts in key markets including the USA, Russia and Korea.

Reebok at a glance 04

About Reebok	Throughout its history and again today, Reebok's success is based on its courage to challenge convention: developing innovative products, creating new markets, and setting the latest athletic style. Inspired by its roots in fitness, Reebok is a global sports brand that is committed to preparing consumers to be fit for life.
Brand mission	Challenge and lead the fitness world through creativity.
Brand values	Authentic, empowering, individualistic, innovative, courageous and real
Brand attitude	Fit for Life. Having Fun Staying in Shape.
World presence	An American-inspired global brand
Focus areas	Training, Running, Walking, Basketball, Cleated, Cricket, Hockey
Key strategic pillars	Based on elements of total fitness (strength, conditioning, flexibility), Reebok's focus is on three holistic footwear and apparel concepts: Toning, ZigTech, RealFlex.
Net sales in 2010	€ 1.913 billion

Reebok's ZigTech footwear utilises a unique "Zig-Zag" geometry that delivers energy transfer back to a runner's running stride. Its unique sole propels the runner forward and is designed to help reduce muscle fatigue in shins.

Reebok's strategy is to expand the ZigTech platform across categories in order to build ownership with this iconic geometric shape. For example, in October 2010, the brand launched ZigTech Basketball in conjunction with Washington Wizards Rookie John Wall, allowing Reebok to revive the basketball category. The brand also extended ZigTech into Kids, capturing this young and influential consumer in a highly relevant way. The ZigTech girls and boys launch in the fourth quarter of 2010 in the USA was supported by an integrated "ReeZig" marketing campaign.

In spring 2011, the next category-specific evolution of ZigTech for men and women will follow with the launch of ZigTech Nano, a lower-profile version of the original ZigTech.

Reebok ZigTech Nano ››› see p. 63

Capitalising on the momentum generated by ZigTech footwear, Reebok takes the energy of ZigTech from the feet up to the body with the launch of ZigTech apparel for both men and women in 2011. ZigTech apparel is made with special fibres called Celliant. These fibres are made with a collection of natural minerals that help to increase oxygen levels in the skin.

The ZigTech concept will be supported by an integrated global marketing campaign "ReeZig – More Energy" in 2011. The campaign features key assets from Reebok's roster of athletes including John Wall, Lewis Hamilton, Alexander Ovechkin and Peyton Manning. It shows the athletes in training action with a visual language highlighting the unique zig-zag shape.

Flexibility: introducing RealFlex

In 2011, Reebok will introduce its third pillar, supporting flexibility and natural movement. RealFlex is engineered with 76 independent "sensors" that help promote the natural movement of your feet. These sensors are positioned to flex and move throughout the stride while providing protection under the feet. RealFlex provides Reebok with a unique point of view in the fast-growing lightweight running and training category. And just like ZigTech and Toning, RealFlex represents a distinctive visual DNA as well as a highly relevant, functional consumer proposition.

Reebok also demonstrates its commitment to this fitness and training area through the creation of innovative workout experiences such as its partnership with Cirque du Soleil and the roll-out of the Jukari training programme. In 2011, Reebok will expand its fitness footprint around the world through an innovative, back to basics grassroots movement.

Revive Classics

Reebok Classics leverages the fitness attitude and roots of the brand into the lifestyle segment. Classics targets consumers who want to be "fit for the street" and value trend-right products that fit their mobile lifestyle. In 2010, the foundation and strategic direction of the Classics business was further defined, which has laid the groundwork for Reebok Classics to re-emerge in 2011.

The key product concept in 2011 is Reebok Lite. This collection modernises Reebok's Classics offering by combining lightweight, trend-right materials and Reebok's proprietary technologies.

Reebok Classic Lite ››› see p. 65

The result is a range of products that provide supreme comfort, technical details and a distinctive aesthetic appeal. This new product collection will be highlighted through an integrated global marketing campaign. World-renowned music producer and newest member of the Reebok family, Swizz Beatz will act as Creative Director. The campaign will bring together music, dance and the Reebok Lite product collection, which will announce to the world that Reebok Classics is back.

Reebok strategy and focus areas 05

Reebok key product concepts 06

KEY CONCEPTS	TONING	ZIGTECH	REALFLEX
ELEMENTS OF FITNESS	STRENGTH	CONDITIONING	FLEXIBILITY
	Launched 2009	Launched 2010	To Launch 2011

Other Businesses Strategy

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

TaylorMade-adidas Golf Strategy

TaylorMade-adidas Golf's aim is to be the leading performance golf company in the world in terms of sales and profitability. It combines three of golf's best-known and respected brands: TaylorMade, adidas Golf and Ashworth. The segment's primary strategic pillars are to continuously develop and commercialise the most innovative, technologically advanced products while, at the same time, maintaining brand credibility through high visibility on professional golf tours. In addition, leveraging brand equity through the creation and execution of new marketing and retail initiatives as well as improving global distribution are key priorities for long-term growth.

Capitalising on the strong market positions of three well-established brands

TaylorMade-adidas Golf implements a multi-brand strategy comprised of three well-defined golf brands under one roof. TaylorMade is the market leader in the metalwoods category, is among the leaders in irons, and is steadily evolving as a challenger in putters as well as golf balls. adidas Golf develops high-performance footwear and apparel for athletes who want to maximise their physical potential in order to play the game at the highest level. Ashworth is an authentic golf-inspired lifestyle brand complementing adidas Golf's position. Combining adidas Golf and Ashworth, TaylorMade-adidas Golf is a global leader in golf apparel and number two in footwear.

Innovation and technology focus

TaylorMade-adidas Golf's core objective is to create the best performance golf products in the marketplace, starting with a clear commitment to innovation and technology see Research and Development, p. 110. The segment therefore strives to extend its leadership position through innovation and cutting-edge design, introducing at least two major product innovations or evolutions every 12 to 18 months. For example, in 2010 TaylorMade introduced its new xFT wedges incorporating Exchangeable Face Technology, which allows the player to replace the clubface in order to get new, high-spinning grooves while keeping the same clubhead. In addition, the Corza Ghost putters help players to simplify aiming through their white-coloured putterhead including three, highly visible crown lines and a circular hole through the head.

TaylorMade-adidas Golf at a glance 01

About TaylorMade-adidas Golf	TaylorMade-adidas Golf implements a multi-brand strategy comprised of three well-defined golf brands under one roof: TaylorMade, adidas Golf and Ashworth. The segment's strategy is to continuously develop and commercialise innovative, technologically advanced products while at the same time maintaining credibility through high visibility on professional golf tours.
Brand mission	To be the leading performance golf company in the world in terms of sales and profitability.
Brand attitude	TaylorMade, adidas Golf and Ashworth each strive to remain authentic, passionate, competitive and innovative, helping us to succeed at creating ever better products for the golfers we serve.
Key markets	North America, United Kingdom, Japan
Focus areas	Golf equipment, footwear, apparel
Key strategic pillars	– Maintain TaylorMade's status as the No. 1 driver brand on the world's major professional golf tours. – Continue to develop and distribute technologically advanced metalwoods, irons, putters, balls, footwear and apparel that offer a competitive advantage to golfers of all skill levels. – Maintain high visibility of the adidas Golf brand on the world's major professional golf tours. – Develop Ashworth as a true golf lifestyle brand.
Net sales in 2010	€ 909 million

Tour validation as important strategic pillar

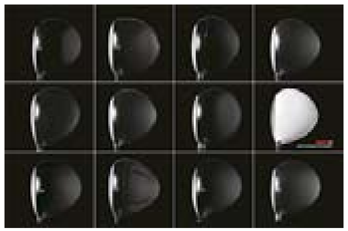
Golfers of all levels are influenced by what equipment the best professional players in the world play with and wear. Hence, TaylorMade-adidas Golf's leadership and presence on the world's major professional golf tours is imperative to increasing brand exposure and traction among consumers.

To attract the most talented players, TaylorMade-adidas Golf offers a comprehensive service to the world's leading players. For example, the TaylorMade support fleet travels the PGA and European Tours from event to event, each with a fully staffed, state-of-the-art workshop for building and servicing drivers, fairway woods, hybrids, irons, wedges and putters on the spot. Today, the TaylorMade-adidas Golf Tour Staff includes high-profile names like Sergio Garcia, Sean O'Hair, Yong-Eun Yang, Dustin Johnson, Fred Funk, Justin Rose, Paula Creamer, Camilo Villegas, Retief Goosen, Greg Norman, Nick Faldo, Mike Weir, Andrés Romero, Darren Clarke and Natalie Gulbis, as well as Martin Kaymer, a top-ranked German golfer, who in 2010 not only won his first major, the US PGA Championship, but also earned the number one ranking on the European Tour. In China, a market where golf is still in its infancy, TaylorMade-adidas Golf entered into a new agreement with the China Golf Association, which has appointed TaylorMade-adidas Golf as the exclusive equipment supplier of the national golf team.

Marketing excellence as a key success factor

Well-coordinated and consumer-relevant marketing is paramount to attaining sustainable market leadership. To achieve that, TaylorMade-adidas Golf has combined product marketing, brand communication and retail marketing into one fully integrated global marketing team. This team uses a variety of marketing tools to achieve its objectives. Product launches are supported by substantial PR and marketing campaigns, involving key assets and best-in-class customer support to drive sell-through of new products.

TaylorMade
"Only R11" campaign ⋙ see p. 124



In addition to traditional marketing techniques, TaylorMade-adidas Golf is also dedicated to exploring and executing new and innovative ways to promote products using social media (Facebook and Twitter) and product seeding initiatives like Project Burner, in which TaylorMade-adidas Golf gave away Burner 6-irons, and the Penta TP free-sleeve programme.

Another prime example of TaylorMade-adidas Golf's efforts to create unique promotional events is the "Unstoppable 8 Tour", which brought high-energy demo events into eight major US cities in order to increase consumer awareness of the new Burner 2.0 irons. This helped TaylorMade to become the number one selling iron brand in the USA during November and December. In 2010, TaylorMade-adidas Golf also launched the second round of the "Wear in the World" golf adventure, which involved testing performance apparel in some of the world's most extreme weather conditions. Destinations included golf courses at the birthplace of golf, in St. Andrews, Scotland, the sandy dunes of Dubai and Mount Rokko in Japan. The programme, which illustrates how technologies such as Climacool, Climalite and Climaproof can help provide a competitive advantage in the most extreme golf conditions, attracted widespread attention from consumers and the media.

Intelligent retail marketing and distribution

TaylorMade-adidas Golf works with retail partners who possess the skills to effectively showcase the performance advantages and modern design credentials of TaylorMade, adidas Golf and Ashworth products. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments.

Focusing on strategic accounts, TaylorMade-adidas Golf strives to create and make available state-of-the-art floor displays that showcase products and communicate key messages as clearly as possible, allowing it to position its clubs, balls, footwear and apparel among the top-selling golf products in these retail channels. Close working relationships with key accounts will continue in 2011, as will efforts to build additional brand presence at smaller retailers and on-course golf shops. In emerging markets throughout the world, the company employs established adidas Group infrastructures to distribute products, promote awareness and drive growth.

Pricing strategy reflects brand positioning

TaylorMade-adidas Golf's pricing policy mirrors the positioning of its three brands. TaylorMade's pricing strategy is to dominate the market at premium price points and to compete aggressively in the high-volume mid-price segment. adidas Golf supports its market reputation as the innovation leader by selling its products primarily at premium price points. Ashworth positions products in the mid- and premium-price categories. Market share expansion, particularly in golf, is driven mainly by the ability to deliver best-in-class lines of products at multiple price points. In 2010, an example of TaylorMade-adidas Golf's success in implementing this strategy is the adiPure (high-priced) footwear and Traxion Lite (medium-priced) footwear.

TaylorMade: extending leadership in metalwoods and irons

TaylorMade's category priorities include strengthening its position as the number one metalwood brand in the world and building on its growing global market share in irons. In addition, TaylorMade aims to grow its presence and increase its reputation in all other golf equipment categories including wedges, putters and balls.

– **Metalwoods:** Today, TaylorMade is the clear market leader in metalwoods (drivers, fairway woods and hybrids). The brand is particularly strong in the USA, where it has forged a more than 30% share of the market and a large lead over its closest competitor. The brand's primary focus going forward is to remain the innovation leader and expand its metalwood business outside the USA. This will in part be driven by strengthening its promotion partnerships in other regions.

TaylorMade
R11 driver see p. 67

From a product perspective, the brand will complement its successful R9 franchise and Burner family of metalwoods with the introduction of the new R11 series of drivers and the Burner SuperFast 2.0 in 2011.

The R11 clubs not only incorporate major TaylorMade driver technologies such as Movable Weight Technology and Flight Control Technology, but also the new Adjustable Sole Plate Technology, which allows the golfer to adjust the face angle independently of the loft.

TaylorMade
Burner SuperFast 2.0 driver see p. 68

At 279 grams, the Burner SuperFast 2.0 is the lightest TaylorMade driver ever brought to market and in combination with its slippery new head aerodynamics it promotes more clubhead speed and distance than any previous Burner driver.

– **Irons:** In irons, the Burner irons family has helped TaylorMade to gain considerable market share in the category. As opposed to previous TaylorMade irons, the Burner long-irons, middle-irons and short-irons were developed separately rather than as an entire group. The introduction of the Burner 2.0 in the fourth quarter of 2010 and the launch of Tour Preferred irons in March 2011 will play a key role in driving future growth in the category.

– **Wedges:** Leveraging TaylorMade's success in metalwoods and irons to other categories such as wedges continues to be a strategic priority. Innovation is critical in this respect and, in 2010, the success of the TP wedge with Exchangeable Face Technology (xFT) validated TaylorMade's aim to increase its presence and grow its share in other golf equipment categories. xFT permits players to easily replace a worn clubface with a new one, making it possible to maintain a fresh, spin-inducing clubface without replacing the clubhead. For the consumer, this is more cost-effective than buying a new wedge.

– **Putters:** TaylorMade's Corza Ghost putter stood out in 2010 both with consumers as well as with Tour professionals. Its white-coloured putterhead makes it easier to aim and eliminates glare on the crown. Furthermore, viewers could immediately recognise its unique design when it helped Justin Rose win twice on the PGA Tour. In 2011, there will be new additions to the Ghost line that incorporate the input of a variety of Tour pros.

– **Golf balls:** Success in this category depends on the ability to create high-performance golf balls, bring them to market and build credibility among Tour professionals. In 2010, TaylorMade's status as a maker of premium golf balls was enhanced through the Penta TP ball, the first five-layer golf ball, designed to promote optimal performance on the five critical golf shots – driver, long-iron, middle-iron, short-iron and partial wedges. The technological advantage of the Penta TP was highlighted by 18 wins on the world's major tours in 2010, including the PGA Championship. In 2011, TaylorMade will continue to build on its momentum in golf balls, driven by the Penta TP ball, and increasing the number of Tour professionals using TaylorMade balls such as Jim Furyk, the 2010 PGA Tour Player of the Year.

adidas Golf: setting new standards in high-performance footwear and apparel

adidas Golf offers high-performance golf footwear and apparel for athletes who want to maximise their physical potential in order to play the game at their highest level.

adidas Golf
adiPure Z ⋙ see p. 68

In footwear, leveraging proprietary technologies from various other adidas categories such as adiPrene+ with golf-specific technologies offers a significant competitive advantage over "pure play" golf footwear brands.

In 2010, adidas Golf was able to bring significant new innovation to market including the adiPure Z with revolutionary ThinTech low-profile technology, bringing the golfer closer to the ground for improved stability, better overall footwork and more consistent ball-striking.

In apparel, adidas Golf positions itself as the most innovative performance brand in the game by utilising adidas technologies such as Formotion, Climacool and Climaproof technologies in adidas Golf apparel products. adidas Golf was the first major brand to incorporate technologies like these into golf apparel. For example, in 2010 adidas Golf launched the new Climacool with Coolmax Energy fabric apparel line, which is designed to improve airflow to the skin by utilising microfibres.

In 2011, several new product launches such as the next generation of the Tour360 footwear franchise, the Tour360 5.0, which is engineered to be lighter, lower and more stable than its predecessor, will continue adidas Golf's authentic union of design, technology and function. In addition, in 2011, adidas Golf will leverage its marketing efforts for both its footwear and apparel lines with one campaign – "Be Greater". This campaign will call the golfers' attention to how adidas Golf equipment is engineered to help them improve their performance, exceed their potential and reach a higher level.

Ashworth: an authentic golf lifestyle brand

Ashworth provides TaylorMade-adidas Golf with a unique opportunity to establish a golf lifestyle business. Founded in 1987, Ashworth's roots in golf and authenticity as a golf brand provide a key differentiator from other golf lifestyle brands. Following the acquisition in 2008, the brand was given a facelift, including definition of product range architecture, cleaning-up of distribution and revamping its partnership portfolio, thus creating a platform for future profitable growth. In 2010, Ashworth introduced new product lines incorporating proprietary fabrics for easy care and superior wear. The key priority for 2011 will be to further strengthen the messaging of Ashworth's positioning as a golf lifestyle brand for true golfers that believe "the course never leaves you, and you never leave the course". Ashworth will also seek to build Tour visibility and credibility utilising Tour professionals Fred Couples, Sean O'Hair and Ryan Palmer.

adidas Golf
adiComfort ⋙ see p. 67

Rockport Strategy

Rockport is a US-based manufacturer of leather footwear. Founded in 1971, Rockport has a long history of selling walking and comfort leather shoes for men and women. Rockport's mission is to become one of the world's leading leather footwear brands through the combination of contemporary style and engineered comfort. The leather footwear market is a large, highly attractive market where few players have been able to achieve significant market share. Rockport's brand position in select markets and its heritage provide a strong foundation for growth.

Leather footwear market offers significant opportunity

The leather footwear industry is highly attractive in terms of size, growth and profit potential. The market is estimated at over US $ 70 billion. It is currently a highly fragmented global market. Rockport has a strong brand heritage and recognition in the leather footwear industry, particularly in its home market, the United States. Rockport has the opportunity to be one of the winners in this industry by achieving sustainable, profitable growth in the years to come.

Global brand positioning relevant to Rockport's target consumer

Rockport's brand positioning is "Walk-ability" – which comes to life by using performance technology to make style comfortable. This positioning builds on Rockport's existing brand equity in comfort and technological innovation while also focusing on developing a stylish and contemporary brand. Rockport's world-class and international design resources appeal to a large consumer base.

Rockport
Audry Qtr Strap Woven ⋙ see p. 72

The combination of these brand elements is designed to attract Rockport's globally relevant main target consumer, the metropolitan professional. The brand is currently focused almost exclusively on the footwear category.

International expansion

In 2010, Rockport continued to expand its international distribution. The brand today does business in more than 54 markets worldwide. Sales outside of the United States now account for nearly half of Rockport's total business.
Its key priorities include:
– Strengthening its position in the USA as a foundation for a global roll-out
– Establishing regional organisations to drive growth in Europe and Asia.

Rockport at a glance 02

About Rockport	Building on four decades of engineering expertise and a commitment to innovation, Rockport designs and markets dress, casual and outdoor footwear that uses performance technology to make style comfortable for the metropolitan consumer.
Brand mission	To become a leading leather footwear brand in the world through the innovative combination of contemporary style and engineered comfort.
Brand attitude	Sexy, savvy, modern, American, metropolitan
Key markets	United States, Russia, United Kingdom, Canada, Japan, South Korea
Focus areas	Dress, Dress Casual, Relaxed Casual, Active Casual
Key strategic pillars	Globalise, Women's, Retail, Operational Capabilities
Net sales in 2010	€ 252 million

Rockport
"It's nice to win" campaign ⋙ see p. 180

Build dual gender business

In 2010, Rockport made meaningful progress in the women's business with the introduction of a balanced, holistic, branded women's line that provides the female consumer with a value proposition that incorporates both fashion and comfort. This frees her of the need to compromise either of these elements in her decision to purchase leather footwear. As a result of the brand's investment and focus, sales in the women's business is expected to show double-digit growth in 2011.

Roll out a profitable mono-brand retail concept

Rockport is driving the global roll-out of its newly created mono-brand retail concept in key markets around the world. Based on encouraging results to date, Rockport is accelerating the roll-out of this mono-brand retail concept in Russia, Japan, South Korea and other distributor markets around the world.

Rockport
Hydromotion 2 Hydro-Sail ⋙ see p. 73

Full-price own-retail stores are expected to comprise more than a fifth of total sales by 2014 and are planned to be the main growth driver within the brand over that period.

Key strategic product initiatives and innovation

In 2011, the Rockport brand plans to further accelerate the introduction of more fashionable products that continue to offer exceptional comfort and walkability, particularly for the DresSports collection and women's high-heeled shoes.

Rockport
Fairwood Hillandale ⋙ see p. 73

In addition to ongoing progress on product design, the brand will continue its commitment to incorporate innovation concepts and advanced technologies into its products to deliver a "no compromise" solution to the metropolitan professional.

Reebok-CCM Hockey Strategy

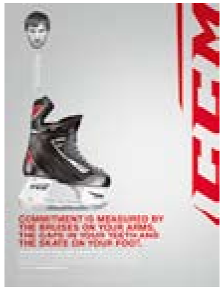
Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of hockey equipment and related apparel under two of the most recognised hockey brand names: Reebok Hockey and CCM Hockey. Reebok-CCM Hockey equips more professional hockey players than any other company, including NHL superstars such as Sidney Crosby and Alexander Ovechkin. Reebok-CCM Hockey is also the official outfitter of high-profile leagues such as the National Hockey League as well as several NCAA and national teams. Reebok-CCM Hockey's strategy is to increase market share by leveraging its multi-brand approach to speak to different consumer groups, supported by its dedication to innovate for the leading athletes in the sport.

Focus on high-end performance

Reebok-CCM Hockey has a dual brand portfolio consisting of Reebok Hockey and CCM Hockey. Reebok Hockey is a global hockey brand. Its products are designed with emphasis on innovative visible technologies that speak to an expressive, image-conscious consumer. CCM Hockey is hockey's most authentic brand, being in existence since 1899. CCM Hockey embraces the physical side of the game and speaks to a consumer seeking performance and quality.

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

CCM Hockey Campaign »» see p. 232



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

Product innovation matches brand positioning

The key priority for Reebok-CCM Hockey's innovation team is to design and market products that are targeted to be different and better than those of the competition, with a dedication to providing elite athletes with high-performance products. With its emphasis on continued product innovation, products incorporate proprietary and patented technological advances »» see Research and Development, p. 110. Reebok Hockey's The Pump skates, KFS protective equipment, O-Sticks, the 11K helmet and the Edge uniform exemplify the brand's breakthrough technologies. CCM Hockey's product innovation story is led by its family of U+ high-performance equipment, including the customisable CCM U+ Crazy Light skate and the CCM U+ stick, the lightest high-performance stick in the world.

Professional player validation

Reebok-CCM Hockey recognises that success with the consumer is heavily influenced by exposure generated at the Pro League level. Product usage by the best players in the game validates Reebok-CCM Hockey's product performance credentials, and both brands are highly visible among professional hockey leagues worldwide.

Reebok-CCM Hockey at a glance 03

About Reebok-CCM Hockey	Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of hockey equipment and apparel with two of the world's most recognised hockey brand names: Reebok Hockey and CCM Hockey.
Brand mission	To lead in the high-end performance segment of the hockey market.
Brand attitude	CCM Hockey: Performance Within Reebok Hockey: Your Move
Key markets	Canada, USA, Scandinavia, Russia
Focus areas	Skates, sticks, NHL licensed apparel
Key strategic pillars	– Product innovation – Pro validation – Dual brand portfolio
Net sales in 2010	€ 200 million

– Reebok-CCM Hockey has the strongest league partnerships within the industry. It is the exclusive licensee of jerseys for the National Hockey League (NHL), the American Hockey League (AHL), the Canadian Hockey League (CHL) and many of the European National (8) and Elite League (60) teams. Reebok-CCM Hockey is also the official equipment supplier of the AHL, the CHL and the ECHL. 100% of all NHL players wear the Reebok Edge uniform which consists of the 30 teams' home, away and third game jerseys and socks.
– Reebok-CCM Hockey has formed endorsement partnerships with many of the best athletes in the world. With manufacturing capabilities close to the world's major leagues, the two brands can respond rapidly with customised solutions. This provides a strong competitive advantage in attracting key pro athletes. The Reebok Hockey brand is currently endorsed by NHL players such as Sidney Crosby, Pavel Datsyuk, Patrice Bergeron, Roberto Luongo and Marc-Andre Fleury. CCM Hockey's roster of player endorsees includes Alexander Ovechkin, Joe Thornton, Vincent Lecavalier and John Tavares.

Key strategic categories to drive growth

Reebok-CCM Hockey intends to accomplish growth through a continuous stream of product launches in its three key category priorities: skates, sticks and apparel.

– Skates: The focus in the skate category is to drive market share increases through products addressing critical aspects such as fit, weight and durability. For example, in 2010, a new line of Reebok Hockey skates, led by the 11K Pump, was launched featuring an advanced fit element and was also designed with a focus on lightweight and durable materials. In the fourth quarter of 2010, CCM Hockey launched the next generation of its U+ platform which features the CCM U+ Crazy Light skate, the brand's most thermo-formable and customisable skate to date. The rest of the line will be delivered to the market by April of 2011.

CCM
U+ Crazy Light skate »» see p. 71

– Sticks: To drive future growth in the sticks category, Reebok-CCM Hockey focuses on developing new technologies that incorporate enhanced power, feel, flexibility and weight. Launched in the fourth quarter of 2010, Reebok Hockey's 11K Sickick III stick features Dual Matrix and Guided Blade Technologies that are engineered to provide players with a quicker release and improved puck control.

In 2011, CCM will embark on a global launch of its new CCM U+ Crazy Light stick, the lightest performance stick in the marketplace, along with the launch of the U+ Crazy Strong stick, a high-performance stick engineered to offer greater durability.

CCM
U+ Crazy Light stick »» see p. 71

– Apparel: Reebok-CCM Hockey will strive to further leverage its league partnerships and exclusive uniform status to drive growth. The Reebok Edge NHL Jersey features a four-way Stretch Mesh to provide players with maximum ventilation and range of motion. In addition to official uniforms, Reebok-CCM Hockey will take advantage of its status as the official NHL locker room performance apparel supplier, and its exclusive rights related to the NHL Players' Association (NHLPA) for name and numbered apparel and headwear. NHL locker room performance apparel relates to the apparel that pro athletes wear under their jerseys during a game, or to work out and train in the gym.

A key product initiative in this area is Reebok Speedwick apparel. Designed to feel like cotton, fabrics used in this apparel are breathable and inhibit the growth of bacteria by utilising anti-microbial yarns. Furthermore, in 2011, Reebok Hockey will introduce ZigTech technology in hockey-related performance and training apparel. ZigTech apparel is engineered with Celliant fibres that according to laboratory tests cause more oxygen in the skin exposed to the apparel than a regular polyester garment. This allows players to optimise their energy recovery during off-ice workouts and during games.

Increase profitability through supply chain efficiencies

Another strategic priority for Reebok-CCM Hockey is to continue to pursue a movement away from own manufacturing to sourcing goods. However, manufacturing activities will be maintained in areas where it is a distinct competitive advantage to do so, such as is the case for performance products destined for pro level athletes.

Pricing strategy mirrors product positioning

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

Global Operations

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

Enforced vision: closest to every consumer

The vision of the Global Operations function is to be closest to every consumer. By delivering on each of its five strategic pillars see 02, Global Operations strives to provide the right product to consumers – in the right size, colour and style, in the right place, at the right time, across the entire range of the Group's channels and brands. Global Operations has a strong track record for establishing state-of-the-art infrastructure, processes and systems. Over the last four years, the function has successfully consolidated and improved legacy structures, reducing complexity and operating cost for the Group. By taking strong ownership for quality, cost and availability, we have proven that we are able to respond to the fast-changing requirements of both our consumers and customers.

The Route 2015 strategic business plan will require changes in how Global Operations operates within the Group. Global Operations has therefore formulated its strategic plan in close alignment with the needs of our Global Brands and Global Sales functions and in consideration of several external factors impacting the business today. These include anticipated increases in commodity prices, labour and transportation costs, social and regulatory requirements and demand growth as well as increasing demand volatility.

Throughout the next five years, Global Operations will focus on five strategic priorities supported by 15 initiatives for the Group:
- Ensuring cost competitiveness
- Providing industry-leading availability
- Enabling later ordering
- Supporting the Group's growth projects
- Modernising the Group's infrastructure.

By delivering on these initiatives, the function will not only enable the Group to achieve its Route 2015 goals, but will also ensure our supply chain remains a competitive advantage in making us the partner of choice for both consumers and customers.

The first two priorities in Global Operations' 2015 strategic plan ensure the function continues to deliver upon the Group's basic requirements. The remaining three priorities are aimed at positioning Global Operations ahead of industry competition.

Global Operations in go-to-market process 01

Ensuring cost competitiveness: As part of this priority, Global Operations will focus on further optimising product creation through a more efficient material and colour selection process. This, coupled with increased automation in manufacturing, will enhance productivity, shorten lead times and improve overall quality. These improvements are expected to enhance profitability for the Group and ensure we provide our consumers with the best value proposition in the industry.

The Profitability Management department within Global Operations assumes a central role in realising cost competitiveness by driving our strategic costing efforts and optimising our buying strategies. This includes monitoring macroeconomic trends, to identify the future impact on product costs as well as the ongoing financial assessment of the adidas Group's supply base.

Providing industry-leading availability: Building on the solid platform that has been established to ensure product availability, Global Operations will further shorten our order-to-delivery lead times. This will be accomplished by establishing and offering a set of tailored and sophisticated replenishment models to our customers via improvements in our planning systems and processes. The development of risk-oriented planning and production models for selected product ranges as well as the shift from buying to inventory planning at our distribution centres both form key requirements for the successful delivery of this initiative.

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

This will support our Route 2015 goal of reducing the lead times across the Group's product portfolio to 60 days or less. Specifically, the initiative will focus on immediately reducing production lead times on the majority of Reebok footwear from 90 days to 60 days. Since the majority of adidas footwear is already on 60 days, the change will allow us to align sales processes across the brands and improve efficiencies. Preparations are also underway to bring apparel lead times down to 60 days or less over time.

The above improvements involve establishing a greater regional source base for apparel, which will enable us to manufacture closer to our key markets to deliver and replenish products faster.

Supporting the Group's growth projects: Global Operations will support the growth projects outlined in the Group's Route 2015 plan, such as the adidas NEO label, key market programmes, Retail and eCommerce as well as other key brand programmes such as customisation »» see Global Brands Strategy, p. 87 and Global Sales Strategy, p. 82.

For example, with the adidas NEO label, Global Operations will support this business with fast fashion creation, sourcing and supply chain management capabilities. For Retail, Global Operations will continue to build the processes and systems backbone with the ultimate goal being a demand-driven supply chain that leverages existing short lead time production models to improve availability without excessive inventory »» see Retail Strategy, p. 84.

Finally, Global Operations will focus on evolving existing customisation models in support of business expansion, particularly within our eCommerce channel.

Modernising the Group's infrastructure: Global Operations will continue to focus on building the required infrastructure, processes and systems to support the Group's growth plans. This will include further process simplification, consolidation of legacy systems and distribution structures, as well as the creation of state-of-the-art systems required to support new business demands. An example of this is the opening of our new Spartanburg distribution campus designed to support growth in the USA.

Also under this priority, the function will continue delivering its existing long-term improvement programmes such as Fast and Lean Creation for apparel, the roll-out of the Global Procurement Solution platform and the expansion of virtualisation to new product categories and the design teams.

Global Operations strategic pillars 02

Replenishment	Provide high product availability and timely and fast deliveries to Wholesale and Retail customers while minimising finished goods inventory, to support the Group's controlled space initiatives.
End-to-End Profitability	Identify key cost and profitability drivers and their interrelationships to optimise decision-making to mitigate financial risks and ensure the long-term profitability of the Group and its supply base.
Adaptive Supply Network	Enhance the flexibility and responsiveness of both the Global Operations Sourcing and Supply Chain Management organisations to satisfy fast-changing market needs.
End-to-End Planning	Optimise the Group's demand and supply planning system landscape to improve efficiency, transparency and cross-functionality of processes across the Wholesale and Retail segments as well as Other Businesses.
Accelerated Creation to Shelf	Build capabilities, processes and technologies that drive faster, smarter and more efficient product creation to enhance the Group's top-line and bottom-line growth.

Several major programmes reach important milestones in 2010

Throughout 2010, Global Operations made significant progress on key projects. In May, we saw the formal opening of the Group's Spartanburg distribution facility in South Carolina, USA. With this state-of-the-art facility, we are now servicing our wholesale customers as well as our own-retail and e-commerce activities in the USA across the brands adidas, Reebok, TaylorMade-adidas Golf and Rockport – with 80% of our customers receiving their orders in three days or less. We also successfully completed several important system simplification projects. The Reebok and Ashworth brands were integrated into the long-term roll-out of the adidas Group's Global Procurement Solution (GPS). adidas, Reebok and Ashworth purchase orders are now procured through one common platform covering the entire flow from market demand, factory planning through to supplier invoice procurement and subsidiary billing. In total, the GPS 2.0 release replaced five major IT applications. We also reduced the total number of supply planning systems across the adidas Group from three to one, establishing a common planning, reporting and communication platform. Another major achievement in 2010 was the official implementation of the Fast and Lean Creation process for footwear. Product creation teams are now developing around 75% of all footwear directly with factories, laying the foundation for the introduction of creation calendars of 12 months or less. Fast and Lean Creation for apparel also reached a major milestone with the launch of a new product lifecycle management system, FlexPLM, within just eight months of the project launch. Also in 2010, Global Operations teams contributed to both the Group's Virtualisation programme by creating over 18,000 articles as 3D files, and to the "Fit & Size" programme which involved the adjustment of over 500 base patterns to current consumers' body shapes for an improved overall fit of garments.

Majority of production through independent suppliers

To minimise production costs, we outsource over 95% of production to independent third-party suppliers, primarily located in Asia. While we provide them with detailed specifications for production and delivery, these suppliers possess excellent expertise in cost-efficient, high-volume production of footwear, apparel and accessories. The latest list of our supplier factories can be found on our website »» www.adidas-Group.com/en/sustainability/suppliers_and_workers.

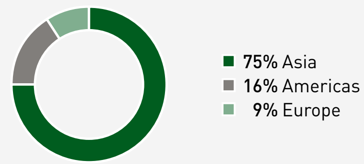
The adidas Group also operates a limited amount of own production and assembly sites in Germany (1), Sweden (1), Finland (1), the USA (4), Canada (4), China (1) and Japan (1). In order to ensure the high quality consumers expect from our products, we enforce strict control and inspection procedures at our suppliers and in our own factories. In addition, we promote adherence to social and environmental standards throughout our supply chain »» see Sustainability, p. 120.

Overall number of manufacturing partners stable

In 2010, Global Operations worked with 270 independent manufacturing partners. While the number of suppliers in apparel decreased as a result of further rationalisation of the supply base, it increased in footwear and hardware. The increase in footwear was the result of the significant growth in volumes and expansion into new sourcing countries (e.g. Cambodia). Of our independent manufacturing partners, 75% were located in Asia, 16% were located in the Americas and 9% in Europe »» see 03. 32% of all suppliers were located in China.

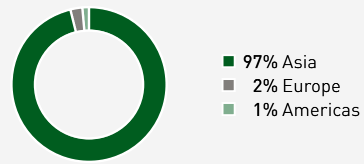
Our Global Operations function manages product development, commercialisation and distribution, and also supervises sourcing for our Wholesale and Retail segments as well as for adidas Golf »» see 01. Due to the specific sourcing requirements in their respective fields of business, TaylorMade, Rockport, Reebok-CCM Hockey and the Sports Licensed Division are not serviced through Global Operations, but instead utilise their own purchasing organisation. In order to quickly seize short-term opportunities in their local market or react to trade regulations, Group subsidiaries may, with the approval of our Social and Environmental team, also source from selected local suppliers outside the realm of Global Operations. Local purchases, however, account only for a minor portion of the Group's total sourcing volume.

Suppliers by region[1] 03



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

Footwear production by region[1] 04



1) Figures include adidas, Reebok and adidas Golf.

Footwear production[1] 05
in million pairs

1) Figures include adidas, Reebok and adidas Golf.

China's share of footwear production decreases

97% of our total 2010 footwear volume for adidas, Reebok and adidas Golf was produced in Asia (2009: 97%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2009: 3%) see 04. China represents our largest sourcing country with approximately 39% of the total volume, followed by Vietnam with 31% and Indonesia with 22%. As part of our strategy to increase the regional diversity of our supplier base to meet the ongoing needs of our business, the overall representation of China in our sourcing mix declined 2 percentage points. At the same time, the footwear volumes sourced from Cambodia almost tripled in 2010 from a low comparison base. In 2010, our footwear suppliers produced approximately 219 million pairs of shoes (2009: approx. 171 million pairs) see 05. The year-over-year increase was driven by the strong sales growth in 2010 and a low comparison base in 2009 due to inventory clean-up activities. Our largest footwear factory produced approximately 9% of the footwear sourcing volume (2009: 11%). Rockport purchased approximately 8 million pairs of footwear in 2010, which represents an increase of 27% versus the prior year. Products were primarily sourced from factories in China (67%), Vietnam (25%), Indonesia (5%) and India (3%). The largest factory accounted for 37% of the total sourcing volume of the Rockport brand.

Volume of apparel production increases

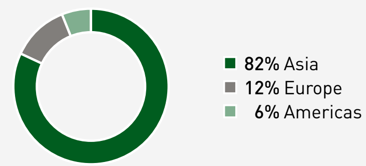
In 2010, we sourced 82% of the total apparel volume for adidas, Reebok and adidas Golf from Asia (2009: 83%). Europe remained the second-largest apparel sourcing region, representing 12% of the volume (2009: 11%). The Americas accounted for 6% of the volume (2009: 6%) see 06. China was the largest source country, representing 36% of the produced volume, followed by Thailand with 13% and Indonesia with 13%. In total, our suppliers produced approximately 301 million units of apparel in 2010 (2009: approx. 239 million units) see 07. The largest apparel factory produced approximately 9% of this apparel volume in 2010 (2009: 11%). In addition, Reebok-CCM Hockey sourced around 2 million units of apparel in 2010 (2009: approx. 2 million units). The majority of this volume was also produced in Asia, while small portions were sourced from the Americas (particularly Canada) and Europe. The Sports Licensed Division sourced approximately 23 million units of apparel and 15 million units of headwear (2009: 20 million and 14 million, respectively). The majority of purchased apparel products was sourced as unfinished goods from Latin America (85%) and Asia (15%), and was subsequently finished in our own screen-printing facilities in the USA. The majority of headwear sourced was finished products manufactured predominately in Asia (97%) and the USA (3%).

67% of adidas and Reebok branded hardware produced in China

In 2010, the bulk (i.e. 98%) of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2009: 98%). China remained our largest source country, accounting for 67% of the sourced volume, followed by Vietnam with 20% and Pakistan with 11%. The remaining 2% was sourced via European countries see 08. The total 2010 hardware sourcing volume was approximately 48 million units (2009: approximately 34 million units), with the largest factory accounting for 21% of production see 09.

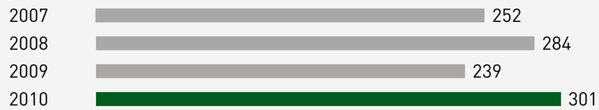
TaylorMade and Reebok-CCM Hockey sourced 98% and 72% of their hardware volumes from Asia, respectively (2009: 92% and 78%). In addition, both brands sourced a portion of hardware products in the Americas. At TaylorMade, the majority of golf club components were manufactured by suppliers in China and assembled by TaylorMade in the USA, China and Japan.

Apparel production by region [1] 06



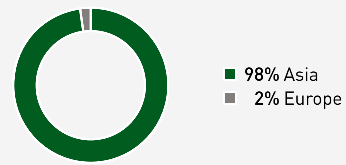
1) Figures include adidas, Reebok and adidas Golf.

Apparel production [1] 07
in million units



1) Figures include adidas, Reebok and adidas Golf.

Hardware production by region [1] 08



1) Figures include adidas, Reebok and adidas Golf.

Hardware production [1] 09
in million units

1) Figures include adidas, Reebok and adidas Golf.

Research and Development

Creating innovative products to meet the changing needs of athletes and consumers is essential to drive brand perception. As a result, research and development (R&D) is a cornerstone for the success of our business. We invest considerable resources into developing and commercialising new technologies as well as fresh design ideas, in order to best fulfil the unique needs of our consumers. The research and development process is driven by teams of employees with diverse professional backgrounds. In 2011, R&D will focus on customisation and digital sports products.

R&D an integral part of the product creation process

R&D within the adidas Group follows a decentralised approach. Fundamental and biomechanical research, however, is shared across the Group. In line with its distinctive positioning, each brand runs its own research, design and development activities. The teams generally have either a category or a technology focus. R&D is not a separate organisational entity, but is closely integrated with the sourcing, design and product marketing functions. As a result, all R&D activities are focused on producing results directly applicable to a specific product. At the beginning of the product creation process, marketing defines a development priority. This is derived on a case-by-case basis from a combination of consumer research and feedback, competition analysis and own product testing. Independently from specific development requests, our innovation teams also analyse new materials, production processes or scientific research – often even from other industries – to increase the scope of idea generation. These are presented to product marketing at an early stage to assess commerciality.

Once conceptualised, new technologies are engineered using state-of-the-art CAD and Finite Element Analysis (FEA) systems. The sourcing team together with the material teams within product development work closely with our suppliers to identify innovative materials as well as integrate cost and production process aspects into the development phase. As soon as a new technology is deemed viable, it is produced as a physical sample. Samples are then tested extensively by members of our innovation team as well as by top athletes. Only when these tests have been successful are technologies handed over to product marketing which commercialises the technology to a final product.

adidas Innovation Team drives brand's R&D initiatives

R&D activities at adidas focus on the development of innovative technologies for performance sport. To solidify adidas' position as a leader in technology and innovation, the adidas Innovation Team (ait) is responsible for the ongoing development of new technologies and concepts in all key product categories.

The team is divided into groups that focus on apparel, footwear and hardware, within which there are individual product focus categories like basketball, football (soccer), American football or cross-category project areas such as intelligent products or energy management systems (cushioning technologies). The majority of these teams are located in Herzogenaurach, Germany, and Portland/Oregon, USA. Dedicated innovation development centres in Asia focus on the realisation of concepts through prototyping as part of the product creation process. These centres are important in terms of development efficiencies, as product development takes place in real production environments.

R&D activities at Reebok focus on fitness and training

R&D teams at Reebok create footwear, apparel and hardware with the primary focus being on fitness and training. Teams are structured along the brand's category priorities, in strength and muscle activation, conditioning and flexibility. In addition, there are certain cross-category groups such as the Reebok Advanced Concepts (RAC) team, which ensures specific concepts can be taken right through from initial idea to production.

Reebok's R&D activities are primarily located in Canton/Massachusetts, USA, with collaboration partners at Advanced Development Centres in China and Vietnam, which focus on new technology developments, cutting-edge materials and treatments and manufacturing solutions.

Industry-leading R&D at TaylorMade-adidas Golf

TaylorMade-adidas Golf's R&D team is focused on continually designing and developing industry-leading products. The team is structured according to the different product categories in golf and is located in Carlsbad/California, USA.

Vertically integrated R&D activities at Rockport

Rockport's R&D function, located in Canton/Massachusetts, USA, is a vertically integrated organisation that covers all aspects of strategy, research, design, engineering and testing, while incorporating the Group's advanced proprietary athletic footwear technologies into the shoe collections.

Reebok-CCM Hockey R&D located in Canada

The R&D team at Reebok-CCM Hockey, located in Montreal/Quebec, Canada, is dedicated to continuously creating state-of-the-art hockey equipment for both professional and recreational players. Teams are organised by category under the two brands Reebok and CCM.

Selective purchase of external R&D expertise

In addition to its internal R&D efforts, the adidas Group also purchases a limited amount of R&D expertise from well-established research partners. This strategy allows for greater flexibility and faster access to know-how that may otherwise require considerable time and resources if built up within the Group. To increase efficiency and protect research results, collaborations are usually long-term and exclusive. All projects carried out with external partners are based on a clearly defined mandate outlining the project scope to ensure consistency with the Group's R&D focus. Major adidas relationships exist with the University of Loughborough, England, the University of Calgary, Canada, the University of Erlangen-Nuremberg and the University of Freiburg, Germany. For example, the ultra-lightweight adidas adiZero F50 football boot's traction studies were carried out in conjunction with the University of Freiburg, Germany.

Also in 2010, there were further Techfit apparel technology developments, in association with the University of Calgary, Canada. For its 2010 product, Reebok continued its research with R&D institutes around the world, which included electromyographic research at Utica College, USA, and the University of Erlangen-Nuremberg, Germany. On the ZigTech platform, Reebok also carried out under-foot pressure assessment research in association with the University of Wisconsin, USA. In 2010, TaylorMade-adidas Golf continued its long-term cooperation with researchers at the University of Calgary, Canada, with extensive joint swing dynamic studies, identifying the influence of shaft variations on player performance and perception.

Active trademark and patent protection policy

To capitalise on the Group's R&D achievements, we seek patent protection for our innovations. It is an important business policy for our Group to secure the best available patent protection for our innovations. As we use a wide range of different technologies in our products, we are not dependent upon any single technology, or any patent rights related to any single technology. We also own a substantial portfolio of registered trademarks for the Group's brands and related proprietary names.

As part of our business policy, we enforce the Group's trademarks and patents by monitoring the marketplace for infringements and taking action to prevent them. This includes a vigorous anti-counterfeiting programme. We also have comprehensive processes, and undertake significant research, to avoid infringement of third party intellectual property rights ⋙ see Risk and Opportunity Report, p. 158.

Highly skilled technical personnel

Our R&D departments comprise experienced and skilled people from different areas of technical expertise and also from diverse cultural backgrounds. Mechanical, biomechanical and engineering specialists focus primarily on the development of performance footwear, concentrating on reducing stress on knees and other joints. Experts in material engineering concentrate on the development of apparel and footwear with an emphasis on increasing durability and flexibility as well as enhancing temperature and moisture management. Process and production specialists also form an essential part of our product development strength. Other professional backgrounds include software development, industrial and graphic design, electronic engineering, Finite Element Analysis, advanced CAD design and kinesiology. In 2011, we expect the number of R&D employees to increase slightly. The number of people employed in the Group's R&D activities at December 31, 2010 was 1002, compared to 999 employees in the prior year. This represents 2% of total Group employees, a slight decrease compared to the prior year (2009: 3%).

Major R&D locations and activities 01

	Main activities	Location
adidas	Global Development Center (ait)	Herzogenaurach, Germany
	Global Development Center (ait)	Portland/ Oregon, USA
	Global Research and Testing Center (ait)	Scheinfeld, Germany
	Product Creation Center	Shanghai, China
	Product Creation Center	Tokyo, Japan
Reebok	Global Development and Testing Center	Canton/ Massachusetts, USA
	Advanced Development Center	Fuzhou, China
	Development and Testing Center	Ho Chi Minh, Vietnam
TaylorMade-adidas Golf	Global Development and Testing Center	Carlsbad/ California, USA
Rockport	Global Development and Testing Center	Canton/ Massachusetts, USA
Reebok-CCM Hockey	Development and Testing Center	Montreal/ Quebec, Canada

Initiatives to further streamline product creation process

We aim at improving our ability to adapt to changing consumer preferences more quickly, flexibly and efficiently. We achieve this by facilitating the direct interaction and involvement of our suppliers in product creation, quality control, product testing and commercialisation. In 2010, we fully implemented our Fast and Lean Creation programme for footwear and started the programme for apparel see Global Operations, p. 106. In 2010, we also made further progress on integrating marketing and design teams into the product creation process at an earlier stage. This measure supports the minimisation of costly product changes in the later stages of the development process.

R&D expenses increase 18%

R&D expenses include expenses for personnel and administration, but exclude other costs, for example those associated with the design aspect of the product creation process. In 2010, as in prior years, all R&D costs were expensed as incurred. adidas Group R&D expenses increased by 18% to € 102 million (2009: € 86 million) as a result of increases at adidas from initiatives relating to the development of intelligent products. Personnel expenses represent the largest portion of R&D expenses, accounting for more than 69% of total R&D expenses in 2010. In 2010, R&D expenses represented 2.0% of total operating expenses versus 2.0% in the prior year. R&D expenses as a percentage of sales remained stable at 0.8% (2009: 0.8%) see Note 2, p. 189.

Successful commercialisation of technological innovations

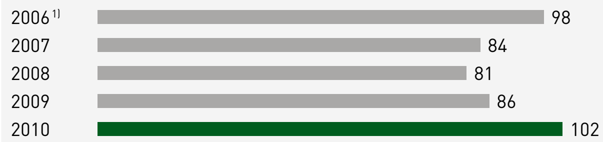
Developing industry-leading technologies is only one aspect of being an innovation leader. This is supported by the awards we attained in 2010, which are further proof of our technology leadership within the sporting goods industry see 06. Even more important is the successful commercialisation of those technological innovations. Also in 2010, the majority of adidas Group sales were generated with products newly introduced in the course of the year. New products tend to have a higher gross margin compared to products which have been in the market for more than one season. As a result, newly launched products contributed over-proportionately to the Group's net income in 2010. We expect this development to continue in 2011 as our launch schedule highlights a full pipeline of innovative products see Subsequent Events and Outlook, p. 174.

Successful product launches across all major adidas categories

In 2010, adidas sales were again driven by the latest product offerings, with products launched within the year accounting for 75% of brand sales (2009: 80%). Only 2% of total sales were generated with products introduced three or more years ago (2009: 3%). In running, an updated version of the ultra-lightweight running shoe adiZero adios was launched in 2010. Using advanced composite materials and innovative construction and design, this shoe enabled athletes to win over 60 major race titles in 2010.

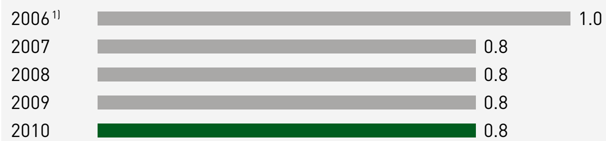
In the football category, the adidas adiZero F50 was introduced at the 2010 FIFA World Cup. The new SprintSkin upper has been created using an innovative single-layer microfibre polyurethane (PU) synthetic material to reduce the overall weight and to ensure the shoe fits like a second skin. adidas also launched the Clima365 range in 2010, demonstrating advanced body temperature regulation technology for apparel, which uses BodyMapping technology to define heat and sweat zones in order to place fabrics directly where they are needed the most. adidas' digital training system miCoach was extended in 2010 with the introduction of the miCoach pacer and the miCoach app. The miCoach pacer uses a digital trainer in conjunction with sports-specific training programmes to provide a personal coach, telling the athlete exactly what to do and when. The new miCoach app extends adidas personal coaching to smartphone platforms, such as the iPhone and the Blackberry. This service further broadens the training offering and also introduces specific conditioning programmes for football, tennis, American football and basketball.

R&D expenses 02
€ in millions



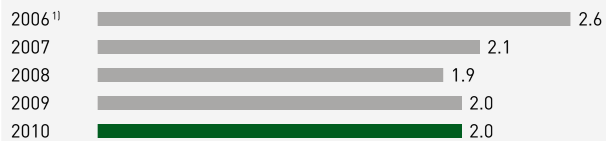
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

R&D expenses 03
in % of net sales



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

R&D expenses 04
in % of other operating expenses



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Reebok expands toning and introduces ZigTech technology platform

In 2010, Reebok's latest products generated the majority of Reebok's sales, with an estimated 63% of footwear sales coming from products launched in 2010 (2009: 64%). Only 15% of footwear product sales relate to products introduced three or more years ago (2009: 14%).

Reebok expanded its toning offering with the introduction of RunTone, TrainTone and JumpTone. Each toning platform encourages muscle activation in key leg muscles but is engineered for specific sports (RunTone for running, TrainTone for training and JumpTone for basketball). The technological innovations in these products also support growth into the men's category, as increased muscle activation finds resonance with this target consumer, particularly in terms of building strength. In 2010, toning products were also introduced for apparel. The EasyTone apparel collection is designed to tone and strengthen upper body muscles and improve posture and body alignment. This innovative performance apparel line uses ResisTone bands to create resistance as the wearer moves. Also in 2010, Reebok launched the ZigTech technology platform, which concentrates on delivering improved efficiency to athletes, enabling them to run further and reduce wear and tear in key leg muscles. The sole of the ZigTech shoe features lightweight foam that is engineered into a geometric, zig-zag shape. This unique zig-shaped sole absorbs the impact of heel strike and sends a wave of energy along the length of the shoe, propelling the athlete forward with each step.

Innovation a key success factor for TaylorMade-adidas Golf

At TaylorMade-adidas Golf, current products (i.e. products launched in the last 18 months, which is the typical product lifecycle in golf) represented 58% of total hardware sales in 2010 (2009: 69%). Products that had been brought to market three or more years ago accounted for 5% of sales in 2010 (2009:15%). Among the highlight product launches in 2010 was the R9 SuperTri driver, which combines Movable Weight Technology with Flight Control Technology. The R9 product family of woods accounted for approximately 37% of TaylorMade metalwoods sales in 2010. TaylorMade also launched the Burner SuperFast driver in 2010. This ultra-lightweight (<285g) and aerodynamically engineered driver is designed to produce maximum head speed. The new Burner 2.0 irons, introduced in 2010, have individually been further engineered to improve distance, accuracy and playability. The Burner 2.0 irons gained substantial market share at the end of 2010 and played a key role in placing TaylorMade as number one in irons in terms of dollar sales in the USA in November and December 2010. The TaylorMade Penta ball became available in quantities worldwide in 2010 and represented 35% of TaylorMade's golf ball sales in the US market in 2010. Finally, the Corza Ghost putter, the first white putter, became the number three putter model sold in the USA in 2010 and propelled market share in putters well above 10%.

Rockport extends truWalk architecture

Due to the different business model for the Rockport brand as a leather shoe company, the impact from new styles is significantly lower compared to our other brands. Products launched in 2010 accounted for an estimated 52% of sales (2009: 55%). In 2010, R&D efforts concentrated on making shoes more walkable and this was achieved by extending Rockport's innovative truWalk architecture into dress, casual and rugged casual shoe products. The truWalk architecture works with the foot's natural motion, resulting in a more comfortable, energised stride. Using adiPrene technology by adidas, truWalk enables a soft heel-strike, transitioning to a smooth roll through the arch, and finishing with a forefoot flex for an energised push-off.

Major 2010 product launches 05

Product	Brand
adidas Team Signature basketball collection	adidas
adiPure football boot	adidas
UEFA Champions League Finale ball and footwear package	adidas
2010 FIFA World Cup package	adidas
adiZero F50 football boot	adidas
Terrex outdoor apparel and footwear	adidas
Supernova Glide running shoe	adidas
adiStar Salvation running shoe	adidas
Supernova Sequence and Supernova Riot running shoes	adidas
miCoach training system	adidas
adidas by Stella McCartney performance cycling collection	adidas
Techfit PowerWeb men's training apparel	adidas
Men's and women's Fluid Trainer training shoe	adidas
Star Wars Originals collection	adidas
JumpTone men's footwear	Reebok
ZigSlash and ZigReenergize basketball footwear	Reebok
U-Form 4-Speed football cleat	Reebok
Cirque du Soleil collection	Reebok
Jukari Fit to Flex women's footwear	Reebok
RunTone men's footwear	Reebok
ZigEnergy and ZigFuel men's footwear	Reebok
Emporio Armani footwear and EA7 collection	Reebok
TrainTone women's footwear	Reebok
Burner SuperFast driver and fairway woods	TaylorMade
R9 SuperTri driver	TaylorMade
Monza Spider Vicino putter	TaylorMade
Burner SuperLaunch irons	TaylorMade
Men's Formotion apparel	adidas Golf
Men's/women's Climacool apparel with soft-touch Coolmax	adidas Golf
Men's/women's adiPure apparel	adidas Golf
Men's/women's EZ-Tech apparel	Ashworth
Men's/women's Doeskin outerwear	Ashworth
Reebok 11K skates	Reebok Hockey
Reebok 11K Sickick III stick	Reebok Hockey
CCM U+ Octolight stick	CCM Hockey
CCM U+ Pro protective equipment	CCM Hockey
CCM U+ Crazy Light skate	CCM Hockey
TruWalk men's and women's footwear	Rockport

Reebok-CCM Hockey innovates in sticks and skates

At Reebok-CCM Hockey, products launched in 2010 accounted for 53% of sales in North America. Only 12% of sales were generated with products introduced three or more years ago. In 2010, Reebok-CCM Hockey launched new lines of skates and sticks. The Reebok 11K skate combines the proven Pump technology with the new Pro Armour technology for improved support, increased energy transfer and better durability. The CCM U+ Crazy Light skate is the most customisable skate on the market thanks to the UForm-3D technology and the FluidFit system. The Reebok Sickick III stick with dual matrix technology offers more feel, better balance, quicker reaction time and faster shots. Other technologically driven products launched in 2010 include Revoke Goalie equipment, Smooth Air mouthguards and CCM protective gear.

Ambitious 2011 R&D targets

Our Group remains committed to bringing at least one new revolutionary technology or groundbreaking evolution to the market each year see Group Strategy, p. 80. In 2011, customisation and digital sports products will be at the forefront of adidas R&D activities as we aim to position the brand as the technology leader in this rapidly growing category. Reebok's R&D activities in 2011 will centre on the brand's strategy to target fitness and training through strength, conditioning and flexibility innovations. Each of these will be achieved respectively through the expansion of the toning and ZigTech platforms and with the introduction of RealFlex, a lightweight technology that focuses on natural body movements. TaylorMade-adidas Golf's development efforts will continue to reinforce industry leadership by enhancing golfers' performance through customisation and adjustability features in woods and forged irons. Rockport will focus its product development on light weight, comfort and walkability, particularly for the DresSports collection and women's high-heeled shoes. Reebok-CCM Hockey will concentrate on introducing new technologies in all categories, including skates with improved customisation for the best fit at the lightest weight, and sticks with maximum power without sacrificing accuracy and feel.

Product awards 2010 06

Product	Award	Category	Brand/Segment
adidas miCoach	Stevie Award for Best Consumer Product / The American Business Awards	Consumer Product	adidas
adidas miCoach App	Mobile App of the Year Award / The Stuff Gadget Awards 2010	Mobile App	adidas
Terrex Solo	Outdoor Industry Award / OutDoor – The Leading Trade Fair	Fast All-round / Approach Shoe	adidas
adidas Authentic Jersey – Collector's Edition	Communication Design 2010 Red Dot Award / Design Zentrum Nordrhein Westfalen	Packaging Design	adidas
ZigTech running shoe	Best Sole Mate Award / Wallpaper Magazine Design Awards	Footwear / Best Sole Mate	Reebok
EasyTone toning shoe	2010 Product of the Year / Sportsfack – Swedish sports magazine	Sporting Goods Product	Reebok
EasyTone toning shoe	Most Innovative Sport Product Award / 2010 Oscar de l'Innovation Awards / LSA magazine	Innovative Sport Product	Reebok
Penta TP ball	Ingenuity Honors / International Network of Golf Industry Honors	Product Ingenuity	TaylorMade-adidas Golf

Employees

Becoming the global leader in the sporting goods industry depends on the potential, dedication, knowledge and performance of our employees and the excellence of our leaders. Therefore, we foster a corporate culture of performance, passion, integrity and diversity as we are convinced this is crucial to stimulate innovation, team spirit and engagement.

Engagement drives performance

We believe that employee satisfaction drives commitment, commitment drives engagement, and engagement drives business performance. Consequently, we have defined engagement as one of our Group's key performance indicators for measuring our efforts to sustain a "performance culture". To capture employee perceptions, we introduced formal engagement surveys in 2008. These enable us to evaluate our position as the employer of choice for our employees and also provide a framework for benchmarking. In 2010, we conducted the first Group-wide engagement survey. We achieved an outstanding participation rate of 90% and an engagement score which places us close to the top-performing organisations with respect to engagement within the consumer goods industry. Compared to 2008, when we conducted an employee survey in various regions, we were able to increase our engagement score significantly. This score was underpinned by our employees' high level of confidence in our senior leaders, their perception of clarity concerning the Group's strategic direction as well as an open and constructive work climate. Areas for further improvement identified by employees included career development and transparency, availability of IT tools and performance recognition. Our senior leaders are responsible for and committed to increasing the engagement scores. As in previous years, based on the feedback received, "Results-to-Action teams" will be established to drive initiatives to enhance the Group's performance in the respective areas of weakness.

Enabling employees to reach their personal best

To reach their personal best, our Group's employees are offered training to build on their strengths, improve their skills and overcome their own challenges. In this process, joining individual aspirations to our organisational needs is the highest priority. Our "Competency Model" defines a set of competencies to ensure consistent and transparent performance, talent and succession management. We focus our efforts on three key success drivers:

- Performance management
- Talent management
- Succession management

»» see 01.

Performance management: Our global PEP (Performance Evaluation and Planning) tool enables us to measure all our employees against the required competencies of their job level and their performance, but also to set individual business targets and plan appropriate training activities as necessary. We offer targeted training (behavioural and managerial training) for individuals on all levels of the organisation. PEP is used in all business units of the adidas Group and the online PEP has a coverage of 71%. The target for 2011 is to reach an online coverage of 97% Group-wide.

Three-pillar human resources strategy

We strive to have the right team in place by focusing our activities on the implementation and execution of our Group's human resources strategy, which is based on three pillars:

- Creating a working environment that stimulates team spirit, passion, engagement and achievement
  »» see "Engagement drives performance", p. 115
  »» see "Internal communication activities to drive employee engagement", p. 117
- Expanding our performance culture based upon strong leadership
  »» see "Enabling employees to reach their personal best", p. 115
  »» see "Performance-driven remuneration system", p. 116
  »» see "Creating an attractive work environment", p. 117
- Being an "employer of choice"

Measures taken in order to implement our strategy are explained in the text sections referred to above.

Talent management: With specifically designed talent management tools, we identify employees at all levels of our Group who have the potential to become future leaders in our organisation. In order to prepare employees for more complex future roles, they participate in targeted development programmes for various levels within the organisation:

– Executive Development Programme (EDP): A global adidas Group programme (cross-brand and cross-functional) for employees who show potential for the Executive level. The programme is centrally managed and executed.
– Management Development Programme (MDP): A global adidas Group programme which is executed regionally. This programme is tailored to employees from different functional areas and brands who show potential for the management level.
– People Manager Development Programme (PDP): A global adidas Group programme which is executed locally. The programme targets employees at a team leader level who show potential for their next career step.
– Business Management Programme (BMP): A 24-month international cross-functional and cross-brand programme aiming at attracting professionals with MBA degrees and three to five years work experience to prepare them for future management positions within our Group. At year-end 2010, six employees were participating in the BMP globally (2009: 5).
– Functional Trainee Programme (FTP): A 12- to 18-month programme giving graduates with an international background and excellent educational credentials the opportunity to start a functional career within the adidas Group. The programme comprises six three-month assignments in varying departments. At least one of these assignments takes place abroad. At year-end 2010, we employed 36 participants in our global FTP (2009: 39).

Our development programmes are complemented by apprenticeship and internship programmes. The adidas Group apprenticeship offers young people who want to join our Group straight out of school the opportunity to gain business experience in a three-year rotation programme. The programme includes vocational training in retail, industrial management and IT as well as integrated study programmes. At the end of 2010, we employed 55 apprentices in Germany (2009: 58).

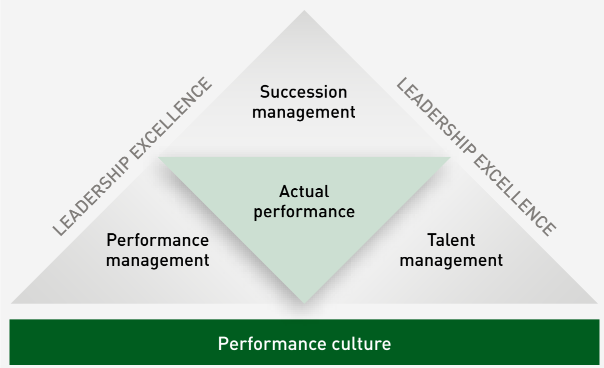
Our global internship programme gives students three to six months work experience within the adidas Group. For "best-of-class" interns, we continued our "ReBound" programme to foster potential future employment. At the end of 2010, we employed 320 interns in Germany (2009: 331).

Succession management: We have a Group-wide succession management process in place that helps us identify succession risks as well as develop designated or potential successors for future management positions. The current succession situation for all positions from Director level is discussed regularly by senior management. The succession management process is supported by a system solution which hosts position and employee data related to performance, potential, career aspirations, mobility, etc. Our system solution is applied in 71% of the adidas Group business units. The target for 2011 is to reach a Group-wide online coverage of 94%.

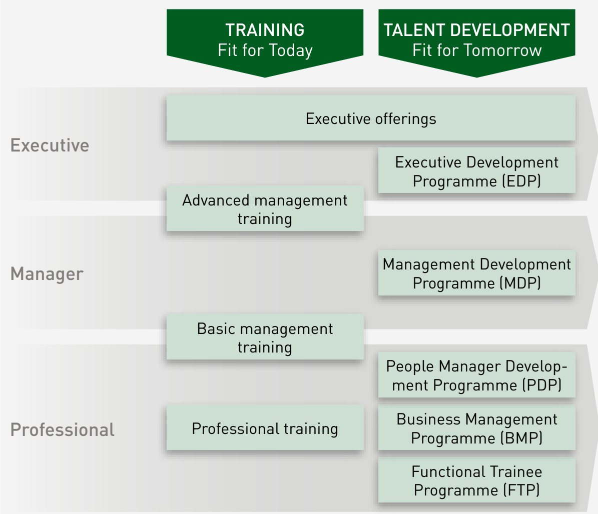
Performance-driven remuneration system

We are committed to rewarding our employees with compensation and benefit programmes that are competitive in the marketplace. Remuneration throughout the Group comprises fixed and variable monetary compensation, non-monetary rewards, as well as other intangible benefits. The cornerstone of our rewards programme is our Global Salary Management System which is used as a basis to set the value of employees' positions and salaries in a market-driven and performance-oriented way.

Success drivers for performance 01



Development and training framework 02



In addition to a fixed base salary, we also offer our employees various variable compensation components.

Bonus programme: In order to allow our employees to participate in the Group's success and to reward them for their target achievement, we have implemented a global bonus programme. This programme combines individual performance (measured in the PEP process) and corporate performance (actual financial results measured against Group, brand, channel, division and/or business unit targets).

Profit sharing: For employees at our Group headquarters and our other locations in Germany who do not participate in the bonus programme, we have introduced a profit sharing programme called "Champions Bonus".

Additional compensation components: For senior management and Executive Board members we offer Long-Term Incentive Programmes (LTIP). Other benefits include our 401-K pension plans in the USA and the adidas Group pension plan for our employees in Germany. In 2010, 2,060 employees participated in the latter, which represents 58% of all eligible employees.

Our Group subsidiaries also grant a variety of benefits to employees depending on locally defined practices and country-specific norms.

Internal communication activities to drive employee engagement

We believe that a robust internal communication platform is essential for driving employee engagement and fostering open collaboration within our organisation. For example, the Group intranet has been transformed over the past two years into blogs allowing departments and teams to quickly build and edit their own internal communication platforms. It also enables employees to comment on news, share knowledge, collaborate and discuss current topics. In 2010, we introduced a Group-wide idea forum, allowing our employees to receive recognition for their ideas and participate in the implementation process. For 2011, our focus will be on knowledge management and collaboration. We plan to implement a Microsoft SharePoint platform which will enable us to have one global, integrated tool for knowledge management. This is part of a longer-term project to create a modern continuous learning organisation.

Diverse workforce to achieve global goals

As a global company, we understand that it takes people with different ideas, strengths, interests and cultural backgrounds to ensure we achieve our goals. A high degree of diversity is already reflected in our workforce. At our corporate headquarters, for example, we have employees from more than 50 countries. We act to assure an environment that embraces diversity through various initiatives such as networking events, intercultural training and our work-life integration department.

Creating an attractive work environment

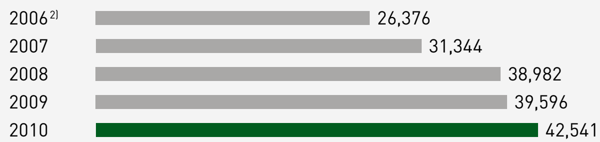
We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees. Our work-life balance programme includes family-oriented services, flexible work time and place, people development and leadership competence related to work-life balance.

Key employee statistics 03

	2010
Total number of employees	42,541
Total employees (in %)	
Male	52%
Female	48%
Management positions (in %)	
Male	72%
Female	28%
Average age of employees (in years) [1]	33
Average length of service (in years)	4
Annual training hours by employee (in hours)	13

1) At year-end.

adidas Group number of employees [1] 04



1) At year-end.
2) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

In addition, we offer our employees a wide range of sports activities at our major sites. Employees in Herzogen-aurach, Portland and Canton and at other subsidiaries have access to a company gym. Our Company Sports department in Herzogenaurach also organises various sports activities such as mountain biking, kayaking or ski tours. Special events such as a one-week sports camp for employees' children, trans-alpine mountain bike tours and the annual Berlin Marathon weekend (with a suitable training programme prior to the event) are also available. In 2010, the Company Sports department in Germany offered about 225 courses and more than 40 events which were attended by more than 3,600 participants (2009: >3,000).

Global employee base continues to grow

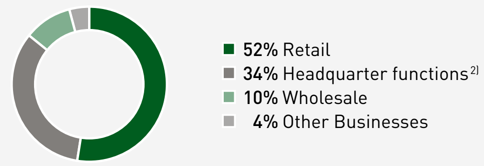
On December 31, 2010, the Group had 42,541 employees, which represents an increase of 7% versus 39,596 in the previous year. This development is primarily related to new employees in the Retail segment, mainly on a part-time basis. On a full-time equivalent basis, our Group had 36,444 employees on December 31, 2010 (2009: 34,437). Due to the high share of employees working on a part-time basis in the Retail segment, this figure is lower than the figure reported on a headcount basis »» see ≣ 08. Personnel expenses increased 12% to € 1.521 billion in 2010 from € 1.352 billion in 2009 »» see Note 31, p. 215, representing 30% of the Group's total operating expenses (2009: 31%) and 13% of Group sales (2009: 13%).

Own-retail activities in emerging markets drive employee growth

The number of employees working in the Wholesale segment decreased 8% to 4,329 at the end of 2010 (2009: 4,723), mainly due to reorganisation measures following the implementation of the joint operating model in 2009. Staff in our Retail segment increased 14%, primarily as a result of the expansion of own-retail activities in emerging markets. The Retail segment comprised 22,286 employees at year-end (2009: 19,576). In Other Businesses, the number of employees decreased by 4% to 1,676 (2009: 1,750), primarily due to reorganisation initiatives at TaylorMade-adidas Golf and Reebok-CCM Hockey. The number of employees working in our headquarter functions increased by 5% to 14,250 (2009: 13,547). This development reflects the changes in the organisation structure.

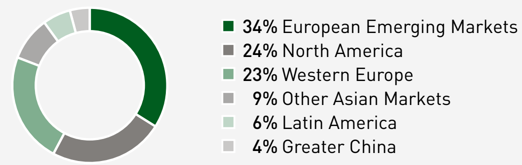
At the end of 2010, 23% of our Group's staff were employed in Western Europe (2009: 23%), 34% in European Emerging Markets (2009: 31%), 24% in North America (2009: 25%), 4% in Greater China (2009: 8%), 9% in Other Asian Markets (2009: 6%) and 6% in Latin America (2009: 7%). As a global company with less than 9% of our employees located in Germany, we actively encourage global mobility and offer our employees the opportunity to go on international assignments. To support relocating professionals and their families in new living and working environments, we provide, for example, relevant language and cultural training.

Employees by segment [1] 05



1) At year-end.
2) Includes, for example, Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR).

Employees by region [1] 06



1) At year-end.

Challenges in human resources management

With the economy picking up, the so-called "war for talent" is heating up see Risk and Opportunity Report, p. 158. More than ever, we challenge ourselves to do what it takes to be and remain the employer of choice for the talents we need. During 2010, we received top rankings as an employer of choice, proving that the adidas Group is one of the leading employers for school leavers and students/graduates. In order to further strengthen this position, we continued to push our activities at schools and universities throughout 2010.

By partnering with select universities around the globe, we strive to foster our strong employer image through direct contact with top graduates. We continued to build upon our key university strategy roll-out in 2010, where members of the Executive Board and other senior executives of the Group shared their business insights at selected top universities and business schools such as the London Business School, the IESE in Barcelona and universities in Germany such as in Mannheim and Nuremberg. When it comes to highly qualified personnel, the adidas Group faces increasing competition in the international labour market. We will continue to tackle this challenge with innovative programmes, such as an employee referral programme which was introduced in 2010. As part of our Group-wide strategic business plan (Route 2015), which defines strategies and objectives for the period up to 2015, Human Resources will further build upon existing programmes and concepts. We will focus in particular on initiatives to enhance our performance, learning and leadership culture.

Employees by function [1]

07

	2010	2009
Own retail	54%	51%
Sales	10%	10%
Logistics	11%	13%
Marketing	8%	9%
Central administration	8%	8%
Production	5%	5%
Research & Development	2%	2%
IT	2%	2%
Total	**100%**	**100%**
Total in numbers	42,541	39,596

1) At year-end.

Number of employees [1]

08

	2010		2009 [5]	
	Employees [3]	Full-time equivalents [4]	Employees [3]	Full-time equivalents [4]
Wholesale	4,329	4,158	4,723	4,511
Retail	22,286	17,017	19,576	15,229
Other Businesses	1,676	1,599	1,750	1,676
Headquarter functions [2]	14,250	13,670	13,547	13,022
Total	**42,541**	**36,444**	**39,596**	**34,437**

1) At year-end.
2) Includes, for example, Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR).
3) Number of employees on a headcount basis.
4) Number of employees on a full-time equivalent basis. Due to the high share of part-time employees in our Retail segment, this figure is lower than the number of employees counted on a headcount basis.
5) Following minor changes to our Group's organisational structure in the first quarter of 2010, the 2009 segmental figures have been adjusted retrospectively to ensure full comparability. The total figure, however, has not changed.

Sustainability

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

Engaging our stakeholders

At the adidas Group, we pursue a policy of open dialogue with numerous stakeholders, involving them in key social and environmental decisions that shape day-to-day operations. Through in-depth engagement with, for example, the Better Cotton Initiative, the Leather Working Group and the AFIRM Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organisations such as the World Business Council for Sustainable Development (WBCSD), the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA). In addition, we recognise that open and honest communication enhances the transparency of our business and demonstrates our commitment to being accountable.

Workplace Standards set rules in the supply chain

We have a responsibility to our employees and the workers in our suppliers' factories as well as the environment. Malpractice in these areas, in particular human rights violations and dubious employment practices, can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. Therefore, covering health and safety, labour rights and environmental protection at our own sites and our suppliers' factories is of the highest importance to us.
We have defined rules or standards embedding our own corporate values as well as those society expects of global businesses. These standards follow International Labour Organization (ILO) and United Nations conventions relating to human rights and employment practices, as well as the WFSGI model code of conduct. We have condensed our rules into a supplier code of conduct that we call our "Workplace Standards". These Standards help us select manufacturing partners and serve as guiding principles in the early identification and treatment of potential issues of concern at our suppliers' sites.
To illustrate how suppliers should implement our Standards, we have created a set of detailed guidelines for use in factory settings, which are updated on a regular basis by our Social and Environmental Affairs (SEA) team. The guidelines are also used to determine suppliers' compliance with our Standards and to advise and train our suppliers in improving their social and environmental performance.
Our Workplace Standards contain clear rules of conduct regarding:

– Environmentally sound, safe and healthy working conditions
– Fair wages and benefits
– Freedom of association
– Prohibition of excessive overtime, forced and child labour
– Protection against harassment and discrimination.

Careful supplier selection

To improve working conditions throughout our supply chain, the Global Operations function works closely with our SEA team on supplier selection. The SEA team assesses all potential new suppliers, and orders can only be placed with a new supplier when SEA approval has been granted.

More information online

Read more about:
– Our Group's sustainability programme
– Sustainability targets and progress
– Stakeholder engagement
– The "Better Place" programme
– Performance data
– Our Group's Environmental Strategy

in our 2010 Social and Environmental Online Report and on our website at ⋙ www.adidas-Group.com/sustainability.

Encouraging self-governance

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

Training to achieve sustainable compliance

Our SEA team offers specific training courses and workshops for factory supervisors and managers to help them apply our Standards and implement best practices. These workshops include, for example, introductory training on our Workplace Standards and SEA operating guidelines and detailed training on effective health, safety and environmental practices. Further, we promote the establishment of structures that actively involve workers and management of our suppliers, as well as local employee associations and non-governmental organisations (NGOs). Our team also organises workshops for licensees, agents and adidas Group business entities in order to strengthen personnel capacities throughout our company. In this way, the consideration of acceptable working conditions becomes a routine part of business activities. In 2010, the SEA team conducted 193 training sessions and workshops (2009: 216).

Monitoring through factory inspections

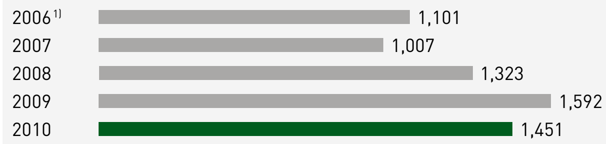
The SEA team assesses compliance with our Workplace Standards by means of factory inspections. Our auditors check performance against a customised risk list for each factory that is monitored. The methodology is linked to a factory rating which measures the effectiveness of compliance systems and the work of their administrators. This enables us to precisely determine training needs at our suppliers' factories. During 2010, we conducted 1,451 factory visits (2009: 1,592 visits) involving management and worker interviews, document review, facility inspections and training sessions at different levels in our supply chain see 01.

In addition to our own monitoring activities, we value independent assessment by third parties to demonstrate the credibility of and provide verified information about our programme to stakeholders. As a member of the Fair Labor Association (FLA), the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. In 2008, the monitoring programme of the adidas Group was re-accredited by the FLA. This decision was based on independent factory monitoring and verification reports of supplier facilities, and a thorough audit of monitoring protocols, training programmes and auditing systems. Since joining the FLA, more than 250 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers.

Warning-letter system to enforce compliance

Where a manufacturing supplier is performing poorly in terms of Workplace Standards compliance, we will work closely with them to find solutions. However, when we find ongoing and serious instances of non-compliance and a lack of commitment from factory management to address the issues, we send out a formal warning letter including a notification to factory management that their business relationship with the adidas Group is in jeopardy. Three warning letters result in termination. In 2010, we did not have to terminate our business relationship with any supplier for compliance reasons (2009: 9 terminations).

Number of factory visits 01



1) Including Reebok business segment from February 1, 2006 onwards.

Strategic approach to managing environmental impacts and tackling climate change

Tackling climate change poses a number of challenges for our company and our manufacturing partners. Having analysed the environmental footprint of our business operations and building on existing environmental initiatives, we developed an Environmental Strategy in 2010 with defined targets until 2015. With this strategy, we strive to continuously reduce the company's environmental footprint by applying environmental best practice in our daily work and in the supply chain. We systematically look at all relevant parts of the business and value chain to become more thoughtful and efficient in using resources as well as help reduce operational costs. Our initiatives span from product design and creation to sourcing and manufacturing, also covering our own sites, own-retail stores and all other sales points. The focus is on energy, water conservation and discharge, waste and chemicals. More details on our Environmental Strategy can be found in our 2010 Social and Environmental Online Report and on our website at www.adidas-Group.com/sustainability.

Improving our environmental footprint at own sites

As an important part of our Group's Environmental Strategy, we launched the Green Company Initiative, which targets reducing the environmental footprint of our own sites. The initiative provides a supporting framework, guidance and communication platform for all Group entities to improve their environmental footprint.

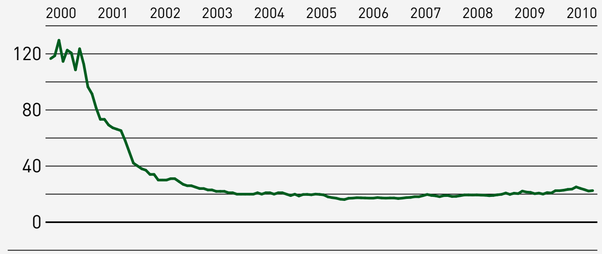
As part of this initiative, we have set Group-wide and site-specific 2015 targets related to savings in energy use, carbon emissions, water usage and paper as well as sourcing green energy. In these areas, our goals include cutting the relative energy use by 20%, the relative carbon emissions by 30%, and reducing paper use by 50% per employee. Further targets have been specified for waste, purchasing practices and mobility management. In addition to the overall company goals, several sites have set their own specific targets. One of the key goals within the Green Company Initiative has been to obtain ISO 14001 certification for environmental management systems established at six major administration sites of the adidas Group. This was achieved for five major sites in 2010, all located in North America (Portland, Carlsbad, Canton, Montreal and Spartanburg). The certification of the adidas Group Headquarters site "World of Sports" in Herzogenaurach is scheduled for 2011.

Driving environmental improvements in our supply chain

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

In 2010, our Group's supply base included 24 athletic footwear supplier factories which were OHSAS 18000 and/or ISO 14001 certified. These factories produced around 83% of our footwear sourcing volume. The remaining part of our footwear sourcing volume is produced in factories that have management systems in place but have not been certified. All footwear factories are regularly assessed against the adidas Group's standards regarding environment and workplace health and safety. A range of other activities have been implemented to reduce our carbon footprint in the supply and distribution chain. Examples of these are in the areas of transportation and energy use. In the transportation of our products, our policy is to minimise the impacts, in particular from air freight shipments, through improved order and production planning tools.

Volatile organic compounds consumption[1] 02
in grams per pair of shoes produced



1) At year-end.

Control and monitoring of restricted substances

Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our suppliers are required to avoid using restricted substances. We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety. This policy is mandatory for all business partners and is updated regularly based on findings in our ongoing dialogue with scientific organisations. Our standards cover the general requirements for eco-labels and green seals (e.g. ÖKO-Tex Standard 100, Toxproof TÜV Rheinland, etc.) for footwear, apparel and hardware products. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected.

Reducing VOC emissions

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can, in a high concentration, cause breathing difficulties and other health problems for production workers. Therefore, we are committed to reducing VOC emissions in our suppliers' footwear factories to an average VOC emission of 20 grams per pair of shoes.

Our efforts reflect the technical synergies of sharing information, data and sources on production questions such as water-based cement systems. At our core athletic footwear suppliers we measure exposure to such emissions, and the records taken provide evidence that workers are not being exposed to dangerous levels of VOCs. Our athletic footwear suppliers in Asia and Europe have reduced VOC emissions from 130 grams per pair in 1999 to 24.8 grams per pair in 2010 (2009: 22.6) ⋙ see 02. For comparison, the limit value of the European VOC guideline and provision 31 of the German law on pollution control (31. Verordnung des Bundes-Immissionsschutzgesetzes) is 25 grams per pair of shoes. Both regulations became effective in 2007.

Environmentally optimised product concepts

adidas Sport Performance runs a sustainable product programme called "Better Place", which focuses on the efficient use of resources in the design and selection of materials. The first adidas "Better Place" products were introduced globally in spring/summer 2009 in response to consumers' increasing demand for sustainable sports apparel and footwear. The products feature environmental design, construction, material composition and packaging that distinguish them as environmentally sustainable products. All materials that are used for "Better Place" have to pass an in-depth assessment.

adidas recorded a considerable increase in "Better Place" products sold in 2010 which provides a strong base to grow the proportion of sustainable products in forthcoming seasons. We see sizeable business opportunities for our Group in the area of sustainable product concepts ⋙ see Risk and Opportunity Report, p. 158. It is therefore our target that by 2012 100% of adidas Sport Performance footwear products will have some sustainable content.

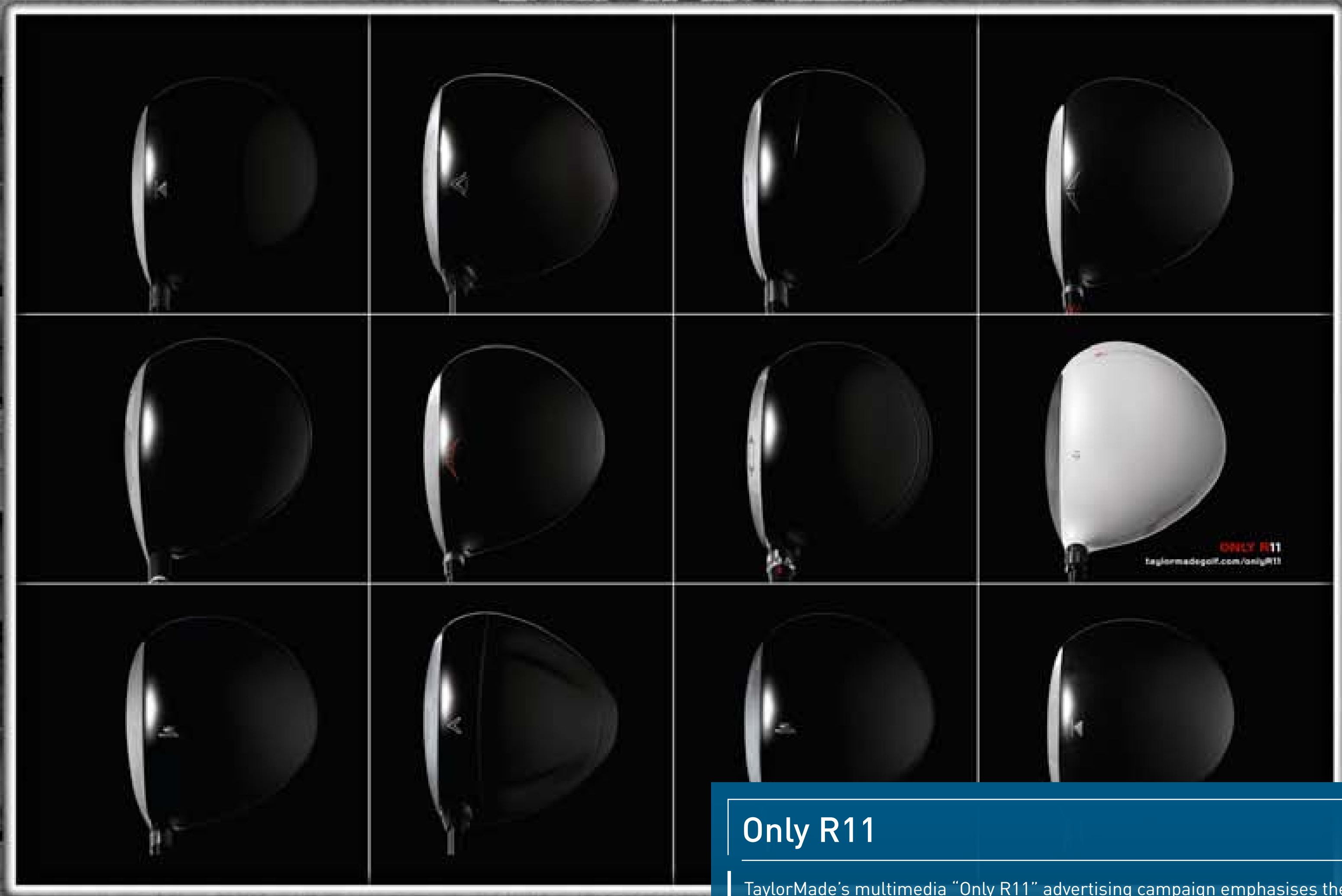
Strong sustainability track record reflected in index memberships

Interest from the financial community in sustainability management is steadily increasing. We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment (SRI) analysts. Each year, we respond to numerous enquiries from socially responsible investors, fund managers and financial analysts. They evaluate our efforts through in-depth analysis of our social and environmental programme, including document review as well as interviews with employees and management. As a result, adidas AG has been included in a variety of high-profile sustainability indices ⋙ see i "adidas AG in sustainability indices".

adidas AG in sustainability indices

- DJSI World (DJSI = Dow Jones Sustainability Index)
- DJSI STOXX
- DJSI EURO STOXX
- FTSE4Good Europe Index
- ASPI Eurozone Index
- Ethibel Index Excellence Europe
- ECPI Ethibel Index EMU

For more information ⋙ see Our Share, p. 34.



Only R11

TaylorMade's multimedia "Only R11" advertising campaign emphasises the striking difference between the R11 driver's white clubhead colour and the traditional black heads of competitive brands. The television commercial has received wide attention and acclaim for its use of the popular children's song "One of These Things is Not Like the Other". The campaign highlights the driver's stunning design, technology and performance, clearly setting it apart from the competition.

04

Group Management Report – Financial Review

Internal Group Management System

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

Operating cash flow as Internal Group Management focus

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

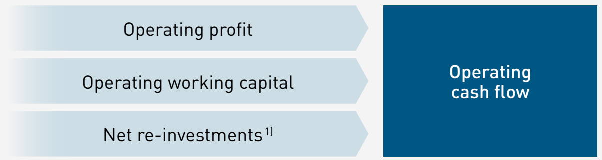
Operating margin as key performance indicator of operational progress

Operating margin (defined as operating profit as a percentage of net sales) is our Group's most important measure of operational success. It highlights the quality of our top line and operational efficiency.

The primary drivers central to enhancing operating margin are:

- **Sales and gross margin development:** Management focuses on identifying and exploiting opportunities that not only provide for future growth, but also have potential to increase gross margin (defined as gross profit as a percentage of net sales). Major levers for enhancing our Group's sales and gross margin include
  - optimising our product mix,
  - increasing the quality of distribution, with a particular focus on controlled space,
  - supply chain efficiency initiatives,
  - minimisation of clearance activities.
- **Operating expense control:** We put high emphasis on tightly controlling operating expenses to leverage the Group's sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the Group's cost base. Marketing working budget is our largest operating expense. It is one of the most important mechanisms for driving top-line growth. Therefore, we are committed to improving the utilisation of our marketing expenditure. This includes concentrating our communication efforts (including advertising, retail presentation and public relations) on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs and athletes. We also aim to increase operational efficiency and reduce operating overhead expenses as a percentage of sales. In this respect, we constantly review our operational structure – streamlining business processes, eliminating redundancies and leveraging the scale of our organisation. These measures may also be supplemented by short-term initiatives such as temporarily curtailing operational investments, for example staff hiring.

Operating cash flow components 01



1) Capital expenditure less depreciation and amortisation.

We strive to maximise revenues and minimise costs by detailed target setting, and we constantly monitor deviations in rolling forecasts on a monthly basis see 03. If necessary, action plans are implemented to optimise the development of the Group's operating performance.

Optimisation of non-operating components

Our Group also puts a high priority on the optimisation of non-operating components such as financial expenses and taxes, as these items strongly impact the Group's cash outflows and therefore the Group's free cash flow. Financial expenses are managed centrally by our Group Treasury department see Treasury, p. 146. The Group's current and future tax expenditure is optimised globally by our Group Taxes department.

Tight operating working capital management

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

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

Capital expenditure targeted to maximise future returns

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

Key financial metrics 02

Gross margin	$= \frac{\text{Gross profit}}{\text{Net sales}} \times 100$
Operating margin	$= \frac{\text{Operating profit}}{\text{Net sales}} \times 100$
Average operating working capital	$= \frac{\text{Sum of operating working capital at quarter-end}}{4}$
Operating working capital in % of net sales	$= \frac{\text{Average operating working capital}}{\text{Net sales}} \times 100$
Capital expenditure [1]	= Additions of property, plant and equipment plus intangible assets

1) Excluding acquisitions and finance leases.

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

We see the majority of our Group's future growth opportunities in our organic business. However, as part of our commitment to ensuring sustainable profitable development we regularly review merger and acquisition options that may provide additional commercial and operational opportunities. Acquisitive growth focus is primarily related to improving our Group's positioning within a sports category, strengthening our technology portfolio or addressing new consumer segments.

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

Cost of capital metric used to measure investment potential

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

adidas Group targets versus actual key metrics 03

	2009 Actual	2010 Initial outlook [1]	2010 Actual	2011 Targets
Sales (year-over-year change, currency-neutral)	(6%)	low- to mid-single-digit increase	9%	mid- to high-single-digit increase
Gross margin	45.4%	46% to 47%	47.8%	47.5% to 48.0%
Other operating expenses (in % of sales)	42.3%	moderate decline	42.1%	moderate decline
Operating margin	4.9%	around 6.5%	7.5%	7.5% to 8.0%
(Diluted) earnings per share (in €)	1.22	1.90 to 2.15	2.71	2.98 to 3.12
Average operating working capital (in % of net sales)	24.3%	further reduction	20.8%	increase
Capital expenditure (€ in millions) [2]	240	300 to 400	269	350 to 400
Net debt (€ in millions)	917	further reduction	221	further reduction

1) As published on March 3, 2010. The outlook was updated over the course of the year.
2) Excluding acquisitions and finance leases.

Structured performance measurement system

Our Group has developed an extensive performance measurement system, which utilises a variety of tools to measure the performance of the adidas Group. The Group's key financial metrics are monitored and compared against budget on a monthly basis. The focus is on operating cash flow, CACC, sales, operating margin, operating working capital and net debt development see 02. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. We also benchmark our Group's financial results with those of our major competitors on a quarterly basis. To assess current sales and profitability development, Management analyses sell-through information from our own-retail distribution as well as short-term replenishment orders from retailers. Taking into account year-to-date performance as well as opportunities and risks, the Group's full year financial performance is forecasted on a quarterly basis.

In this respect, backlogs comprising orders received up to nine months in advance of the actual sale are used as an indicator. However, due to the growing share of own retail in our business mix as well as fluctuating order patterns among our wholesale partners, our order books are less indicative of anticipated revenues compared to the past. As a result of the growing share of at-once business, qualitative feedback from our retail partners on the success of our collections at the point of sale is becoming even more important. As an early indicator for future performance, we also conduct market research to measure brand appeal, brand awareness and resulting purchase intent.

Management appraisal of performance and targets

We communicate our Group's financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2010, Group sales and net income increased significantly. While Retail revenues increased at double-digit rates, sales in the Wholesale segment and in Other Businesses grew at single-digit rates. Increased Retail sales in the emerging markets resulted in Group revenues exceeding our initial guidance of a low- to mid-single-digit increase. Group sales development outperformed macroeconomic and global industry growth see Economic and Sector Development, p. 130, mainly due to strong sales increases in most geographical areas.

Profitability increased at a higher rate than originally anticipated as a result of higher gross margins partly due to the strong performance of our Retail segment. As a result of continued focus on operating working capital and cash management, we achieved all of our goals related to balance sheet improvements in 2010.

Our expectations for the Group's business performance in 2011 are based on the assumption of an improvement in the global economy, a strengthening of our business in the emerging markets and a strong product pipeline which has received favourable reviews from retailers. This, as well as an improved balance sheet, should lead to increases in sales and earnings per share in 2011. Profitability improvements, however, will be dampened by increasing raw material and labour costs which our industry is facing. In 2012 and beyond, assuming further improvements in the global economy, we are confident to further increase sales and earnings per share as outlined under our Route 2015 strategic business plan. We believe that our outlook is realistic within the scope of the current trading environment. No material event between the end of 2010 and the publication of this report has altered our view see Subsequent Events and Outlook, p. 174.

Group Business Performance

In 2010, the adidas Group results improved significantly compared to the prior year. Currency-neutral Group sales increased 9% as a result of growth in the Wholesale and Retail segments as well as in Other Businesses. In euro terms, adidas Group revenues grew 15% to € 11.990 billion from € 10.381 billion in 2009. The Group's gross margin increased 2.4 percentage points to 47.8% (2009: 45.4%), supported by less clearance sales and a larger share of higher-margin Retail sales. Consequently, the Group's gross profit rose 22% to € 5.730 billion in 2010 versus € 4.712 billion in 2009. The Group's operating margin improved 2.6 percentage points to 7.5% from 4.9% in 2009, primarily due to the higher gross margin as well as lower other operating expenses as a percentage of sales. The Group's operating profit grew 76% to € 894 million in 2010 versus € 508 million in 2009. The Group's net income attributable to shareholders increased 131% to € 567 million from € 245 million in 2009. Diluted earnings per share grew 122% to € 2.71 in 2010 versus € 1.22 in 2009.

Economic and Sector Development

Global economy recovers in 2010

Following the global economic recession in 2009, the macroeconomic environment improved notably over the course of 2010 as global gross domestic product (GDP) increased 3.9% compared to a decline of 2.2% in the prior year. This recovery was mainly driven by rapid growth in emerging economies, boosted by global export activities and industrial production. Despite the positive GDP developments, sovereign debt concerns and high unemployment rates in most major Western economies weighed on economic expansion.

In Western Europe, GDP increased by 1.8% (2009: decline of 4.1%), driven by strong export volumes. However, the sovereign debt crisis, in some of the region's peripheral countries, coupled with high unemployment levels and acute austerity measures inhibited growth and confidence in many economies.

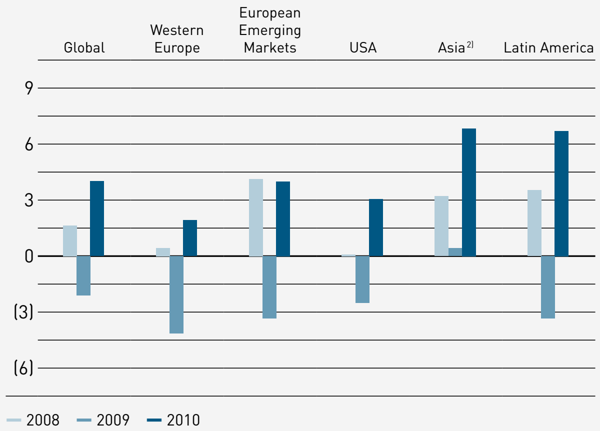
Despite similar challenges, European emerging markets continued their recovery in 2010 with GDP growth of around 3.9% (2009: decline of 3.4%), due to rising levels of fixed investment and improving domestic consumer demand compared to the prior year.

In the USA, GDP increased by 2.9% in 2010 compared to a decline of 2.6% in the prior year, driven by rebounding investment levels, both from the private and public sector. Much of this activity was supported by the continued fiscal and monetary stimuli adopted by policymakers. In addition, the depreciation of the US dollar positively impacted exports from the region.

Despite the overall economic upturn, high levels of unemployment and relatively low house prices remained as a negative pressure on consumer spending, which only increased modestly in the year.

Regional GDP development[1)]
in %

01



1) Real, percentage change versus prior year; 2009 figures restated compared to prior year.
2) Asia also includes Japan and Area Pacific.
Source: World Bank, HSBC.

In 2010, Asian economies continued to lead the global economic recovery, with GDP increasing 6.7% (2009: 0.3%), driven by industrial production and resilience in domestic demand and retail sales. China's GDP grew by 10.0% in 2010 (2009: 9.1%), mainly due to growth in industrial production and export volumes. This economic development supported further wage growth and saw consumer spending rise by 9.5%. Most other economies in the region also posted similar trends, including India where GDP growth is projected at 9.2%.

Japan's GDP gain, however, was lower than the regional average at 4.3% (2009: decline of 6.3%). Economic recovery in Japan was driven by export demand from other Asian economies. However, the appreciation of the yen put pressure on international trade levels and together with a sluggish labour market led to weakening GDP trends towards the end of the year.

In Latin America, full year GDP increased 6.6% (2009: decline of 3.4%). The strong recovery was mainly attributable to rising commodity prices and strong domestic demand. Furthermore, the rise in employment rates and income levels stimulated consumer spending in the region.

Positive growth in the global sporting goods industry

In 2010, the sporting goods industry benefited from the broad-based improvement in consumer confidence and spending levels in most regions and markets around the world. The 2010 FIFA World Cup contributed strongly to the positive trends, particularly in Western Europe and Latin America. The turnaround of the inventory cycle in the first half of 2010 supported the sector in many major markets. A robust back-to-school period in North America and Europe maintained the positive momentum in the second half. Increasing consumer spending levels gave further impetus to the expansion of the sporting goods industry in the emerging markets, particularly in Asia and Latin America. Lower input costs as well as less clearance activity positively impacted the industry's profitability.

FIFA World Cup adds momentum to Europe's sporting goods industry

In 2010, the European sporting goods industry grew modestly. The region benefited sustainably from the 2010 FIFA World Cup, with three out of the last four teams coming from the region. Nevertheless, there was significant country variation with high unemployment levels depressing consumer spending in general, particularly in the region's peripheral countries. Sales in both footwear and apparel increased in Europe, with footwear rebounding faster than apparel. The latter, however, benefited later in the year due to cold weather conditions.

Quarterly unemployment rate by region 02
in % of total active population

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
USA [1]	10.0	9.7	9.6	9.6	9.6
Euro Zone [2]	9.9	9.9	10.0	10.0	10.0
Japan [3]	5.2	5.0	5.3	5.0	4.9
China [4]	4.3	4.2	4.2	4.1	4.1
Russia [5]	8.2	8.6	6.8	6.6	7.2

1) Source: US Bureau of Labor Statistics.
2) Source: Eurostat.
3) Source: Japan Ministry of Internal Affairs and Communications.
4) Source: China National Bureau of Statistics.
5) Source: Russia Federal Service of State Statistics.

Quarterly development of Consumer Price Index [1] [2] 03
by region

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
USA	2.7	2.3	1.1	1.1	1.5
Euro Zone	0.9	1.4	1.4	1.8	2.2
Japan	(1.7)	(1.1)	(0.7)	(0.6)	0.0
China	1.9	2.4	2.9	3.6	4.6
Russia	8.8	6.5	5.8	7.0	8.8

1) Source: Bloomberg.
2) Quarter-end figures.

Quarterly consumer confidence development 04
by region

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
USA [1]	53.6	52.3	54.3	48.6	53.3
Euro Zone [2]	(16)	(17)	(17)	(11)	(11)
Japan [3]	37.9	41.0	43.6	41.4	40.2
China [4]	103.9	107.9	108.5	104.1	102.9
Russia [5]	(20)	(10)	(7)	(11)	(10)

1) Source: Conference Board.
2) Source: European Commission.
3) Source: Economic and Social Research Institute, Government of Japan.
4) Source: China National Bureau of Statistics.
5) Source: Russia Federal Service of State Statistics.

North American sporting goods industry driven by volume and average price increases

In the USA, we estimate that sporting goods sales increased at a mid-single-digit rate in 2010, driven by increases in average selling prices and volumes. Lean inventory levels in the first half of 2010 helped retailers minimise promotion and discounting activities, thus driving up average prices for the industry. Improving momentum was also supported by increasing levels of consumer spending with both the back-to-school and holiday season recording strong results in the second half. Footwear sales are projected to have increased at a high-single-digit rate in 2010, driven in particular by growth in the toning, running, basketball and outdoor categories. Increasing demand for functional apparel helped to offset declines in licensed apparel. The equipment market in the region remained subdued, with the golf market seeing further declines in 2010.

Asian sporting goods industry expands

Asia's sporting goods industry grew at a high-single-digit rate in 2010, primarily driven by the region's emerging economies. In China, rising levels of domestic demand and increasing wages as well as continued retail expansion resulted in a growth rate of around 20% for the industry. In Japan, however, in line with the overall weakness in consumer spending, the sporting goods industry declined in 2010. While the toning category provided some positive impetus on footwear, in general, both footwear and apparel sales at retail remained highly promotional in Japan.

Positive momentum in Latin American sporting goods market continues

In 2010, the Latin American sporting goods industry recorded a strong performance with a double-digit growth rate. The substantial economic growth in the region in 2010 coupled with the positive effects of the FIFA World Cup resulted in relatively high consumer spending on sporting goods, particularly in the football category.

adidas Group and competitors outperform economic environment

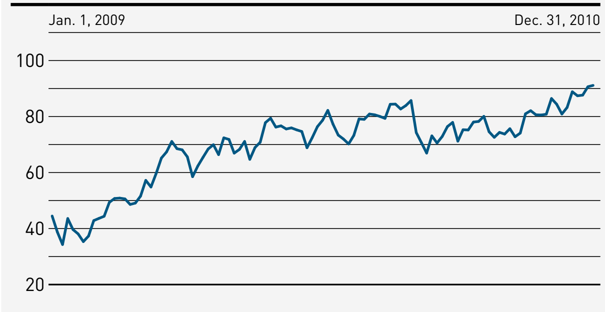
adidas Group revenues and profitability as well as those of many competitors and retailers increased in 2010. In most regions, sales of our Group and other major sporting goods companies increased more significantly than GDP and overall consumer spending.

Exchange rate development [1] 05
€ 1 equals

	Average rate 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Average rate 2010
USD	1.3932	1.3479	1.2271	1.3648	1.3362	1.3279
GBP	0.8912	0.8898	0.8175	0.8600	0.8608	0.8584
JPY	130.23	125.93	108.79	113.68	108.65	116.56
RUB	44.144	39.695	38.282	41.692	40.820	40.303
CNY	9.5148	9.2006	8.3269	9.1457	8.8493	8.9885

1) Spot rates at quarter-end.

Oil price development [1] 06
in US $



1) West Texas Intermediate Cushing crude oil.
Source: Bloomberg.

Income Statement

Segmental reporting comparatives updated

Following minor changes to the adidas Group's organisational structure in the first quarter of 2010, the assignment of certain functions has been changed compared to the Group's prior year annual financial statements. This development has a limited effect on the Group segmental structure. To ensure full comparability of Group financial results in 2010, the Group has decided to adjust the segmental reporting for 2009 retrospectively. These adjustments have no effect on total Group financial results. Details of the adjustments are available in the Notes »» see Note 35, p. 218.

adidas Group currency-neutral sales increase 9% in 2010

In 2010, Group revenues grew 9% on a currency-neutral basis, as a result of sales increases in Wholesale, Retail and Other Businesses. This development exceeded initial Management expectations of a low- to mid-single-digit Group sales increase. Currency translation effects had a positive impact on sales in euro terms. Group revenues grew 15% to € 11.990 billion in 2010 from € 10.381 billion in 2009 »» see 07.

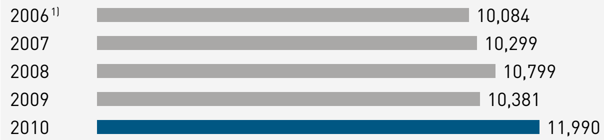
Wholesale and Retail segments drive strong sales growth in 2010

In 2010, currency-neutral sales grew in all segments. Currency-neutral Wholesale revenues increased 8% during the period due to sales growth at both adidas and Reebok. Currency-neutral Retail sales increased 18% versus the prior year as a result of adidas and Reebok sales growth. Revenues in Other Businesses were up 2% on a currency-neutral basis. Sales grew at TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey. Currency translation effects had a positive impact on segmental sales in euro terms. Wholesale revenues increased 14% to € 8.181 billion in 2010 from € 7.164 billion in 2009. Retail sales rose 25% to € 2.389 billion versus € 1.906 billion in the prior year. Sales in Other Businesses grew 10% to € 1.420 billion in 2010 (2009: € 1.293 billion).

Currency-neutral sales increase in nearly all regions

In 2010, currency-neutral adidas Group sales grew in all regions except Greater China. Revenues in Western Europe increased 7% on a currency-neutral basis, primarily as a result of double-digit sales growth in the UK, Germany and Spain. In European Emerging Markets, Group sales increased 16% on a currency-neutral basis due to growth in most of the region's markets, in particular Russia. Sales for the adidas Group in North America grew 12% on a currency-neutral basis due to strong increases in both the USA and Canada. Sales in Greater China decreased 2% on a currency-neutral basis. Currency-neutral revenues in Other Asian Markets grew 6% due to increases in most markets. In Latin America, sales grew 14% on a currency-neutral basis, with double-digit increases in most of the region's major markets. Currency translation effects had a positive impact on regional sales in euro terms »» see 11.

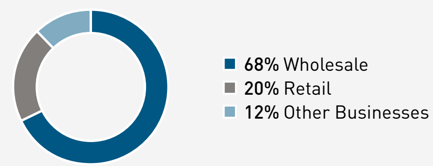
Net sales 07
€ in millions



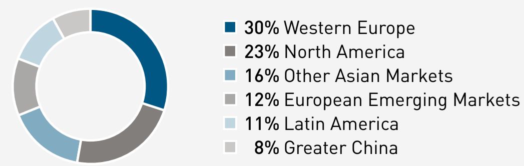
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Net sales by quarter 08
€ in millions

2010 net sales by segment 09



2010 net sales by region 10



Group sales up in all product categories

In 2010, Group sales grew in all product categories on a currency-neutral basis. Currency-neutral footwear sales increased 9% during the period. This development was due to growth in the football, running and outdoor categories. Apparel revenues increased 9% on a currency-neutral basis, driven by growth in football, running and basketball. Currency-neutral hardware sales increased 5% compared to the prior year, primarily due to strong growth in the football category. Currency translation effects had a positive impact on sales in euro terms see 13.

Cost of sales increases

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. Own-production expenses are also included in the Group's cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2010, cost of sales was € 6.260 billion, representing an increase of 10% compared to € 5.669 billion in 2009. This development was mainly due to increasing sourcing volumes in footwear, apparel and hardware. The optimisation of sourcing processes as well as the reduction of input costs as a result of lower raw material prices at the time of sourcing had a positive impact on cost of sales.

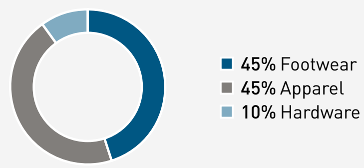
Net sales by region 11

€ in millions

	2010	2009	Change	Change (currency-neutral)
Western Europe	3,543	3,261	9%	7%
European Emerging Markets	1,385	1,122	23%	16%
North America	2,805	2,362	19%	12%
Greater China	1,000	967	3%	(2%)
Other Asian Markets	1,972	1,647	20%	6%
Latin America	1,285	1,006	28%	14%
Total [1]	**11,990**	**10,381**	**15%**	**9%**

1) Including HQ/Consolidation.

2010 net sales by product category 12



Net sales by product category 13

€ in millions

	2010	2009	Change	Change (currency-neutral)
Footwear	5,389	4,642	16%	9%
Apparel	5,380	4,663	15%	9%
Hardware	1,221	1,076	14%	5%
Total [1]	**11,990**	**10,381**	**15%**	**9%**

1) Rounding differences may arise in totals.

Group gross margin improves 2.4 percentage points

The gross margin of the adidas Group increased 2.4 percentage points to 47.8% in 2010 (2009: 45.4%) see 15. This development was mainly due to lower input costs, less clearance sales and a larger share of higher-margin Retail sales. As a result, gross profit for the adidas Group grew 22% in 2010 to € 5.730 billion versus € 4.712 billion in the prior year see 14.

Royalty and commission income grows

Royalty and commission income for the adidas Group increased 16% to € 100 million in 2010 from € 86 million in the prior year. On a currency-neutral basis, royalty and commission income was up 12%, mainly as a result of higher licensee sales. New licensee partnerships also had a positive effect on the Group's royalty and commission income.

Other operating income increases 10%

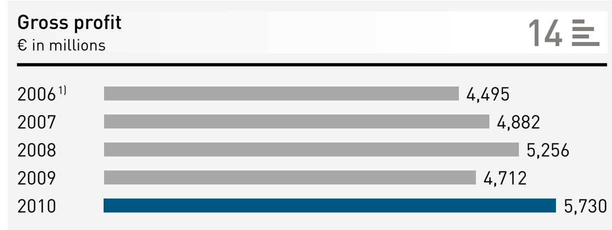
Other operating income includes items such as gains from the disposal of fixed assets and releases of accruals and provisions. In 2010, other operating income increased 10% to € 110 million (2009: € 100 million), mainly due to the settlement of a lawsuit and the divestiture of a trademark.

Other operating expenses as a percentage of sales down 0.2 percentage points

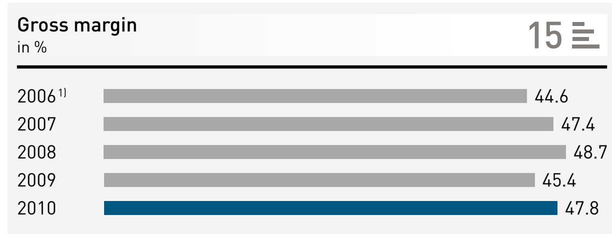
Other operating expenses, including depreciation and amortisation, consist of items such as sales working budget, marketing working budget and operating overhead costs. In euro terms, other operating expenses increased 15% to € 5.046 billion in 2010 (2009: € 4.390 billion), as a result of the expansion of the Group's own-retail activities and higher marketing expenditure see 17. However, other operating expenses as a percentage of sales decreased 0.2 percentage points to 42.1% in 2010 from 42.3% in 2009 see 18.

Sales working budget increases as a percentage of sales

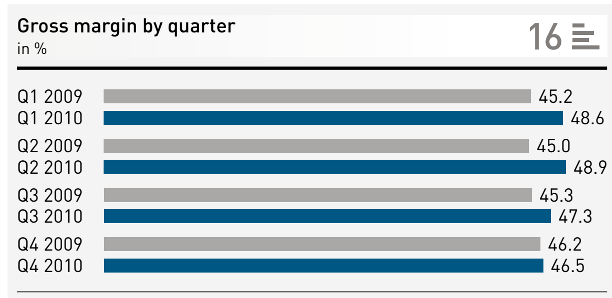
Sales working budget consists of expenses to support the Group's sell-through development. Expenditures relate to advertising and promotion initiatives at the point of sale as well as store fittings and furniture. As sales working budget expenses are channel-specific, they are allocated to the Group's operating segments. In absolute terms, sales working budget expenditures increased 28% to € 308 million in 2010 from € 241 million in the prior year. The Group's sales working budget as a percentage of sales increased 0.3 percentage points to 2.6% in 2010 (2009: 2.3%), primarily as a result of new store openings to support the Group's retail expansion see 19. In addition, higher expenditure at the point of sale in connection with the 2010 FIFA World Cup as well as new product launches at the Reebok brand contributed to this development.



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.



Marketing working budget grows as a percentage of sales

Marketing working budget consists of items such as expenses for promotion partnerships, advertising and public relations to support brand strength. As marketing working budget expenses are not distribution channel-specific, they are not allocated to the segments. In absolute terms, marketing working budget increased 25% to € 1.288 billion in 2010 from € 1.028 billion in the prior year. The Group's marketing working budget as a percentage of sales increased 0.8 percentage points to 10.7% in 2010 (2009: 9.9%) see 20. This was mainly due to higher expenditures at brand adidas in order to leverage its presence as official sponsor at the 2010 FIFA World Cup. In addition, increased promotion and marketing initiatives for new product concepts at the Reebok brand impacted this development.

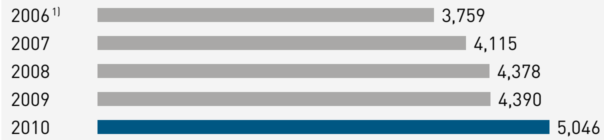
Operating overhead expenses decrease as a percentage of sales

Group operating overheads include overhead costs related to marketing, sales, logistics, research and development as well as central administration. Almost half of overhead expenses are related to personnel costs. In absolute terms, operating overhead expenses were up 11% to € 3.450 billion in 2010 versus € 3.121 billion in 2009. This was primarily a result of the expansion of the Group's own-retail activities, as well as an increase in logistic and warehouse costs. However, due to increasing Retail sophistication as well as operational leverage, operating overhead expenses as a percentage of sales decreased 1.3 percentage points to 28.8% in 2010 from 30.1% in the prior year.

Number of Group employees up 7%

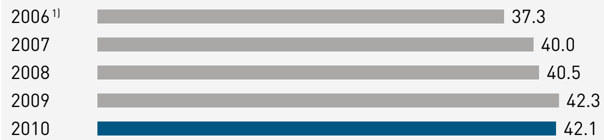
At the end of December 2010, the Group employed 42,541 people. This represents an increase of 7% versus the prior year level of 39,596. New hirings related to the expansion of the Group's own-retail store base were the main driver of this development. On a full-time equivalent basis, the number of employees increased 6% to 36,444 at the end of 2010 (2009: 34,437).

Other operating expenses 17
€ in millions



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

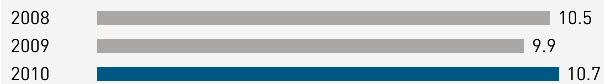
Other operating expenses 18
in % of net sales



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Sales working budget 19
in % of net sales

Marketing working budget 20
in % of net sales



EBITDA grows 49%

The Group's earnings before interest, taxes, depreciation and amortisation as well as impairment/reversal of impairment losses on property, plant and equipment and intangible assets (EBITDA) increased 49% to € 1.159 billion in 2010 (2009: € 780 million) see 22. Depreciation and amortisation expense for tangible and intangible assets with limited useful lives declined 12% to € 263 million in 2010 (2009: € 299 million). This development was mainly a result of lower impairment charges in 2010 compared to the prior year as well as the decrease in capital expenditure in 2009. In accordance with IFRS, intangible assets with indefinite useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. In this connection, no impairment of intangible assets with unlimited useful lives was incurred in 2010 and 2009.

Other operating expenses by area 21

€ in millions

	2010	2009
Sales working budget	308	241
Marketing working budget	1,288	1,028
Marketing overhead	380	348
Sales force	1,496	1,296
Logistics	617	582
Research & development	102	86
Central administration	855	809
Total	**5,046**	**4,390**

EBITDA 22

€ in millions

2006 [1]	1,078
2007	1,165
2008	1,280
2009	780
2010	1,159

1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Operating profit 23

€ in millions

2006 [1]	881
2007	949
2008	1,070
2009	508
2010	894

1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Operating profit by quarter 24

€ in millions

Q1 2009	58
Q1 2010	260
Q2 2009	72
Q2 2010	195
Q3 2009	336
Q3 2010	411
Q4 2009	42
Q4 2010	28

Operating margin 25

in %

2006 [1]	8.7
2007	9.2
2008	9.9
2009	4.9
2010	7.5

1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Operating margin improves 2.6 percentage points

Group operating profit increased 76% to € 894 million versus € 508 million in 2009 »» see 23. As a result, the operating margin of the adidas Group improved 2.6 percentage points to 7.5% in 2010 (2009: 4.9%) »» see 25. The operating margin improvement was primarily due to the higher gross margin as well as lower other operating expenses as a percentage of sales.

Financial income up 28%

Financial income increased 28% to € 25 million in 2010 from € 19 million in the prior year, mainly due to an increase in interest income as well as positive currency exchange rate effects.

Financial expenses decrease 34%

Financial expenses decreased 34% to € 113 million in 2010 (2009: € 169 million) »» see 26. The non-recurrence of prior year negative currency exchange rate effects as well as lower interest expenses contributed to the decline.

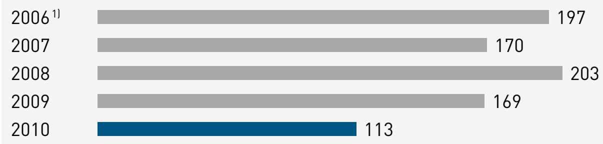
Income before taxes as a percentage of sales increases 3.3 percentage points

Income before taxes (IBT) for the adidas Group increased 125% to € 806 million from € 358 million in 2009 »» see 27. IBT as a percentage of sales improved 3.3 percentage points to 6.7% in 2010 from 3.5% in 2009. This was primarily a result of the Group's operating margin improvement and lower financial expenses.

Net income attributable to shareholders more than doubles

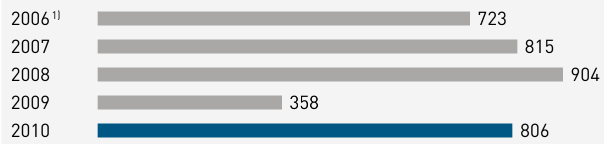
The Group's net income attributable to shareholders increased to € 567 million in 2010 from € 245 million in 2009 »» see 29. This represents an increase of 131% versus the prior year level. Higher IBT was the primary reason for this development. The Group's tax rate decreased 2.0 percentage points to 29.5% in 2010 (2009: 31.5%), mainly due to the non-recurrence of prior year charges related to the write-down of deferred tax assets.

Financial expenses 26
€ in millions



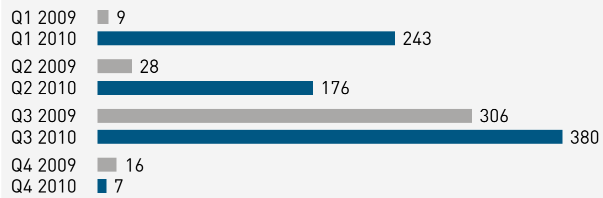
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Income before taxes 27
€ in millions



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Income before taxes by quarter 28
€ in millions



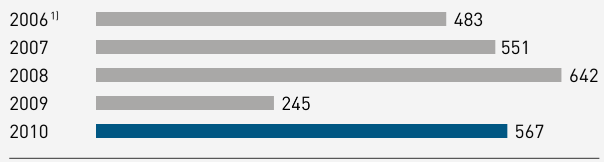
Net income attributable to non-controlling interests increases

Net income attributable to non-controlling interests rose to € 1 million in 2010, from € 0 million in 2009. This increase was primarily due to higher profits at our joint venture in Israel.

Earnings per share reach € 2.71

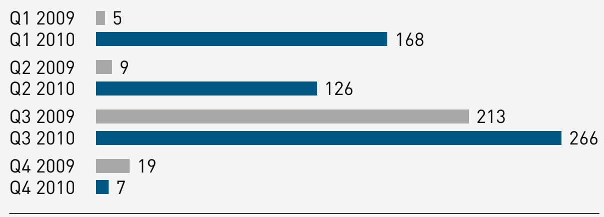
Following the full conversion of the Group's convertible bond in the fourth quarter of 2009, the Group has no dilutive potential shares anymore. As a result, diluted earnings per share equal basic earnings per share. In 2010, basic and diluted earnings per share amounted to € 2.71 see 31. In the prior year period, basic earnings per share amounted to € 1.25 and diluted earnings per share to € 1.22. The weighted average number of shares used in the calculation was 209,216,186 in 2010. In the prior year period, the number amounted to 196,220,166 for the calculation of basic earnings per share and 209,238,099 for the calculation of diluted earnings per share.

Net income attributable to shareholders 29
€ in millions

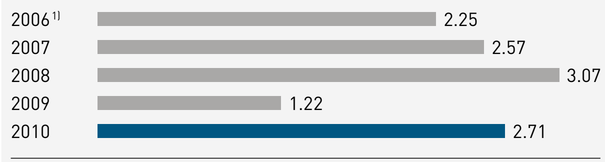


1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Net income attributable to shareholders by quarter 30
€ in millions

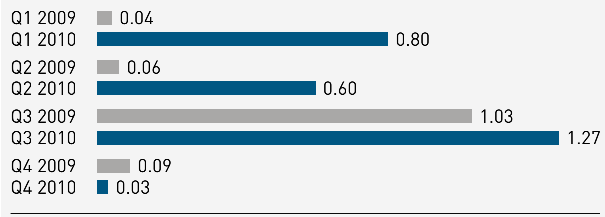


Diluted earnings per share 31
in €



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Diluted earnings per share by quarter 32
in €



Statement of Financial Position and Statement of Cash Flows

Changes in accounting policy
The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS as adopted by the EU). In 2010, there were changes in IFRS, which were reflected in the Group's consolidation and accounting principles ››› see Note 1, p. 188. However, the impact on the Group's consolidated financial statements from any such changes was not material in the reporting period.

Total assets increase 20%
At the end of December 2010, total assets grew 20% to € 10.618 billion versus € 8.875 billion in the prior year ››› see 35. This was primarily the result of an increase in current assets. An increase in non-current assets also impacted this development.

Group inventories up 44%
Group inventories increased 44% to € 2.119 billion at the end of December 2010 versus € 1.471 billion in 2009 ››› see Note 8, p. 197. On a currency-neutral basis, inventories grew 34%, which reflects our expectations for continued growth in the coming quarters ››› see 36.

Accounts receivable increase 17%
At the end of December 2010, Group receivables increased 17% to € 1.667 billion (2009: € 1.429 billion) as a result of the Group sales growth ››› see Note 6, p. 196. On a currency-neutral basis, receivables were up 7%. This growth is lower than the 9% currency-neutral Group sales increase in the fourth quarter of 2010 and mirrors strict discipline in the Group's trade terms management and concerted collection efforts in all segments ››› see 37.

Other current financial assets up 23%
Other current financial assets grew 23% to € 197 million at the end of December 2010 from € 160 million in 2009 ››› see Note 7, p. 196. This development was mainly due to the increase in the fair value of financial instruments.

Other current assets up 8%
Other current assets increased 8% to € 390 million at the end of December 2010 from € 360 million in 2009, mainly as a result of an increase in tax receivables other than income taxes ››› see Note 9, p. 197.

Assets held for sale decrease 63%
At the end of December 2010, assets held for sale declined 63% to € 47 million compared to € 126 million in 2009. This decrease was due to the reclassification of certain assets held for sale back to fixed assets, as it is not considered likely that they will be sold in the foreseeable future ››› see Note 10, p. 197. Assets held for sale primarily relate to the planned sale of land and buildings in Herzogenaurach, Germany, as well as a warehouse in the Netherlands.

Fixed assets increase 7%
Fixed assets increased 7% to € 4.076 billion at the end of December 2010 versus € 3.794 billion in 2009. Fixed assets include property, plant and equipment, goodwill, trademarks and other intangible assets as well as long-term financial assets. Additions in an amount of € 271 million were primarily related to the continued expansion of our own-retail activities, investments into the Group's IT infrastructure as well as the further development of the Group's headquarters in Herzogenaurach. A net transfer of fixed assets from assets held for sale totalling € 76 million also contributed to the increase. Moreover, currency translation effects in an amount of € 216 million on fixed assets denominated in currencies other than the euro positively impacted this development. Additions were partly offset by depreciation and amortisation amounting to € 263 million as well as disposals of € 17 million.

Structure of statement of financial position[1] 33
in % of total assets

	2010	2009
Cash and cash equivalents	10.9%	8.7%
Accounts receivable	15.7%	16.1%
Inventories	20.0%	16.6%
Fixed assets	38.4%	42.8%
Other assets	15.0%	15.8%
Total	**100%**	**100%**
Total assets (€ in millions)	10,618	8,875

1) For absolute figures see adidas AG consolidated statement of financial position, p. 184.

Structure of statement of financial position[1] 34
in % of total liabilities and equity

	2010	2009
Short-term borrowings	2.6%	2.2%
Accounts payable	16.0%	13.1%
Long-term borrowings	12.6%	17.7%
Other liabilities	25.3%	24.5%
Total equity	43.5%	42.5%
Total	**100%**	**100%**
Total liabilities and equity (€ in millions)	10,618	8,875

1) For absolute figures see adidas AG consolidated statement of financial position, p. 184.

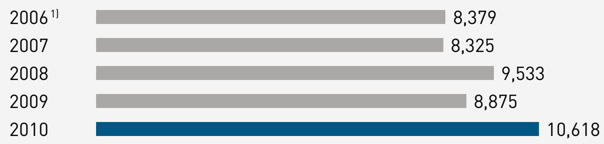
Other non-current assets down 20%
Other non-current assets decreased 20% to € 100 million at the end of December 2010 from € 126 million in 2009, mainly driven by a decline in prepaid promotion partnerships »» see Note 16, p. 200.

Accounts payable increase 45%
Accounts payable were up 45% to € 1.694 billion at the end of December 2010 versus € 1.166 billion at the end of 2009 »» see 38. On a currency-neutral basis, accounts payable increased 36%, reflecting the growth in inventories during the fourth quarter.

Other current financial liabilities increase 21%
At the end of December 2010, other current financial liabilities increased 21% to € 123 million from € 101 million in 2009, primarily as a result of an increase in the negative fair value of financial instruments »» see Note 18, p. 200.

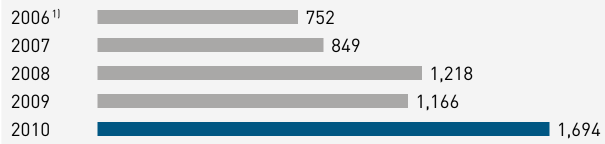
Other current provisions up 47%
Other current provisions were up 47% to € 470 million at the end of 2010 versus € 320 million at the end of 2009. This primarily relates to increases in provisions for returns, allowances and warranty »» see Note 19, p. 201.

Total assets 35
€ in millions



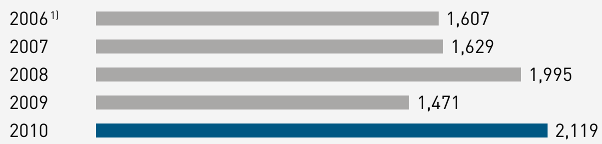
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Accounts payable 38
€ in millions



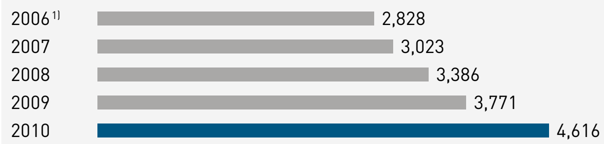
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Inventories 36
€ in millions



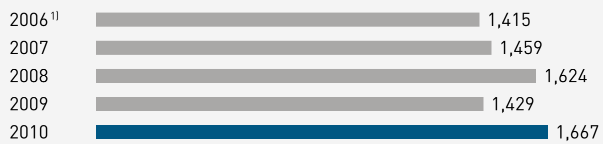
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Shareholders' equity 39
€ in millions



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Accounts receivable 37
€ in millions



1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Current accrued liabilities grow 35%
Current accrued liabilities increased 35% to € 842 million at the end of 2010 from € 625 million in 2009, mainly due to an increase in accruals for payment of goods and services not yet invoiced ⋙ see Note 20, p. 201.

Other current liabilities up 4%
Other current liabilities were up 4% to € 241 million at the end of 2010 from € 232 million in 2009, mainly due to increases in customers with credit balances ⋙ see Note 21, p. 202.

Equity grows due to increase in net income
Shareholders' equity rose 22% to € 4.616 billion at the end of December 2010 versus € 3.771 billion in 2009 ⋙ see 39. The net income generated during the period was the main contributor to this development. Currency translation effects in an amount of € 330 million positively impacted this development, partly offset by the dividend in an amount of € 73 million paid during the period ⋙ see Note 25, p. 204.

Expenses related to off-balance sheet items
Our most significant off-balance sheet commitments are operating leases, which are related to retail stores, offices, warehouses and equipment.

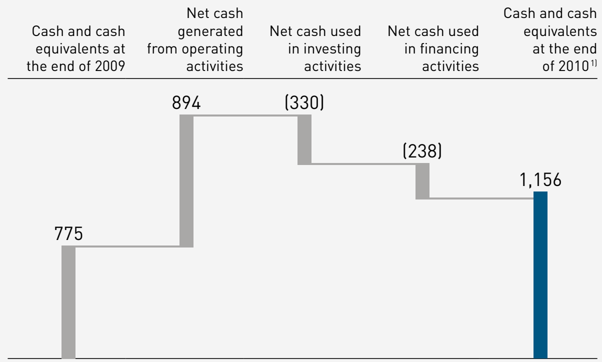
The Group has entered into various operating leases as opposed to property acquisitions to reduce exposure to property value fluctuations. Rent expenses increased 13% to € 544 million in 2010 from € 480 million in the prior year, mainly due to the continued expansion of the adidas Group's own-retail activities ⋙ see Note 27, p. 207.

Cash flow reflects improved Group profitability
In 2010, net cash inflow from operating activities was € 894 million (2009: € 1.198 billion). The decrease in cash provided by operating activities compared to the prior year was primarily due to higher operating working capital requirements, partly offset by the improved Group profitability. Net cash outflow from investing activities was € 330 million (2009: € 162 million). This was mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of stores in our Retail segment, in new office buildings and in IT systems, as well as to the purchase of short-term financial assets. Net cash outflow from financing activities totalled € 238 million (2009: € 512 million).

Cash outflows from financing activities were related to the repayment of short-term borrowings totalling € 198 million and dividends paid in an amount of € 73 million, partly offset by an increase in long-term borrowings in an amount of € 33 million. Exchange rate effects in an amount of € 55 million positively impacted the Group's cash position in 2010 (2009: € 7 million). As a result of all these developments, cash and cash equivalents increased by € 381 million to € 1.156 billion at the end of December 2010 compared to € 775 million at the end of December 2009 ⋙ see 40.

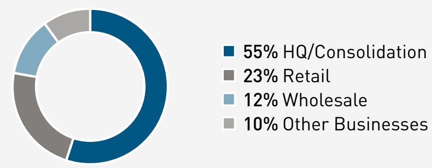
Capital expenditure grows 12%
Capital expenditure is the total cash expenditure for the purchase of tangible and intangible assets. Group capital expenditure increased 12% to € 269 million in 2010 (2009: € 240 million). The Retail segment accounted for 23% of Group capital expenditure (2009: 30%). Investments primarily related to the expansion of our store base for the adidas and Reebok brands. Expenditure in the Wholesale segment accounted for 12% of total capital expenditure (2009: 10%). Capital expenditure in Other Businesses accounted for 10% of total expenditure (2009: 6%). The remaining 55% of Group capital expenditure was recorded in HQ/Consolidation (2009: 54%) and was mainly related to investments into new office buildings and IT infrastructure ⋙ see 41 and Global Operations, p. 106.

Change in cash and cash equivalents 40
€ in millions

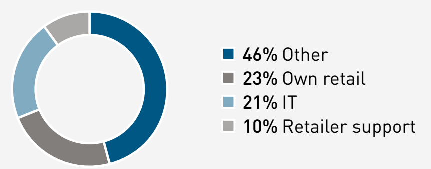


1) Includes a positive exchange rate effect of € 55 million.

2010 capital expenditure by segment 41



2010 capital expenditure by type 42



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

Composition of subscribed capital

The nominal capital of adidas AG amounts to € 209,216,186 (as at December 31, 2010) and is divided into the same number of registered no-par-value shares with a pro-rata amount in the nominal capital of € 1 each ("shares") ⋙ see Note 25, p. 204. Pursuant to § 4 section 8 of the Articles of Association, shareholders' claims to the issuance of individual share certificates are in principle excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations.

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

Restrictions on voting rights or transfer of shares

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

In addition, restrictions of voting rights pursuant, inter alia, to § 136 German Stock Corporation Act (Aktiengesetz – AktG) or for treasury shares pursuant to § 71b AktG may exist.

Shareholdings in share capital exceeding 10% of voting rights

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

Shares with special rights

There are no shares bearing special rights, in particular there are no shares with rights conferring powers of control.

Voting right control if employees have a share in the capital

Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association.

Executive Board appointment and dismissal

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). Currently, the adidas AG Executive Board comprises the CEO as well as three further members ⋙ see Executive Board, p. 16. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years.

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or Chief Executive Officer for good cause, such as gross negligence of duties or a withdrawal of confidence by the Annual General Meeting. As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal requires a majority of at least two thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, upon proposal of the Mediation Committee, the appointment or dismissal may be made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which, however, the Chairman of the Supervisory Board has two votes. Furthermore, the Fuerth local court shall, pursuant to § 85 section 1 AktG, in urgent cases, make the necessary appointment upon application by any party involved, if the Executive Board does not have the required number of members.

Amendments to the Articles of Association

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

Authorisation of the Executive Board to issue shares

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

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

– Until June 21, 2012, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 25,000,000 altogether (Authorised Capital 2009/II).

– Until June 21, 2014, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorised Capital 2009/I).

– Until July 12, 2015, the Executive Board is authorised to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorised Capital 2010).

Subject to Supervisory Board approval, shareholders' subscription rights may be excluded in certain cases for each of the above-mentioned authorisations »» see Note 25, p. 204.

– Pursuant to the resolution of the Annual General Meeting held on May 6, 2010, the Executive Board is authorised, subject to Supervisory Board approval, to issue bonds with warrants and/or convertible bonds by the company or affiliated companies once or several times in the total amount of up to € 1.5 billion, with or without a limited term, against contributions in cash and to accept guarantee of such bonds issued by affiliated companies until May 5, 2015. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to grant to bondholders or bond creditors subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds. For this purpose, the nominal capital was conditionally increased by up to € 36,000,000 (Contingent Capital 2010). The Executive Board is authorised, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts and also insofar as this is necessary for granting subscription rights to which holders or creditors of bonds already issued before are entitled. Furthermore, the Executive Board is authorised, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. The issuance of new shares or the use of treasury shares must be taken into account when calculating the limit of 10% in certain specific cases. This authorisation has not been utilised so far.

Authorisation of the Executive Board to cancel shares

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

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

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

The adidas AG shares repurchased based on this authorisation may in particular be used as follows:

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

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

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

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

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

For excluding subscription rights, the use and cancellation of shares purchased using equity derivatives, the general rules adopted by the Annual General Meeting (set out above) are applicable accordingly.

As at December 31, 2010, adidas AG does not hold any treasury shares.

Change of control/compensation agreements

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

No compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a take-over bid.

Treasury

Group financing policy

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

Treasury system and responsibilities

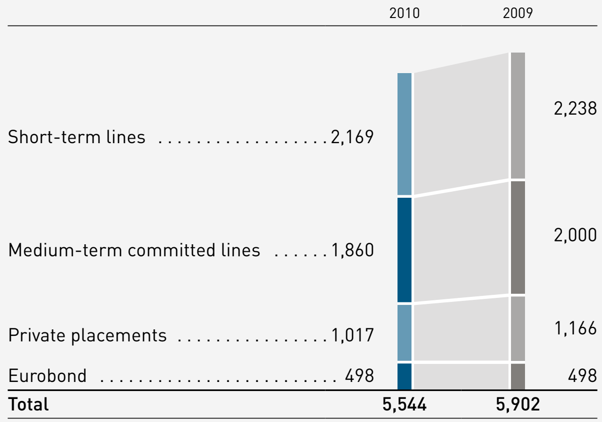
Our Group's Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, global financing arrangements and liquidity/asset management, currency and interest risk management as well as the management of intercompany cash flows. Responsibilities are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

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Group's Treasury Policy and provide strategic guidance for managing treasury-related topics. The Treasury Committee approves all major changes to our Treasury Policy.
- The Group Treasury department is responsible for specific centralised treasury transactions and for the global implementation of our Group's Treasury Policy.
- On a subsidiary level, local managing directors and financial controllers are responsible for managing treasury matters in the respective subsidiaries. Controlling functions on a Group level ensure that the transactions of the individual business units are in compliance with the Group's Treasury Policy.

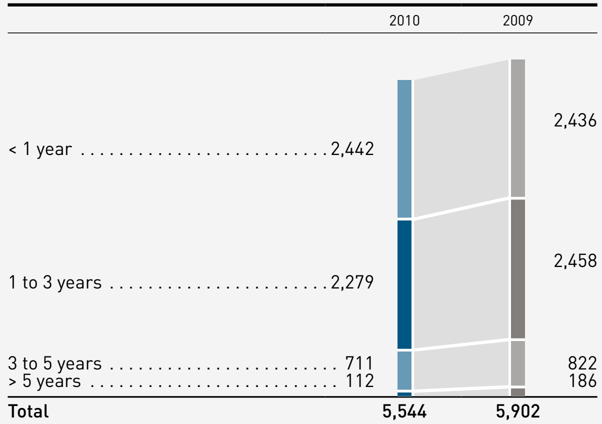
Centralised treasury function

In accordance with our Group's Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Group Treasury department. Portions of those lines are allocated to the Group's subsidiaries and backed by parental guarantees. As a result of this centralised liquidity management, the Group is well positioned to allocate resources efficiently throughout the organisation. The Group's debt is generally unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single institution. Banking partners of the Group and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. Only in exceptional cases are Group companies authorised to work with banks with a lower rating see Risk and Opportunity Report, p. 158. To ensure optimal allocation of the Group's liquid financial resources, subsidiaries transfer excess cash to the Group's headquarters in all instances where it is legally and economically feasible.

Total credit facilities 43
€ in millions



Remaining time to maturity of available facilities 44
€ in millions



Financial flexibility ensured
The adidas Group's financial flexibility is ensured by unutilised credit facilities in an amount of € 3.934 billion at the end of 2010 (2009: € 4.135 billion). These include a € 1.860 billion committed multi-year syndicated loan which was not utilised at year-end (2009: € 2.000 billion unutilised) as well as bilateral credit lines at different banks in an amount of € 2.074 billion (2009: € 2.135 billion). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

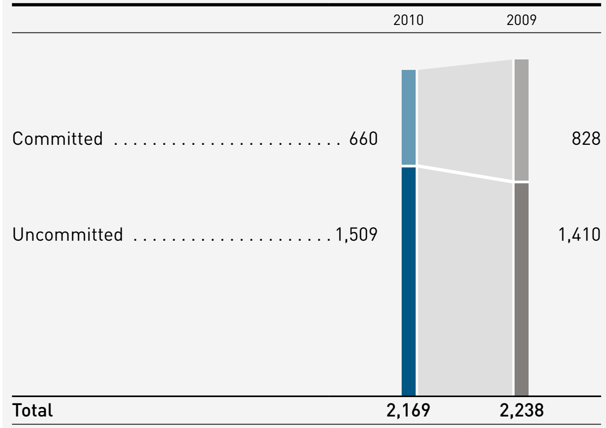
Short-term credit lines decrease
Short-term credit lines declined 3% to € 2.169 billion at the end of 2010 from € 2.238 billion in the prior year. Credit lines decreased in line with lower financing needs and growing cash surpluses. Committed and uncommitted credit lines represent approximately 30% and 70% of total short-term credit lines, respectively (2009: 37% and 63%) see 45.

Standard financial covenants
In the case of our committed credit facilities, we have entered into various covenants. These covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants. If we failed to meet any covenant and were unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2010, we were in full compliance with all of our covenants, with ample coverage above all stipulated minimum requirements. As a result of our cash flow expectations, we are confident we will continue to be compliant with these covenants going forward see Subsequent Events and Outlook, p. 174. We currently believe that cash generated by operations, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs.

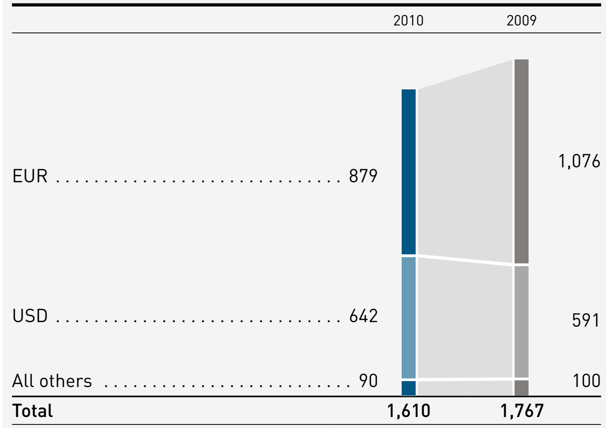
Gross borrowings decrease
Gross borrowings decreased 9% to € 1.610 billion at the end of 2010 from € 1.767 billion in the prior year. Bank borrowings declined 8% to € 95 million from € 103 million in the prior year. Our private placements in the USA, Europe and Asia decreased 13% to € 1.017 billion in 2010 (2009: € 1.166 billion). Bonds outstanding remained stable and amounted to € 498 million (2009: € 498 million) see 43. No commercial paper was outstanding at the end of 2010 (2009: € 0 million).

Euro dominates currency mix
The majority of our Group's gross borrowings are denominated in euros and US dollars. At the end of 2010, gross borrowings denominated in euros accounted for 55% of total gross borrowings (2009: 61%). The share of gross borrowings held in US dollars increased to 40% (2009: 33%) see 46.

Short-term credit lines 45
€ in millions



Currency split of gross borrowings 46
€ in millions



Stable debt maturity profile

Over the course of 2010, the Group's financing maturity profile remained stable with the term structure of debt evenly spread see 53. At the end of 2010, total refinancing needs in the next 12 months amounted to € 273 million (2009: € 198 million).

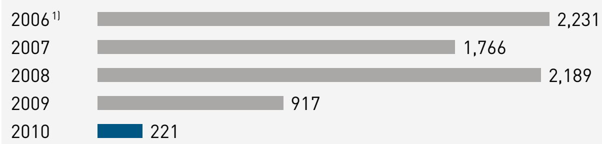
Interest rate slightly improved

The weighted average interest rate on the Group's gross borrowings improved slightly to 5.1% in 2010 (2009: 5.2%) see 49. Positive effects from lower interest rates on short-term borrowings were partly offset by the higher share of longer-term borrowings in the Group's financing mix, which carry a higher average interest rate. Long-term fixed-rate financing amounted to 76% of the Group's total financing at the end of 2010 (2009: 68%). Variable financing amounted to 24% of total financing at the end of the year (2009: 32%).

Net debt position decreases by € 696 million

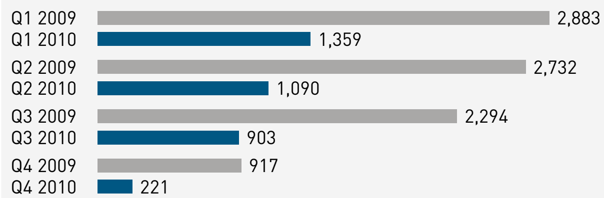
Net borrowings at December 31, 2010 amounted to € 221 million, which represents a decrease of € 696 million, or 76%, versus € 917 million in the prior year see 47. This development was fully in line with our original target of net debt to be below the prior year level communicated at the beginning of 2010. Strong operating cash flow and lower capital expenditure than originally planned positively influenced this development. Currency effects had a positive impact of € 43 million on net borrowings development. On a net debt basis, the utilisation of credit facilities available to the Group at the end of 2010 was 4% versus 16% in the prior year. The Group's financial leverage declined to 4.8% at the end of 2010 versus 24.3% in the prior year see 51. At the end of 2010, the ratio of net borrowings over EBITDA was 0.2 (ratio in 2009: 1.2) and thus well within the Group's medium-term guideline of less than two times. Efficient management of our capital structure continues to be a top management priority see Subsequent Events and Outlook, p. 174.

Net borrowings 47
€ in millions



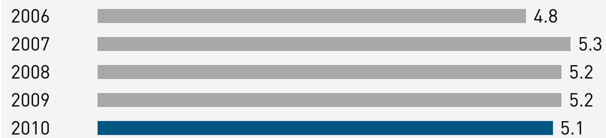
1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Net borrowings by quarter [1] 48
€ in millions



1) At end of period.

Interest rate development [1] 49
in %



1) Weighted average interest rate of gross borrowings.

Currency management a key priority

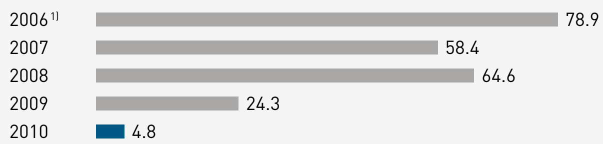
Due to the Group's global activities, currency management is a key focus of the Group's Treasury department. Hedging US dollars is a central part of our programme. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars see Global Operations, p. 106. In 2010, the Group Treasury department managed a net deficit of around US $ 2.1 billion against the euro (2009: US $ 1.9 billion). As governed by our Group's Treasury Policy, we have established a rolling 12- to 24-month hedging system, under which the vast majority of the anticipated seasonal hedging volume is secured six months prior to the start of a season. As a result, we have almost completed our anticipated hedging needs for 2011 and we have already started hedging our exposure for 2012. The rates for 2011 are slightly less favourable compared to those of 2010. The use or combination of different hedging instruments, such as forward contracts, currency options and swaps, protects us against unfavourable currency movements, while retaining the potential to benefit from future favourable exchange rate developments see Risk and Opportunity Report, p. 158.

Financing structure[1)] 50
€ in millions

	2010	2009
Cash and short-term financial assets	**1,389**	**850**
Bank borrowings	95	103
Commercial paper	0	0
Private placements	1,017	1,166
Eurobond	498	498
Gross total borrowings	**1,610**	**1,767**
Net borrowings	**221**	**917**

1) Rounding differences may arise in totals.

Financial leverage 51
in %

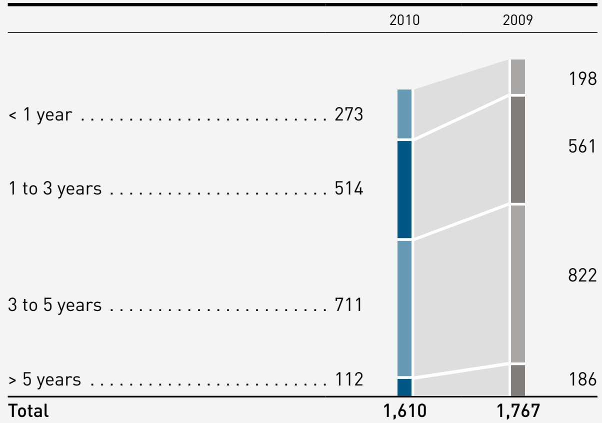


1) Including Reebok, Rockport and Reebok-CCM Hockey from February 1, 2006 onwards.

Issued bonds at a glance 52
in millions

Issued bonds	Volume	Coupon	Maturity
US private placement	USD 288	fixed	2011
French private placement	EUR 150	variable	2011 – 2012
German private placement	EUR 78	fixed and variable	2012
US private placement	USD 292	fixed	2013
Eurobond	EUR 498	fixed	2014
German private placement	EUR 122	fixed and variable	2014
US private placement	USD 115	fixed	2015
US private placement	USD 150	fixed	2016
Other private placements	EUR 30	variable	2010 – 2012

Remaining time to maturity of gross borrowings 53
€ in millions



Business Performance by Segment

The adidas Group has divided its operating activities into three reported segments: Wholesale, Retail and Other Businesses. The Wholesale segment comprises the adidas and Reebok business activities with retailers. The Retail segment comprises the own-retail activities of the adidas and Reebok brands. The financial results of TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands are aggregated under Other Businesses. In 2010, sales and profitability of the adidas Group grew in all segments.

Wholesale Business Performance

Wholesale results in summary

The Wholesale segment comprises the adidas and Reebok business activities with retailers. In 2010, currency-neutral sales in the Wholesale segment increased 8%. In euro terms, Wholesale sales improved 14% to € 8.181 billion from € 7.164 billion in the prior year. Gross margin decreased 0.3 percentage points to 41.3% (2009: 41.6%), mainly as a result of an unfavourable regional mix. Gross profit grew 13% to € 3.379 billion in 2010 from € 2.978 billion in 2009. Segmental operating expenses as a percentage of sales increased 1.0 percentage points to 9.9% (2009: 8.9%). As a result of the gross margin decline, segmental operating margin decreased 1.2 percentage points to 31.4% in 2010 (2009: 32.7%). In absolute terms, segmental operating profit grew 10% to € 2.572 billion in 2010 versus € 2.342 billion in 2009.

Currency-neutral segmental sales up 8%

In 2010, Wholesale segmental revenues increased 8% on a currency-neutral basis, driven by growth in all three brand divisions: adidas Sport Performance, adidas Sport Style and Reebok. Currency translation effects positively impacted segmental revenues in euro terms. Sales in the Wholesale segment grew 14% to € 8.181 billion in 2010 from € 7.164 billion in 2009 see 01.

Currency-neutral Wholesale sales grow in nearly all regions

Currency-neutral sales for the Wholesale segment in 2010 increased in all regions except Greater China and European Emerging Markets. Currency-neutral revenues in Western Europe rose 8%, driven by sales growth in the UK, Germany and Spain. Currency-neutral revenues in European Emerging Markets decreased 2% on a currency-neutral basis. Currency-neutral Wholesale sales in North America grew 17% due to double-digit growth in both the USA and Canada. Revenues in Greater China decreased 7% on a currency-neutral basis. Sales in Other Asian Markets grew 8% on a currency-neutral basis due to increases in most markets. In Latin America, currency-neutral sales were up 11%, supported by double-digit sales growth in most major markets. Currency translation effects had a positive impact on regional sales in euro terms see 03.

Currency-neutral adidas Sport Performance sales up 2%

In 2010, adidas Sport Performance wholesale revenues improved 2% on a currency-neutral basis. Growth was mainly a result of sales increases in the football category, due to the 2010 FIFA World Cup, as well as growth in the running category. Sales growth in the outdoor category also contributed to this positive development. Currency translation effects had a positive impact on revenues in euro terms. In 2010, adidas Sport Performance sales grew 9% to € 5.101 billion from € 4.696 billion in the prior year.

Wholesale at a glance 01
€ in millions

	2010	2009	Change
Net sales	8,181	7,164	14%
Gross profit	3,379	2,978	13%
Gross margin	41.3%	41.6%	(0.3pp)
Segmental operating profit	2,572	2,342	10%
Segmental operating margin	31.4%	32.7%	(1.2pp)

Wholesale net sales by quarter 02
€ in millions

adidas Sport Style sales grow 21% on a currency-neutral basis

Currency-neutral adidas Sport Style wholesale revenues grew 21% in 2010. This increase was driven by strong momentum in all categories, particularly adidas Originals and the adidas NEO label. Currency translation effects positively impacted revenues in euro terms. adidas Sport Style sales grew 27% to € 1.559 billion in 2010 (2009: € 1.225 billion).

Reebok sales grow 12% on a currency-neutral basis

In 2010, Reebok wholesale revenues increased 12% on a currency-neutral basis. This was the result of significant sales growth in the walking and running categories due to the toning and ZigTech platforms as well as growth in training, which more than offset declines in other categories. In euro terms, Reebok sales improved 19% to € 1.505 billion in 2010 from € 1.265 billion in 2009.

Gross margin negatively impacted by unfavourable regional mix

Wholesale gross margin decreased 0.3 percentage points to 41.3% in 2010 from 41.6% in 2009 »» see 01. Lower input costs as well as less clearance sales were more than offset by an unfavourable regional mix related to a higher portion of sales from lower-margin countries. The adidas brand wholesale gross margin decreased 0.7 percentage points to 43.7% in 2010 (2009: 44.4%). The wholesale gross margin of the Reebok brand increased 2.4 percentage points to 30.8% in 2010 versus 28.4% in the prior year. Wholesale gross profit improved 13% to € 3.379 billion in 2010 versus € 2.978 billion in 2009 »» see 01.

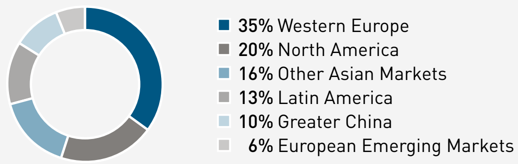
Wholesale net sales by region 03

€ in millions

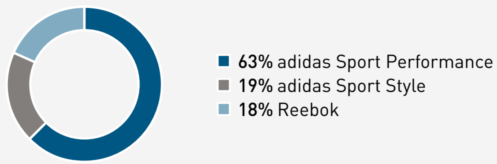
	2010	2009	Change	Change currency-neutral
Western Europe	2,882	2,633	9%	8%
European Emerging Markets	503	475	6%	(2%)
North America	1,609	1,295	24%	17%
Greater China	840	855	(2%)	(7%)
Other Asian Markets	1,270	1,041	22%	8%
Latin America	1,077	865	24%	11%
Total[1]	**8,181**	**7,164**	**14%**	**8%**

1) Rounding differences may arise in totals.

2010 Wholesale net sales by region 04



2010 Wholesale net sales by division 05



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

Segmental operating expenses in Wholesale primarily relate to sales working budget expenses as well as expenditures for sales force, administration and logistics. In euro terms, segmental operating expenses grew 27% to € 807 million in 2010 from € 636 million in 2009. Segmental operating expenses as a percentage of sales increased 1.0 percentage points to 9.9% (2009: 8.9%). This was primarily due to higher warehousing and distribution costs. Expenditures in conjunction with the 2010 FIFA World Cup as well as Reebok's growth strategy also had a minor impact.

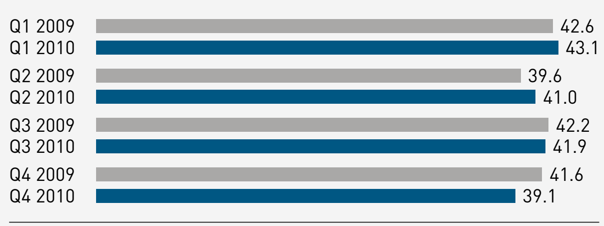
Segmental operating profit increases 10%

Segmental operating profit improved 10% to € 2.572 billion in 2010 versus € 2.342 billion in the prior year. In 2010, segmental operating margin decreased 1.2 percentage points to 31.4% (2009: 32.7%) »» see ≣ 01. This was the result of the gross margin decline as well as higher segmental operating expenses as a percentage of sales.

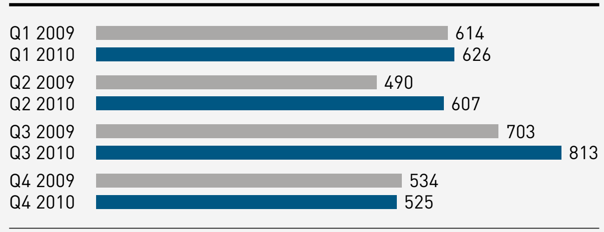
Number of Wholesale employees decreases

At year-end 2010, the Group employed 4,329 people in the Wholesale segment, which represents a decrease of 8% versus 4,723 employees in the previous year. This development is mainly due to reorganisation measures following the implementation of the joint operating model in 2009. On a full-time equivalent basis, the Wholesale segment employed 4,158 people at year-end 2010. This represents a decrease of 8% versus the prior year-end level of 4,511.

Wholesale gross margin by quarter 06
in %



Wholesale segmental operating profit by quarter 07
€ in millions



Retail Business Performance

Retail results in summary

The Retail segment comprises the own-retail activities of the adidas and Reebok brands. In 2010, currency-neutral Retail sales increased 18%. In euro terms, Retail sales grew 25% to € 2.389 billion (2009: € 1.906 billion). Currency-neutral comparable store sales were up 11% versus the prior year. Gross margin increased 3.2 percentage points to 61.8% (2009: 58.6%). This was mainly a result of a higher proportion of concept store sales at higher margins and positive currency effects related to the Russian rouble. Gross profit increased 32% to € 1.476 billion in 2010 from € 1.116 billion in 2009. As a result of the increase in gross margin and lower segmental operating expenses as a percentage of sales, segmental operating margin improved 5.3 percentage points to 18.9% (2009: 13.6%). In absolute terms, segmental operating profit grew 74% to € 452 million in 2010 versus € 259 million in 2009.

Currency-neutral segmental sales grow 18%

In 2010, Retail revenues increased 18% on a currency-neutral basis. Concept store, factory outlet and other retail format sales were all up versus the prior year. Currency translation effects positively impacted segmental revenues in euro terms. Sales grew 25% to € 2.389 billion from € 1.906 billion in the prior year »» see ≣ 08. Currency-neutral comparable store sales rose 11% versus the prior year, with increases in all store formats.

Own-retail store base increases

At December 31, 2010, the adidas Group Retail segment operated 2,270 stores. This represents a net increase of 58 or 3% versus the prior year-end level of 2,212. Of the total number of stores, 1,712 were adidas and 558 Reebok branded (December 31, 2009: 1,626 adidas stores, 586 Reebok stores). During 2010, the Group opened 234 new stores, 127 stores were closed, 51 stores were remodelled and 49 stores were reclassified. The reclassification is due to a different methodology applied to store locations which are co-shared by different Group brands.

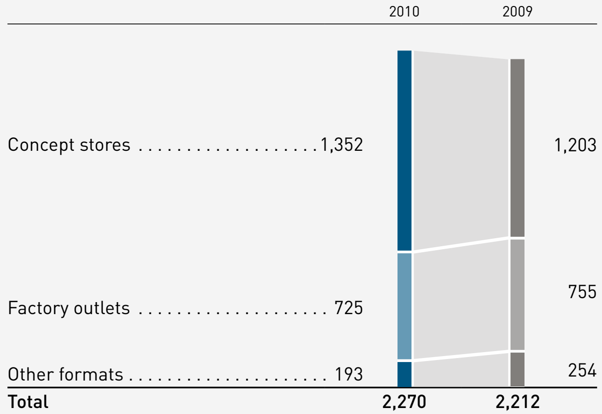
Currency-neutral Retail sales grow in all regions

Currency-neutral Retail sales increased in all regions. Retail revenues in Western Europe grew 4% on a currency-neutral basis, mainly due to increases in Spain, Germany and Italy. Sales in European Emerging Markets rose 30% on a currency-neutral basis, driven by growth in Russia where both the adidas and Reebok brands had strong double-digit sales growth. Currency-neutral Retail sales in North America grew 14% due to double-digit growth in the USA. Retail revenues in Greater China increased 41% on a currency-neutral basis. Sales in Other Asian Markets grew 1% on a currency-neutral basis, with growth in South Korea partially offset by decreases in Japan. However, the Reebok brand grew at a double-digit rate in Japan. In Latin America, currency-neutral Retail sales grew 34%, with particularly strong growth in Argentina and Mexico. Currency translation effects had a positive impact on regional sales in euro terms »» see ≣ 11.

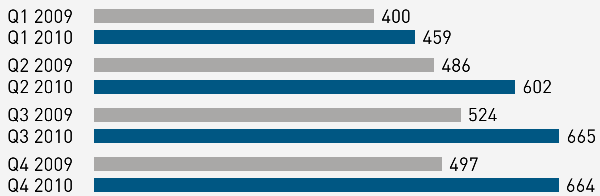
Retail at a glance 08
€ in millions

	2010	2009	Change
Net sales	2,389	1,906	25%
Gross profit	1,476	1,116	32%
Gross margin	61.8%	58.6%	3.2pp
Segmental operating profit	452	259	74%
Segmental operating margin	18.9%	13.6%	5.3pp

Retail number of stores 09



Retail net sales by quarter 10
€ in millions



Concept store sales up 23% on a currency-neutral basis

Concept store revenues include sales from adidas Sport Performance, adidas Sport Style and Reebok concept stores. In 2010, concept store revenues grew 23% on a currency-neutral basis. Sales increased at double-digit rates at both adidas and Reebok. Currency-neutral comparable concept store sales were up 14%. The number of concept stores increased by 149 to 1,352 at the end of 2010 (December 31, 2009: 1,203). Currency translation effects had a positive impact on sales in euro terms. Concept store sales increased 31% to € 1.094 billion in 2010 from € 833 million in 2009.

Factory outlet sales grow 13% on a currency-neutral basis

Factory outlet revenues include sales from adidas and Reebok factory outlets. In 2010, factory outlet revenues grew 13% on a currency-neutral basis. Comparable factory outlet sales increased 5% in 2010 on a currency-neutral basis. The number of factory outlets decreased by 30 to 725 at the end of the year (December 31, 2009: 755). Sales increased at a double-digit rate at adidas. Reebok sales also grew. Currency translation effects had a positive impact on sales in euro terms. Factory outlet sales increased 20% to € 1.203 billion in 2010 from € 1.005 billion in 2009.

Currency-neutral sales from other retail formats up 28%

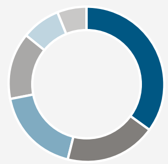
Revenues from other retail formats include adidas and Reebok concession corners and e-commerce operations. In 2010, sales from other retail formats increased 28% on a currency-neutral basis. Currency-neutral comparable sales from other retail formats grew 63%. Sales from adidas and Reebok e-commerce platforms were up 83% on a currency-neutral basis compared to 2009. Currency translation effects had a positive impact on sales from other formats in euro terms. Other retail format sales increased by 35% to € 92 million (2009: € 68 million).

Retail net sales by region 11
€ in millions

	2010	2009	Change	Change currency-neutral
Western Europe	426	405	5%	4%
European Emerging Markets	846	617	37%	30%
North America	461	380	21%	14%
Greater China	131	88	49%	41%
Other Asian Markets	330	286	15%	1%
Latin America	195	129	50%	34%
Total [1]	**2,389**	**1,906**	**25%**	**18%**

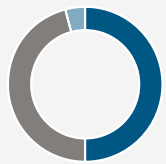
1) Rounding differences may arise in totals.

2010 Retail net sales by region 12



- **35%** European Emerging Markets
- **19%** North America
- **18%** Western Europe
- **14%** Other Asian Markets
- **8%** Latin America
- **6%** Greater China

2010 Retail sales by store format 13



- **50%** Factory outlets
- **46%** Concept stores
- **4%** Other store formats

adidas and Reebok branded Retail sales increase

In 2010, adidas Group Retail sales increased at a double-digit rate at both adidas and Reebok. Currency-neutral adidas Sport Performance revenues grew 15% in the period. adidas Sport Style sales rose 29% versus the prior year on a currency-neutral basis. Currency-neutral Reebok sales were 14% higher compared to the prior year. Comparable store sales for the adidas brand increased 11% on a currency-neutral basis, driven by double-digit growth in the training, football and running categories. Comparable store sales for Reebok grew 11%, driven by strong growth in training and running. Currency translation effects had a positive impact on revenues in euro terms. adidas Sport Performance own-retail sales increased 23% to € 1.404 billion in 2010 from € 1.142 billion in 2009. adidas Sport Style own-retail sales were up 37% to € 575 million in 2010 from € 420 million in 2009. Own-retail sales of Reebok branded products grew 20% to € 408 million in 2010 (2009: € 339 million).

Retail gross margin improves 3.2 percentage points

Gross margin in the Retail segment increased 3.2 percentage points to 61.8% in 2010 from 58.6% in 2009, with improvements in all store formats. This was mainly a result of a higher proportion of concept store sales at higher margins. Gross margin was also positively impacted by the appreciation of the Russian rouble. By brand, the adidas gross margin grew 2.4 percentage points to 63.2% (2009: 60.9%) and Reebok's gross margin improved 6.7 percentage points to 54.8% (2009: 48.1%). Retail gross profit increased 32% to € 1.476 billion in 2010 from € 1.116 billion in 2009 see 08.

Segmental operating expenses as a percentage of sales down 2.1 percentage points

Segmental operating expenses in Retail primarily relate to personnel and rent expenses as well as the sales working budget. Segmental operating expenses increased 19% to € 1.024 billion in 2010 from € 857 million in 2009. This was a result of higher sales working budget expenses and higher expenses related to the expansion of the Group's store base, particularly in emerging markets. Segmental operating expenses as a percentage of sales declined 2.1 percentage points to 42.9% (2009: 45.0%), as a result of operating leverage in the segment.

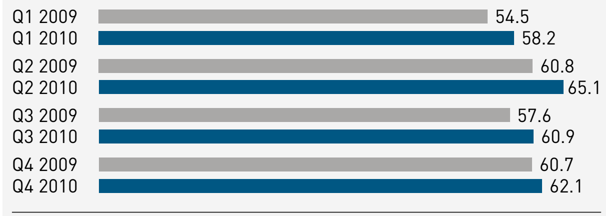
Segmental operating profit up 74%

Segmental operating profit increased 74% to € 452 million in 2010 versus € 259 million in the prior year. Segmental operating margin improved 5.3 percentage points to 18.9% (2009: 13.6%) see 08. This was a result of the gross margin increase and lower segmental operating expenses as a percentage of sales.

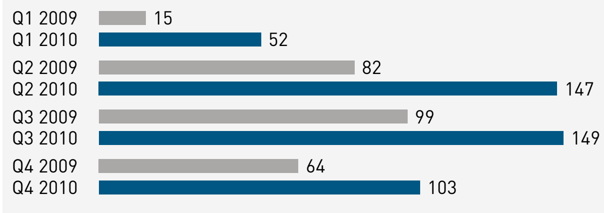
Retail employee base grows

On December 31, 2010, the Group employed 22,286 people in the Retail segment. This represents an increase of 14% versus 19,576 employees at the end of the prior year. The increase in the number of employees relates to the expansion of the Group's store base. The majority of employees in Retail are employed on a part-time basis. On a full-time equivalent basis, the number of people employed in Retail grew 12% to 17,017 at the end of 2010 (2009: 15,229).

Retail gross margin by quarter 14
in %



Retail segmental operating profit by quarter 15
€ in millions



Other Businesses Performance

Other Businesses results in summary

Other Businesses primarily include the TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey segments. In addition, the segment Other Centrally Managed Brands, which comprises brands such as Y-3, is also included. In 2010, currency-neutral sales of Other Businesses increased 2%. In euro terms, sales grew 10% to € 1.420 billion (2009: € 1.293 billion). Gross margin increased 4.2 percentage points to 43.5% (2009: 39.3%). This was mainly a result of improving product margins and a reduction in clearance sales in the Rockport segment. Gross profit improved 21% to € 618 million in 2010 from € 509 million in 2009. As a result of the increase in gross margin and stable segmental operating expenses as a percentage of sales, segmental operating margin increased 4.1 percentage points to 26.0% (2009: 21.9%). In absolute terms, segmental operating profit grew 30% to € 369 million in 2010 versus € 283 million in 2009.

Currency-neutral sales of Other Businesses up 2%

In 2010, revenues for Other Businesses increased 2% on a currency-neutral basis, with sales growth in all segments. Currency translation effects positively impacted revenues in euro terms. Sales of Other Businesses grew 10% to € 1.420 billion in 2010 (2009: € 1.293 billion) »» see ≣ 16.

Currency-neutral sales of Other Businesses grow in all regions

Currency-neutral sales of Other Businesses increased in all regions. Revenues in Western Europe were up 1% on a currency-neutral basis due to sales growth at TaylorMade-adidas Golf and Reebok-CCM Hockey, partly offset by declines at Rockport. Sales in European Emerging Markets increased 8% on a currency-neutral basis, primarily driven by higher Rockport and Reebok-CCM Hockey sales. Currency-neutral sales in North America were stable. Revenues in Greater China were up 12% on a currency-neutral basis as a result of higher TaylorMade-adidas Golf sales. Sales in Other Asian Markets grew 3% on a currency-neutral basis, driven by increases at Rockport. In Latin America, currency-neutral sales grew 10% due to increases at TaylorMade-adidas Golf and Rockport. Currency translation effects had a positive impact on regional sales in euro terms »» see ≣ 20.

Currency-neutral TaylorMade-adidas Golf sales increase 1%

In 2010, TaylorMade-adidas Golf revenues increased 1% on a currency-neutral basis. Growth was driven by revenue increases in balls and irons, with products such as the Penta TP ball and the Burner irons contributing to this expansion. Sales for adidas Golf also increased, driven by both footwear and apparel. Ashworth's revenues declined due to the non-recurrence of prior year sales related to a licensing agreement that was discontinued and product clearance sales in 2009 to align the brand with its new positioning. Currency translation effects positively impacted sales in euro terms. In 2010, TaylorMade-adidas Golf revenues increased 9% to € 909 million from € 831 million in the prior year.

Currency-neutral Rockport sales grow 2%

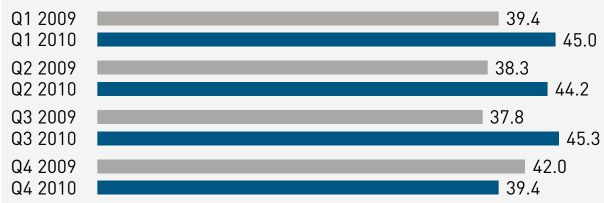
In 2010, Rockport revenues increased 2% on a currency-neutral basis. Growth in the footwear category more than offset a decline in accessories and apparel. Regionally, Rockport's revenues grew significantly in Other Asian Markets, particularly in Japan and South Korea, more than offsetting declines in North America. Currency translation effects positively impacted sales in euro terms. Revenues in the Rockport segment increased 9% to € 252 million in 2010 from € 232 million in 2009.

Other Businesses at a glance 16
€ in millions

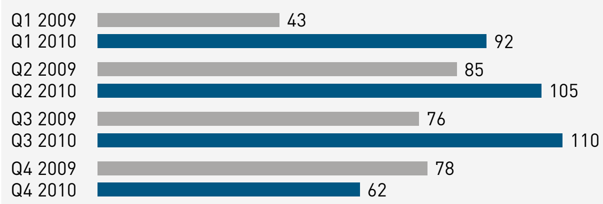
	2010	2009	Change
Net sales	1,420	1,293	10%
Gross profit	618	509	21%
Gross margin	43.5%	39.3%	4.2pp
Segmental operating profit	369	283	30%
Segmental operating margin	26.0%	21.9%	4.1pp

Other Businesses net sales by quarter 17
€ in millions

Other Businesses gross margin by quarter 18
in %



Other Businesses segmental operating profit by quarter € in millions 19



Reebok-CCM Hockey sales up 3% on a currency-neutral basis

Currency-neutral Reebok-CCM Hockey sales grew 3% in 2010. This development was driven by increases in hardware supported by new product introductions such as the Reebok 11K and CCM U+ Crazy Light skates. Regionally, Reebok-CCM Hockey sales grew at a mid-single-digit rate in Scandinavia and at a low-single-digit rate in North America. Currency translation effects positively impacted sales in euro terms. Reebok-CCM Hockey revenues increased 13% to € 200 million in 2010 from € 177 million in 2009.

Gross margin of Other Businesses improves 4.2 percentage points

Gross margin of Other Businesses increased 4.2 percentage points to 43.5% in 2010 from 39.3% in 2009. This was mainly due to a strong gross margin improvement at TaylorMade-adidas Golf as a result of improving product margins. In addition, the Rockport gross margin increased significantly versus the prior year due to a lower portion of clearance sales. In absolute terms, gross profit increased 21% to € 618 million in 2010 versus € 509 million in 2009 »» see 16.

Segmental operating expenses as a percentage of sales increase 0.1 percentage points

Segmental operating expenses rose 11% to € 249 million in 2010 from € 225 million in 2009. This was driven in particular by Rockport's own-retail expansion. Segmental operating expenses as a percentage of sales increased 0.1 percentage points to 17.6% (2009: 17.4%).

Segmental operating profit up 30%

Segmental operating profit increased 30% to € 369 million in 2010 versus € 283 million in the prior year. Segmental operating margin improved 4.1 percentage points to 26.0% (2009: 21.9%), driven by increases at TaylorMade-adidas Golf and Rockport »» see 16. The improvements were mainly due to gross margin increases.

Number of employees decreases

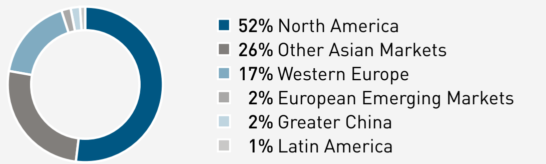
At year-end 2010, the Group employed 1,676 people in Other Businesses, representing a decrease of 4% versus 1,750 employees in the previous year. This development is primarily a result of reorganisation initiatives at TaylorMade-adidas Golf and Reebok-CCM Hockey. On a full-time equivalent basis, the number of employees in Other Businesses decreased 5% and amounted to 1,599 at the end of 2010 (2009: 1,676).

Other Businesses net sales by region 20
€ in millions

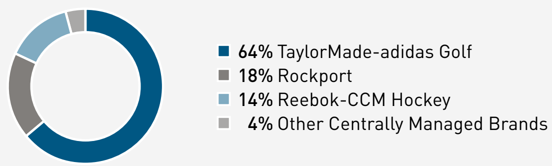
	2010	2009	Change	Change currency-neutral
Western Europe	235	224	5%	1%
European Emerging Markets	35	30	17%	8%
North America	735	685	7%	0%
Greater China	29	24	18%	12%
Other Asian Markets	372	319	17%	3%
Latin America	14	12	16%	10%
Total[1]	**1,420**	**1,293**	**10%**	**2%**

1) Rounding differences may arise in totals.

2010 Other Businesses net sales by region 21



2010 Other Businesses sales by brand 22



Risk and Opportunity Report

The adidas Group continuously explores and develops opportunities to sustain earnings and drive long-term increases in shareholder value. In doing so, we acknowledge that it is necessary to take certain risks to maximise business opportunities. Our risk and opportunity management principles and system provide the framework for our Group to conduct business in a well-controlled environment.

Risk and opportunity management review 2010

As a result of the recent financial and economic crisis, investor and financial market expectations with regard to transparent and comprehensive risk and opportunity communication have intensified. In 2010, we therefore reviewed our risk processes and systems in order to enhance our Group-wide risk and opportunity management approach, to increase internal awareness, as well as to improve internal and external reporting where necessary. The task of operating and evolving the system has been delegated to the Group Risk Management function, which is the owner of the centrally managed risk and opportunity management process. The central Group Risk Management function has defined a network of senior management representatives, so-called Risk Owners, which include all direct reports to the adidas AG Executive Board and the managing directors of all our markets. As part of their regular duties, Risk Owners are obliged to manage and monitor risks and opportunities within their area of responsibility.

In the course of this process, we have developed and implemented an updated Group Risk Management Policy. This policy, which is available to all Group employees online, outlines the principles, processes, tools, risk areas and key responsibilities within our Group. It also defines reporting requirements and communication timelines.

Risk and opportunity management principles

The adidas Group is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the Group's asset value, earnings, cash flow strength, or intangible values such as brand image.

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

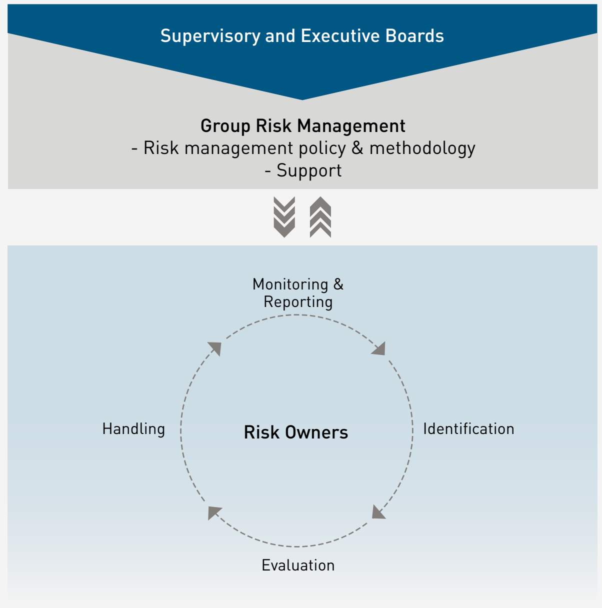
We have summarised the most important of these risks and opportunities in this Risk and Opportunity Report in three main categories: Strategic and Operational, Compliance-related and Financial.

Risk and opportunity management system

The adidas AG Executive Board has the overall responsibility to operate an effective risk and opportunity management system that ensures comprehensive and consistent management of all significant risks and opportunities. The adidas AG Supervisory Board has the responsibility to monitor the effectiveness of the Group's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. In addition, wherever relevant, our Global Internal Audit department also includes an assessment of Risk Owners' compliance with the Group Risk Management Policy within the scope of their audit, as part of their regular auditing activities.

To facilitate effective risk and opportunity management, we have an integrated risk and opportunity management system in place, which focuses on the identification, evaluation, handling, monitoring and reporting of risks and opportunities. The key objective of this system is to protect and further grow shareholder value through an opportunity-focused, but risk-aware decision-making framework.

adidas Group risk and opportunity management system 01



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

The main components of our risk and opportunity management process are:

Risk and opportunity identification: The adidas Group continuously monitors the macroeconomic environment, developments in the sporting goods industry, as well as internal processes to identify risks and opportunities as early as possible. The Risk Owners have primary responsibility for the identification of risks and opportunities. The central Group Risk Management function has defined a catalogue of potential risks (Risk Universe) to assist and facilitate the Risk Owners in identifying and categorising risks and opportunities. On the one hand, the respective Risk Owners actively monitor the potential financial impact from changes in the overall macroeconomic, political and social landscape. On the other hand, they closely observe brand, distribution channel and price point developments.

A key element of the identification process is primary qualitative and quantitative research such as trend scouting, consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation, or exposed to increased competition or changing consumer tastes.

Risk and opportunity evaluation: In order to manage risks and opportunities in an effective way, we evaluate identified risks and opportunities individually according to a systematic evaluation methodology, which is applied consistently and allows adequate prioritisation as well as allocation of resources. According to our risk management methodology, a risk and opportunity score is calculated by multiplying the potential financial impact with the likelihood of occurrence. The financial impact represents the biggest possible potential effect on contribution, with contribution being defined as operating profit before intra-Group royalties.

The financial impact is evaluated by utilising five categories: Marginal, Minor, Moderate, Significant and Major. Likelihood represents the possibility that a given risk or opportunity may occur. The likelihood of individual risks and opportunities is evaluated on a scale of 0% to 100%, using five classifications to represent an aggregate likelihood for various risk and opportunity categories: Unlikely, Possible, Likely, Probable and Highly Probable.

As risks and opportunities have different characteristics, we have defined separate methodologies for assessing the potential financial impact. For each individual risk, the gross risk score and the net risk score have to be evaluated. While the gross risk score reflects the worst-case negative financial impact before any mitigating actions, the net risk score reflects the expected financial impact after all mitigating actions. This approach on the one hand allows for a good understanding of the impact of an individual mitigating action taken, and on the other hand provides the basis for scenario analysis and simulations. In addition, the respective Risk Owners are also required to assess each risk from a timing perspective in order to determine when the risk could materialise. In assessing the potential effect on contribution from opportunities, each opportunity is appraised with respect to viability, commerciality, potential risks and the expected profit contribution.

This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at both the Group and, more extensively, the brand and market level.

Risk and opportunity handling: Risks and opportunities are treated in accordance with the Group's risk and opportunity management principles as described in the Group Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating actions and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimise financial impact and/or likelihood of occurrence, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating actions if applicable.

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

On the one hand, Risk Owners are required to report to Group Risk Management gross risks with a possible impact on contribution above the threshold of € 50 million regardless of their likelihood of materialising and net risks with a possible impact over € 1 million on contribution and the likelihood of materialising. Material changes in previously reported risks and/or newly identified risks with a potential net impact on contribution of more than € 5 million are reported on an ad-hoc basis. Opportunities are aggregated separately with Risk Owners reporting all opportunities with a net impact of above € 1 million on contribution.

On the other hand, Group Risk Management provides the adidas AG Executive Board with a quarterly report based on the Risk Owners' input. Any issues identified that, due to their material nature, require immediate reporting to the Executive Board are reported outside the regular reporting stream on an ad-hoc basis.

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

We regard the internal control and risk management system relating to the consolidated financial reporting process of the adidas Group as a system which is embedded within the Group-wide risk management system. The risk management system with respect to the financial reporting process aims at minimising the risk of false representation in our Group accounting and in external financial reporting. To this end, Group-wide compliance with statutory provisions and internal Group regulations must be ensured. We regard the risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, treatment, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process in the various areas. In a first step, the risk management system serves to identify and assess as well as to limit and control risks identified in the consolidated accounting process which might result in our consolidated financial statements not being in conformity with regulations.

The internal control system relating to the financial accounting process serves to provide reasonable assurance that the financial statements are prepared in compliance with regulations despite identified financial reporting risks. To ensure the effectiveness of the internal control and risk management system, the Internal Audit function regularly reviews accounting-relevant processes. Additionally, as part of the year-end audit, the external auditor examines selected aspects of the system, including the IT systems, to assess their effectiveness. Even with appropriate and functional systems, however, absolute certainty cannot be guaranteed.

adidas AG defines uniform consolidated accounting policies and updates these on a regular basis, dependent on regulatory changes and internal developments. Clear regulations serve to limit employees' scope of discretion with regard to inclusion and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the Group. These policies are available to all employees involved in the financial accounting process through the Group-wide intranet. Material changes are communicated to the subsidiaries Group-wide on a quarterly basis. We aim to ensure compliance with the financial accounting rules through continuous adherence to the four-eyes principle in accounting-related processes. Certain reporting obligations and the extent thereof are mandatory for the Group's subsidiaries. Adherence to reporting obligations and timelines is monitored centrally by Group Accounting.

Financial accounting at subsidiaries is conducted either locally by the respective company or by a Shared Service Centre that provides this service for several subsidiaries. Most of the IT systems used are based on SAP AFS. Some Group companies use Navision-based ERP software that was developed in-house. The individual financial statements are subsequently transferred into a central consolidation system based on SAP SEM-BCS. The regularity and reliability of the financial statements prepared by subsidiaries is reviewed at Group level by Group Accounting and Controlling. If necessary, the Group seeks the opinion of independent experts to review business transactions that occur infrequently and cannot be processed as a matter of routine. Controls within the consolidation process such as those relating to the consolidation of liabilities or of revenues and expenses are conducted both automatically (system-based) and manually. Any inadequacies are remedied and reported back to the subsidiaries.

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

Strategic and operational risks

Macroeconomic risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Abrupt economic downturns, socio-political factors such as civil unrest, nationalisation or expropriation, in particular in regions where the Group is highly represented, therefore pose a significant short-term risk to sales development. To mitigate this risk, the Group strives to balance sales across key global regions and also between developed and emerging markets. In addition, a core element of our positioning in performance sports is the utilisation of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influences. In 2011, we expect the global economy to grow, albeit with varying degrees of performance geographically see Subsequent Events and Outlook, p. 174. As a result, we assess the likelihood that adverse macroeconomic events could impact our business as likely, which is a reduction compared to the prior year. Nevertheless, we continue to regard the potential financial impact of such events as significant.

Consumer demand risks

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

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

As a leader in our industry, our brand strategies are focused on influencing rather than reacting to the changing consumer environment. We invest significant resources in research and development to innovate and bring fresh new technologies and designs to market see Research and Development, p. 110.

Corporate risk overview 02

	Likelihood of occurrence	Potential financial impact
Strategic and operational risks		
Macroeconomic risks	Likely	Significant
Consumer demand risks	Likely	Moderate
Industry consolidation risks	Probable	Significant
Hazard risks	Unlikely	Major
Risks from loss of brand image	Possible	Significant
Own-retail risks	Likely	Moderate
Risks from rising input costs	Highly probable	Major
Supplier default risks	Possible	Moderate
Inventory risks	Possible	Moderate
Customer risks	Highly probable	Major
Regulatory risks	Likely	Significant
Risks from loss of key event or promotion partnerships	Likely	Moderate
Product design and development risks	Possible	Minor
Personnel risks	Likely	Moderate
IT risks	Unlikely	Significant
Compliance-related risks		
Legal risks	Possible	Moderate
Social and environmental risks	Probable	Moderate
Risks from product counterfeiting and imitation	Highly probable	Moderate
Product quality risks	Possible	Moderate
Risks from non-compliance	Unlikely	Minor
Financial risks		
Credit risks	Possible	Moderate
Financing and liquidity risks	Unlikely	Minor
Currency risks	Highly probable	Major
Interest rate risks	Highly probable	Moderate

Corporate risk evaluation categories 03
Listed in ascending order

Likelihood of occurrence	Potential financial impact
Unlikely	Marginal
Possible	Minor
Likely	Moderate
Probable	Significant
Highly probable	Major

We also seek to enhance consumer demand for our brands through extensive marketing, product and brand communication programmes. And we focus on supply chain improvements to speed up creation-to-shelf timelines see Global Operations, p. 106.

Given the broad spectrum of our Group's product offering, retailer feedback and other early indicators see Internal Group Management System, p. 126, we view the risk from consumer demand shifts as unchanged versus the prior year. We therefore rate the likelihood of changes in consumer demand as likely, and the potential financial impact as moderate.

Industry consolidation risks

The adidas Group is exposed to risks from market consolidation and strategic alliances amongst competitors and/or retailers. This can result in a reduction of our bargaining power, or harmful competitive behaviour such as price wars. Abnormal product discounting and reduced shelf space allocation from retailers are the most common potential outcomes of these risks. Sustained promotional pressure in one of the Group's key markets could threaten the Group's sales and profitability development.

To moderate this risk, we are committed to maintaining a regionally balanced sales mix and continually adapting the Group's distribution strategy with a particular focus on controlled space initiatives see Global Sales Strategy, p. 82. Although the market capitalisation of many companies within the sporting goods industry increased substantially in 2010, merger and acquisition activity is forecasted to intensify in the light of good credit market conditions as well as improving corporate balance sheets and business projections. As a result, we continue to regard risks from market consolidation as having a probable likelihood of occurrence. The potential financial impact is assessed as significant.

Hazard risks

The adidas Group is exposed to external risks such as natural disasters, epidemics, fire and accidents. Physical damage to our own or our suppliers' premises, production units, warehouses and stock in transit can lead to property damage and business interruption. These risks are mitigated by loss prevention measures such as working with reliable suppliers and logistics providers who guarantee high safety standards. In addition to the insurance coverage we have secured, the Group has also implemented contingency plans to minimise potential negative effects.

We assess the potential occurrence of hazard risks as unlikely. In connection with the adjustment of our risk methodology in 2010, however, we have changed our assessment of the potential financial impact. Should those risks materialise, we now expect hazard risks to have a major financial impact, reflecting the fundamental and devastating consequences natural disasters or terrorist acts might have on our business on a theoretical basis.

Risks from loss of brand image

The adidas Group faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. In addition, if the Group's brands are not allocating sufficient marketing resources to activate our sports assets and brand campaigns in a sustainable manner, we face the risk of fading consumer awareness and attractiveness. To mitigate these risks, we have defined clear mission statements, values and goals for all our brands. These form the foundation of our product and brand communication strategies. We also continually refine our product offering to meet shifts in consumer demand and to contemporise our offering to respond to current trends.

Central to all our brand initiatives is ensuring clear and consistent messaging to our targeted consumer audience. Market share gains at TaylorMade as well as adidas' achievements at the 2010 FIFA World Cup give us confidence that brand image risks for these brands are unlikely. In addition, the successful introduction of new Reebok product initiatives such as in the toning category and ZigTech has helped to stimulate consumer interest and improve Reebok's brand image.

Aggregating these factors, we believe that the risk from loss of brand image for the Group has only a possible likelihood of occurrence. Nevertheless, a considerable deterioration in brand image could have a significant financial impact on our Group.

Own-retail risks

New adidas, Reebok and Rockport own-retail stores require considerable up-front investment in furniture and fittings as well as ongoing maintenance. In addition, own-retail activities often require longer-term lease or rent commitments. Retail also employs significantly more personnel in relation to net sales than our wholesale business. The higher portion of fixed costs compared to our wholesale business implies a larger profitability impact in cases of significant sales declines.

The Group reduces this risk by only entering into lease contracts with durations of less than ten years. Store performance is measured by a retail scorecard consisting of nine quantitative key performance indicators. Underperforming stores are reorganised, remodelled or closed as appropriate.

Our increased focus on improving our sophistication as a retailer by investing in management expertise as well as in IT systems remains a key priority for 2011 »» see Global Sales Strategy, p. 82. Despite the projected improvement in the global macroeconomic environment in 2011, risks to consumer spending due to rising inflation are high »» see Economic and Sector Development, p. 130. Therefore, we view the risk of underperformance of some of our own-retail stores as likely. The potential financial impact from own-retail under-performance, which may also involve impairment charges and store closures, is moderate.

Risks from rising input costs

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

To reduce the financial impact on our product margins from higher sourcing costs, we are implementing further lean manufacturing techniques at our partner factories, reducing time and cost in the procurement process, re-engineering our products and selectively increasing prices where possible. In addition, within our end-to-end profitability initiatives, we have implemented a dedicated team which is responsible for elaborating mitigation measures against rising input costs throughout the supply chain »» see Global Operations, p. 106. In the medium term, we also have the ability to adapt our sourcing structure to take advantage of more competitive pricing in other locations.

As a result of the considerable turnaround in global economic activity, raw material prices have increased significantly compared to the prior year. This development is forecasted to negatively impact our sourcing costs in 2011. As we begin planning for 2012, further increases cannot be ruled out. Therefore, the risks from rising input costs have increased significantly compared to the end of 2009 and are now assessed as having a highly probable likelihood of occurrence and a major potential financial impact.

Supplier default risks

Over 95% of our product offering is sourced through independent suppliers, mainly located in Asia »» see Global Operations, p. 106. To reduce the risk of business interruptions following a potential supplier default, we work with vendors who demonstrate reliability, quality, innovation and continuous improvement.

In addition, we have bought insurance coverage for the risk of business interruptions caused by physical damage to supplier premises.

Therefore, we assess supplier default risks as having a possible likelihood of occurrence and a moderate potential financial impact.

Inventory risks

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

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

In order to mitigate these risks, we continuously strive to improve our forecasting and material planning processes. Our replenishment programmes are another example of how we are striving to shorten production lead times, ensuring availability of products while avoiding excess inventories »» see Global Operations, p. 106.

Although the expected over-proportionate growth of the Retail segment will increase the exposure towards swings in consumer demand, our demand and inventory planning accuracy for 2011 will benefit from the improved macroeconomic climate versus 2010. Therefore, the associated inventory risks have decreased slightly and are now assessed as having a possible likelihood of occurrence and a moderate potential financial impact on our Group.

Customer risks

Customer risks arise from our dependence on key customers who have the ability to exert bargaining power and can therefore cause considerable margin pressure or cancel orders. These risks exist not only due to the relative size of some of our major customers, but also as a result of our limited ability to influence how they conduct business. In addition, over recent years, several large customers have been expanding their own private brand and private label businesses, which can negatively impact our efforts to increase shelf space.

To limit these risks, we utilise a broad distribution strategy which includes expanding our controlled space activities. This enables us to reduce negative consequences resulting from sales shortfalls that can occur with key customers. Specifically, no single customer of our Group accounted for more than 10% of Group sales in 2010.

When necessary, we also restrict or limit the distribution of our products to protect brand image or product margins. By differentiating our product offer to customers, we limit the risk of increased price competition on specific products which can result in margin erosion.

Furthermore, with our substantial marketing efforts we are aiming at building desirable brands which resonate with the tastes of our consumers and ultimately drive high sell-through rates for our customers, thus providing less incentive for our customers to engage in private label initiatives.

In light of improving retailer trends, we believe the risk of a strong reduction of business with one of our biggest retailers is unlikely. Nevertheless, due to increasing customer activity with regard to private brand and private label business, we now believe that on an aggregate level customer risks have increased and have a highly probable likelihood of occurrence on a continuous basis. The potential financial impact on the Group is regarded as major.

Regulatory risks

Regulatory risks predominantly include potential losses from significant changes to trade policies. In particular, the adidas Group faces risks arising from sudden increases of import restrictions, as well as import tariffs and duties that could compromise the free flow of goods within the Group and from suppliers. For example, several Latin American countries have significant import duties on footwear imports from China in place, which negatively impacts our profitability in these markets.

To limit these risks, we proactively utilise a regionally diversified supplier base which provides some protection against unforeseen changes in regulations and also allows us to shift production to other countries at an early stage if necessary »» see Global Operations, p. 106.

As a result of the likelihood of rising protectionist activity by governments, we continue to regard further political and regulatory actions as having a likely potential of occurrence. An unexpected significant change in the political and regulatory environment could have a significant financial impact on the Group.

Risks from loss of key event or promotion partnerships

Event and promotion partnerships play an important role in building brand image and product authenticity with our consumers, and this ultimately supports the generation of sales of licensed products. The adidas Group faces the risk of either losing key partnerships or having to accept unfavourable terms due to intensified competition for attractive contracts. To mitigate these inherent risks, we not only seek to extend our most important partnership agreements before contract expiry, but also to broaden the Group's portfolio of premium partnerships to help our brands to expand their consumer reach and reduce our reliance on single affiliations. Two examples in 2010 were the extension of the partnership between adidas and the Mexican Football Federation and Reebok's global alliance with Giorgio Armani to create special collections.

We also regularly include change-of-control clauses as well as non-cash compensation components in contracts to avoid the risk that negotiations are reduced solely to price. We expect a high level of competition for top promotion partnerships to continue in the near to medium term as smaller competitors are expected to intensify their spending in this area.

Given the maturity of our most important contracts, we believe the risk of losing important individual promotion contracts is only likely. We assess the potential financial impact of this risk to be moderate in the medium term.

Product design and development risks

Innovative and attractive products generate strong sales and – more importantly – create a halo effect for other products. Furthermore, fulfilling highest standards in terms of product quality and safety is critical to sustainable commercial success and forms an integral part of the product design and development phase. The speed with which new product technologies and fresh designs are brought to market is decisive for maintaining competitive advantage. In 2010, all brands generated the majority of their sales with products which had been brought to market over the previous 12 to 18 months »» see Research and Development, p. 110. If the adidas Group failed to maintain a pipeline of new innovative products over a sustained period of time, we would risk a significant sales decline. We focus on pursuing our innovation and design strength. To ensure we can quickly adapt to changing consumer preferences, we focus on streamlining research and development processes to speed up the time to market.

We continue to assess the likelihood of occurrence of risks from product design and development as possible. However, given the broad spectrum of the adidas Group's product offering, on an aggregate level, the potential financial impact has decreased and is now regarded as minor.

Personnel risks

Achieving the adidas Group's goal of becoming the global leader in the sporting goods industry is highly dependent on our employees and their talents. The loss of key personnel in strategic positions is therefore an obvious risk we face. We also face the risk of being unable to identify, recruit and retain the most talented people who best meet the specific needs of our Group. In addition, a lack of sufficient training measures might cause the dilution of critical knowledge, in particular within the product design and development area.

To reduce this risk, we strongly engage in developing a motivating working environment. Our goal is to make the adidas Group the "Employer of Choice" within our industry. Attractive reward and incentive schemes are designed to supplement long-term career opportunities and planning ⋙ see Employees, p. 115.

With the expansion of our own-retail activities and the increase of our employee base in emerging markets, we believe that employee turnover will slightly increase in the future. Moreover, labour markets are becoming increasingly more competitive, with the battle for the most talented employees constantly intensifying.

Therefore, the likelihood of occurrence of personnel risks has increased and is now assessed as likely. If they materialise, these risks could have a moderate financial impact on our Group.

IT risks

Key business processes including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting are all dependent on IT systems. A significant systems outage or loss of data could result in considerable disruptions to our business. Insufficient project management could delay the execution of projects critical to the Group or make them more expensive than planned.

To mitigate these risks, our IT organisation proactively engages in system preventive maintenance, service continuity planning and adherence to applicable IT policies. Data security is managed by restricting user access based on job description and adhering to data protection regulations. We perform multiple backups at alternating data centre locations for the Group's core enterprise resource planning system (ERP) on a daily basis. In addition, for the ERP system, our contingency solution allows us to quickly switch to a remote site if necessary – without any loss of data. System security, controls and reliability are reviewed and tested by the Internal Audit function.

IT project risks are further mitigated by utilising a proven project methodology for all IT projects that includes tight cost control and regular risk reviews for all major projects. In addition to these fundamental controls, the adidas Group continued to focus on additional IT control initiatives in 2010. The IT organisation's strategic direction and five-year plan is aligned with the adidas Group's overall Route 2015 strategic business plan. New quality reviews for major projects have been implemented to ensure that the progress, quality and costs of those projects are regularly evaluated by members of senior management. Finally, IT-related processes and systems were key components of the Group risk and opportunity management review in 2010.

Based on these factors, we believe the risk of a major IT default continues to be unlikely. Such a default, however, would result in a significant potential financial impact.

Compliance-related risks

Legal risks

The adidas Group is exposed to the risk of claims and litigation for infringement of third-party trademark, patent and other rights. To reduce this risk, new product technologies, designs and names are carefully researched to identify and avoid potential conflicts with the rights of third parties. We have further strengthened our Intellectual Property department resources to drive enhancements in our patent portfolio, and in the reviewing and analysis of third-party patents.

Due to the safeguards in place and given that we are not dependent on single products or product groups, we believe that the likelihood that our Group might infringe third-party trademark or patent rights in a material way is only possible. Nevertheless, we believe that litigation could have a moderate financial impact on our Group.

Social and environmental risks

We have a continuing responsibility to our employees, suppliers and the environment. Malpractice in these areas, in particular human rights violations, dubious employment practices as well as environmentally harmful production processes can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. To limit this risk, we have established Workplace Standards to which suppliers must conform before and during business relationships with the Group ⋙ see Sustainability, p. 120. Internal inspections of supplier factories verified by extensive independent audits are conducted regularly.

In the event of non-compliance with these standards, we develop joint action plans and set deadlines for compliance and further improvement. If these deadlines are not met, business relations are terminated see Sustainability, p. 120, and www.adidas-Group.com/sustainability.

In order to minimise the environmental impact of producing and distributing our products, in 2010 the adidas Group developed its first fully comprehensive environmental strategy (Environmental Strategy 2015). This strategy takes a holistic approach towards environmental issues such as sustainable resource use, climate change mitigation, emissions to water and air, waste treatment as well as hazardous substances. Part of this strategy is also to extend our "Better Place" initiative to more adidas athletic footwear and apparel products see Sustainability, p. 120.

We currently believe that social and environmental malpractice may occur only in isolated cases. Therefore, we assess the likelihood of occurrence as unlikely. Nevertheless, we believe that, going forward, legislative measures as well as consumer expectations with regard to socially and environmentally sound business practices and behaviour will become more demanding, which will add to our corporate responsibility obligations. Due to this development we will, for example, have to cope with rising costs in order to fulfil more challenging environmental requirements. As a consequence, the likelihood of occurrence and the potential financial impact from social and environmental risks have increased and are now assessed as probable and moderate, respectively.

Risks from product counterfeiting and imitation

As popular consumer brands which rely on technological and design innovation as defining characteristics, the Group's brands are frequent targets for counterfeiting and imitation. To reduce the loss of sales and the potential damage to brand reputation resulting from counterfeit products, the adidas Group makes use of extensive legal protection (generally through registration) and works closely with law enforcement authorities, investigators and outside counsel. Although we have stepped up measures such as product security labelling with our authorised suppliers, the development of these measures remains a key priority on an ongoing basis. In 2010, more than 12 million counterfeit adidas Group products were seized worldwide.

We continue to regard the likelihood of counterfeiting and imitation as highly probable. However, we believe we have adequate costs budgeted to support our ongoing efforts to successfully combat counterfeiting and imitation, which also include adding more local brand protection officers. Therefore, we assess the risk from counterfeiting and imitation to potentially negatively impact our forecasted financial contribution as moderate.

Product quality risks

The adidas Group faces a risk of selling defective products, which may result in injury to consumers and/or image impairment. We mitigate this risk by employing dedicated teams that monitor the quality of our products on all levels of the supply chain through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary. In 2010, we did not recall any products.

Our assessment of product quality risks remains unchanged versus the prior year. We regard the likelihood of occurrence of significant product liability cases or having to conduct wide-scale product recalls as possible. As we have insurance protecting us against the financial consequences of significant product liability cases, we assess the potential financial impact as moderate.

Risks from non-compliance

We face the risk that our employees breach rules and standards that guide appropriate and responsible business behaviour. In order to successfully manage this risk, the Group Policy Manual was launched at the end of 2006 to provide the framework for basic work procedures and processes. It also includes a Code of Conduct which stipulates that every employee shall act ethically in compliance with the laws and regulations of the legal systems where they conduct Group business. All of our employees have to participate in a special Code of Conduct training as part of our Global Compliance Programme.

We continue to regard the risks of grave misconduct as unlikely. In connection with the updated risk management methodology, our assessment of the financial impact on the Group, in case they should materialise, has decreased and is now regarded as minor.

Financial Risks

Credit risks

A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. The adidas Group is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and to a lesser extent from other third-party contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments see Note 28, p. 208. Without taking into account any collateral, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2010, there was no relevant concentration of credit risk by type of customer or geography. Instead, our credit risk exposure is mainly influenced by individual customer characteristics. Under the Group's credit policy, new customers are analysed for creditworthiness before standard payment and delivery terms and conditions are offered. Tolerance limits for accounts receivable are also established for each customer. Both creditworthiness and accounts receivable limits are monitored on an ongoing basis. Customers that fail to meet the Group's minimum creditworthiness are in general allowed to purchase products only on a prepayment basis.

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

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

Allowance accounts are used as long as the Group is satisfied that recovery of the amount due is possible. Once this is no longer the case, the amounts are considered irrecoverable and are directly written off against the financial asset.

The allowance consists of two components:

(1) an allowance established for all receivables dependent on the ageing structure of receivables past due date and

(2) a specific allowance that relates to individually assessed risk for each specific customer – irrespective of ageing.

At the end of 2010, no Group customer accounted for more than 10% of accounts receivable. We therefore believe that the potential financial impact of our credit risks from customers, particularly smaller retailers, is moderate and we rate the likelihood of occurrence as possible ⋙ see Economic and Sector Development, p. 130.

The adidas Group Treasury department arranges currency and interest rate hedges, and invests cash, with major banks of a high credit standing throughout the world. adidas Group companies are authorised to work with banks rated BBB+ or higher.

Only in exceptional cases are subsidiaries authorised to work with banks rated lower than BBB+. To limit risk in these cases, restrictions are clearly stipulated, such as maximum cash deposit levels. In addition, the credit default swap premiums of our partner banks are monitored on a weekly basis. In the event that the defined threshold is exceeded, credit balances are shifted to banks compliant with the limit. During 2010, the credit default swap premiums for many banks further declined from their highs in the aftermath of the financial turmoil in 2008. This development indicates a slight decrease of the associated risks.

Although financial market conditions improved in 2010, we continue to believe that the potential financial impact of credit risks from these assets is moderate and the likelihood of occurrence is possible. Nevertheless, we believe our risk concentration is limited due to the broad distribution of our investment business with more than 24 banks. At December 31, 2010, no bank accounted for more than 8% of our investment business and the average concentration, including subsidiaries' short-term deposits in local banks, was 1%. This leads to a maximum exposure of € 105 million in the event of default of any single bank.

Furthermore, we held derivatives with a positive fair market value in the amount of € 86 million. The maximum exposure to any single bank resulting from these assets amounted to € 8 million and the average concentration was 1%.

Financing and liquidity risks

Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure. In addition, the adidas Group faces the risk of having to accept unfavourable financing terms due to liquidity restraints. Our Group's Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2010, Group cash and cash equivalents amounted to € 1.16 billion (2009: € 775 million). Moreover, our Group maintains € 2.17 billion bilateral short-term credit lines and a € 1.86 billion committed medium-term syndicated loan facility with international banks, which does not include a market disruption clause. The € 4.03 billion in credit lines are designed to ensure sufficient liquidity at all times ⋙ see Treasury, p. 146.

Future cash outflows arising from financial liabilities that are recognised in the Consolidated Statement of Financial Position are presented in the adjacent table ⋙ see 04.

Future cash outflows [1] 04
€ in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
As at December 31, 2010					
Bank borrowings [2]	95	—	—	—	95
Private placements [3]	320	482	237	118	1,157
Eurobond [3]	24	48	514	—	586
Accounts payable	1,694	—	—	—	1,694
Other financial liabilities	27	2	1	—	30
Derivative financial liabilities	96	12	0	0	108
Total	**2,256**	**544**	**752**	**118**	**3,670**
As at December 31, 2009					
Bank borrowings [2]	103	—	—	—	103
Private placements [3]	245	537	370	201	1,353
Eurobond [3]	24	48	538	—	610
Accounts payable	1,166	—	—	—	1,166
Other financial liabilities	21	0	1	1	23
Derivative financial liabilities	81	23	1	1	106
Total	**1,640**	**609**	**909**	**203**	**3,361**

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

This includes payments to settle obligations from borrowings as well as cash outflows from cash-settled derivatives with negative market values. Financial liabilities that may be settled in advance without penalty are included on the basis of the earliest date of potential repayment. Cash flows for variable-interest liabilities are determined with reference to the conditions at the balance sheet date.

In 2010, we reduced net debt to € 221 million (2009: € 917 million). With a ratio of net borrowings over 12-month rolling EBITDA of 0.2 times at year-end, we are within the Group's medium-term guideline of a ratio below two times. In the light of our available credit lines, financing structure and business model, we assess the likelihood of occurrence of financing and liquidity risks as unlikely, and therefore expect only a minor potential financial impact on the Group.

Currency risks

Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing our products versus the denominations of our sales. The vast majority of our sourcing expenses are in US dollars while sales are denominated in other currencies to a large extent – most notably the euro. Our main exposures are presented in the adjacent table see 05. The exposure from firm commitments and forecasted transactions was calculated on a one-year basis.

In line with IFRS 7 requirements, we have estimated the impact on net income and shareholders' equity based on changes in our most important currency exchange rates. The calculated impacts mainly result from fair value changes of our hedging instruments. The analysis does not include effects that arise from the translation of our foreign entities' financial statements into the Group's reporting currency. The sensitivity analysis is based on the net balance sheet exposure, including intercompany balances from monetary assets and liabilities denominated in foreign currencies. Moreover, all outstanding currency derivatives were re-evaluated using hypothetical foreign exchange rates to determine the effects on net income and equity. The analysis was performed on the same basis for both 2009 and 2010.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2010 would have led to a € 3 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 157 million. A 10% weaker euro at December 31, 2010 would have led to a € 4 million decrease in net income. Shareholders' equity would have increased by € 193 million see 06. To better reflect the current foreign exposure structure, we have included EUR/JPY sensitivity analysis. Following the change in the business model in 2010, the exposure of the currency pair USD/JPY was bifurcated into EUR/JPY and EUR/USD. The impacts of fluctuations of the US dollar against the Russian rouble and of the euro against the British pound and the Japanese yen on net income and shareholders' equity are also included in accordance with IFRS requirements.

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

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

Utilising a centralised currency risk management system, our Group hedges currency needs for projected sourcing requirements on a rolling 12- to 24-month basis see Treasury, p. 146. Our goal is to have the vast majority of our hedging volume secured six months prior to the start of a given season. In rare instances, hedges are contracted beyond the 24-month horizon. The Group also largely hedges balance sheet risks. Due to our strong global position, we are able to minimise currency risk to a large extent by utilising natural hedges.

Exposure to foreign exchange risk[1]
based on notional amounts, € in millions 05

	USD	RUB	GBP	JPY
As at December 31, 2010				
Exposure from firm commitments and forecasted transactions	(3,313)	380	332	325
Balance sheet exposure including intercompany exposure	(194)	13	(10)	25
Total gross exposure	**(3,507)**	**393**	**322**	**350**
Hedged with other cash flows	166	—	—	—
Hedged with currency options	576	—	(41)	—
Hedged with forward contracts	1,733	—	(222)	(266)
Net exposure	**(1,032)**	**393**	**59**	**84**
As at December 31, 2009				
Exposure from firm commitments and forecasted transactions[2]	(2,642)	343	237	199
Balance sheet exposure including intercompany exposure	(74)	(1)	7	0
Total gross exposure	**(2,716)**	**342**	**245**	**200**
Hedged with other cash flows	150	—	—	—
Hedged with currency options	532	—	—	(6)
Hedged with forward contracts	1,659	—	(260)	(120)
Net exposure	**(375)**	**342**	**(15)**	**73**

1) Rounding differences may arise in totals.
2) Adjusted for the USD/RUB forecasted transactions.

Nevertheless, our net US dollar cash flow exposure after natural hedges calculated for 2011 was roughly € 3.3 billion at year-end 2010, which we hedged using forward contracts, currency options and currency swaps see 05. Our Group's Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection while – at the same time – retaining the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2011 hedging has almost been completed, it is clear that conversion rates on major currencies will be slightly less favourable compared to those of 2010. Volume forecast variances, greater currency volatility and an increasing portion of our business in emerging markets will expose the adidas Group to additional currency risks in 2011. Furthermore, translation impacts from the conversion of non-euro-denominated results into our Group's functional currency, the euro, might lead to a material negative impact on our Group's financial performance. As a consequence, the assessment of currency risks has increased. We now believe the likelihood of currency risks is highly probable and we regard the possible financial impact of currency risks as major.

Interest rate risks

Changes in global market interest rates affect future interest payments for variable-interest liabilities. As a result, significant interest rate increases can have an adverse effect on the Group's profitability, liquidity and financial position.

In line with IFRS 7 requirements, we have analysed the impact of changes in the Group's most important interest rates on net income and shareholders' equity. The effect of interest rate changes on future cash flows is excluded from this analysis. Nevertheless, accrued interest, which is recognised as a liability, has been re-calculated based on the hypothetical market interest rates as at December 31, 2010. Fair values for derivative interest rate instruments accounted for as cash flow hedges were then re-evaluated based on the hypothetical market interest rates with the resulting effects on net income and equity included in the sensitivity analysis. The fair value interest rate risk from private placements that are hedged with fair value hedges was also taken into consideration. However, the effect on the income statement from changes in the fair values of hedged items and hedging instruments attributable to interest rate changes was not material. Exclusions from this analysis are as follows:

- Some fixed-rate financial instruments, such as certificates of deposit, which our Group values at "fair value through profit or loss" due to the short-term maturity of these instruments. Potential effects due to changes in interest rates are considered immaterial and are not recognised in the sensitivity analysis.
- Other fixed-rate financial instruments are measured at amortised cost. Since a change in interest rates would not change the carrying amount of this category of instruments, there is no net income impact and they are excluded from this analysis.

The interest rate sensitivity analysis assumes a parallel shift of the interest yield curve for all currencies and was performed on the same basis for both 2009 and 2010. A 100 basis point increase in interest rates at December 31, 2010 would have increased shareholders' equity by € 0.04 million (2009: € 0.50 million) and decreased net income by € 0.22 million (2009: € 0.65 million). A 100 basis point decrease of the interest rates at December 31, 2010 would have resulted in a € 0.04 million decrease in shareholders' equity (2009: € 0.05 million) and a € 0.22 million increase in net income (2009: € 0.63 million).

Sensitivity analysis of foreign exchange rate changes 06
€ in millions

	USD	RUB	GBP	JPY
As at December 31, 2010				
	EUR +10%	USD +10%	EUR +10%	EUR +10%
Equity	(157)	—	21	20
Net income	3	(1)	1	(3)
	EUR –10%	USD –10%	EUR –10%	EUR –10%
Equity	193	—	(25)	(24)
Net income	(4)	1	(1)	4
As at December 31, 2009				
	EUR +10%	USD +10%	EUR +10%	USD +10%
Equity	(144)	—	21	13
Net income	1	0	(1)	0
	EUR –10%	USD –10%	EUR –10%	USD –10%
Equity	176	—	(25)	(13)
Net income	(1)	0	1	(1)

We believe the IFRS 7 interest rate analysis represents a realistic if rough estimate of our current interest rate risk.

To moderate interest rate risks and maintain financial flexibility, a core tenet of our Group's financial strategy is to continue to use surplus cash flow from operations to reduce net borrowings see Treasury, p.146. Beyond that, the adidas Group is constantly looking for adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks.

In 2010, interest rate levels in North America and Europe reached new all-time lows. In the light of the low interest rate levels, the easing of government fiscal action to stimulate economic growth and rising inflation, the risk of upward interest rate adjustments compared to the prior year has increased. Therefore, we now believe that the likelihood of a Group-wide interest rate increase is highly probable. Nevertheless, given the increase in our Group's portion of longer-term fixed rate financing in 2010, we project any potential interest rate increases as having a moderate financial effect.

Strategic and operational opportunities

Favourable macroeconomic developments

Since we are a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments which support increased discretionary private consumption can have a positive impact on our sales and profitability. In addition, legislative changes, e.g. with regard to the taxation of corporate profits, can positively impact Group profitability.

Growing importance of sports to fight obesity

Governments are increasingly promoting living an active lifestyle to fight obesity and cardiovascular disease. According to the International Obesity Task Force (IOTF), more than 600 million adults were considered obese in 2010. An additional 1.0 billion were estimated to be overweight. Furthermore, up to 200 million school-age children were either obese or overweight. Once considered a problem only in affluent nations, obesity is also becoming an issue in countries with low per capita income. This development has serious health consequences and a dramatic effect on health care expenditures.

As a result, governments and non-governmental organisations are increasing their efforts to promote a healthy lifestyle and encourage sports participation. For example, the US Department of Education awarded US $ 80 million to schools and community-based organisations for use in innovative physical education classes through the Carol M. White Physical Education Program. Given our strong market position, in particular in categories considered suitable for weight loss such as training, running and swimming, we expect to benefit from this trend.

Ongoing fusion of sport and lifestyle

The border between pure athletics and lifestyle continues to blur as sport becomes a more integral part in the lives of more and more consumers. People want to be fashionable when engaging in sporting activities without compromising on quality or the latest technological advances. At the same time, performance features and styles are finding their way into products meant for more leisure-oriented use. We estimate the global sports lifestyle market to be at least three times larger than the performance market. This development opens up additional opportunities for our Group and our brands – which already enjoy strong positions in this market. One example of this is our plan to expand the adidas NEO label as part of our Route 2015 strategic business plan see Global Brands Strategy, p. 87.

Corporate opportunities overview 07

Strategic and operational opportunities
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Growing importance of sports to fight obesity
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Increasing consumer demand for functional apparel
Growing popularity of "green" products
Social media offering new ways of consumer engagement
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Personalisation and customisation replacing mass wear
Exploiting potential of new and fast-growing sports categories
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Emerging markets as long-term growth drivers

According to estimates by the United Nations, the global population is projected to grow from currently 6.9 billion to 7.3 billion by the end of 2015 and is estimated to exceed 9 billion by 2050. A large portion of this growth is being driven by emerging economies. Rising employment rates and real incomes as well as a growing middle class are fuelling these economies – and subsequently our industry. Sports participation in countries such as China or India has historically been lower than in industrialised countries. We expect sports participation rates to increase over time with increasing leisure time, investment in infrastructure and the broadening of awareness of the benefits of physical activity. In addition, European and North American sporting goods brands are often seen as highly desirable, easily accessible, affordable luxury goods in emerging markets, which presents an additional growth opportunity.

Women's segment offers long-term potential

In our opinion, the women's sports market is one of the most attractive segments in the sporting goods industry, with women accounting for more than a third of total spending on athletic footwear. Our Group still generates the majority of its revenues in men's and unisex categories. The adidas Group will continue to invest in developing women-specific product offerings in both performance and lifestyle that emphasise female individuality, authenticity and style. Examples today include the adidas Women's Techfit apparel collection, which was developed in collaboration with the Berlin State Ballet, toning footwear and apparel at Reebok, and a specifically designed series of Burner drivers and irons at TaylorMade for women.

Increasing consumer demand for functional apparel

Consumer demand for functional apparel has increased significantly in recent years as consumers realise the benefits of functional apparel over traditional cotton sportswear. Improved moisture management, superior ease of motion and increased comfort are all factors encouraging consumers to switch to high-performance apparel.

The design and development of functional apparel requires significantly more expertise, product and material research as well as production know-how compared to low-tech apparel. Therefore, only a few companies are able to supply high-end functional apparel. Our resources and our positioning as a sports performance leader enable us to constantly develop innovative products and capitalise on them. In 2010, for example, adidas launched the Terrex Softshell Jacket. Engineered for high-performance comfort on the trail, it combines breathable wind protection with specific fit characteristics that move with the consumer.

Growing popularity of "green" products

Today's consumers are increasingly aware of the impact their consumption has on the environment. Therefore, they demand more and more products that are environmentally benign. In 2010, the adidas Group continued its efforts to create meaningful product platforms to drive growth in this area. In particular, we focused on the extension of the adidas "Better Place" programme, for which the first products were introduced globally in 2009. Products and packaging in the programme are designed taking sustainability principles into account, such as broadening the use of recycled materials and monitoring energy use in material and product preparation.

With all adidas Sport Performance categories participating in the programme, the adidas Group is moving forward with ambitious plans in the build-up to the London 2012 Olympic Games »» see Sustainability, p. 120. It is our target that 100% of adidas Sport Performance athletic footwear products and 20% of apparel products will have some sustainable content by 2012. Reebok has also been steadily introducing eco-friendly products. In January 2010, Reebok launched the Kids' Green Easy Collection of toddler and infant footwear. The Kids' Green Easy collection addresses environmental concerns by utilising recycled raw materials. Our efforts to use environmentally friendly materials in our products are of course not exclusive to these specific programmes and are also used in other categories, albeit to a lesser extent.

Social media offering new ways of consumer engagement

Advances in digital communication offer significant opportunities for our brands to engage with consumers more frequently and enhance our opportunity to build long-lasting relationships and brand loyalty. The adidas Group constantly monitors latest developments and trends in communication technologies. The emergence of social media and social networks is one such example which is already helping our brands increase their consumer reach. A key advantage of these tools is that they allow our brands to engage in a direct dialogue with our consumers. For example, by offering consumers the opportunity to actively participate in brand campaigns or in the design and creation of new products, we can generate a far superior brand experience which resonates in particular with the young generation. In this regard, most of our divisions are investing considerable resources to present the adidas Group's brands within different social media platforms, such as Facebook or Twitter. For example, the adidas Originals Facebook page has attracted more than 7 million followers.

Strong market positions worldwide

The adidas Group is the market leader in numerous countries around the world. This strong competitive position offers us many advantages in terms of global brand visibility, market power and the ability to effectively expand our position in emerging markets. As a result of our strong partnership portfolio and marketing efforts, consumers around the globe are highly aware of our brands and are receptive to our brand messaging. This makes demand for our products more stable compared to smaller competitors. Hence, many retailers consider our products as core to their offering. The adidas Group can therefore compete more effectively for shelf space.

Multi-brand approach

We believe there is a natural limit to the audience size a single brand can appeal to, given the diverse tastes and expectations of a highly fragmented consumer market. Our multi-brand approach provides us with the opportunity to leverage the power of our brands in a more precise and meaningful way ››› see Group Strategy, p. 80. We are able to utilise the combined strengths of each brand to compete for a higher percentage of the total market – covering a greater number of demographics, consumer needs and price points.

Personalisation and customisation replacing mass wear

Today's consumers are looking for choice and variety that go beyond choosing from a wide selection of products. We engage in developing unique and relevant products that fit specific functional and aesthetic requirements ››› see Group Strategy, p. 80. For example, the adidas, Reebok and TaylorMade brands all offer different personalisation and customisation platforms reflecting each brand's strategy. Key concepts at adidas include mi adidas, miTeam and miCoach. For example, miCoach is a personalisation concept that combines product technologies with an intelligent web platform. It offers the consumer a personal and real-time audible training system. In August 2010, adidas introduced the miCoach app which allows smart phone users to turn their phone into a personal coach. With "Your Reebok", consumers can design and order completely customised footwear online. At TaylorMade-adidas Golf, the myTPball online platform offers customers the opportunity to create and order their own golf balls, and our Centers of Excellence provide customised fitting sessions for golfers with expert fitters and technicians. We expect the market for personalised and customised footwear, apparel and hardware to grow strongly and evolve further in the coming years and we will therefore continue to invest in the space.

Exploiting potential of new and fast-growing sports categories

Exploiting the potential of emerging, fast-growing sports categories is another opportunity for our brands. Our brand teams conduct market research and engage in trend marketing to detect changes in lifestyle and consumer needs of their target audience as early as possible. Changes in lifestyle, habits and attitudes can potentially result in the emergence of new consumer needs that are not addressed by current market product offerings. For example, muscle toning has evolved into a meaningful category in less than two years. Having launched the Reebok EasyTone in 2009 as a walking shoe, the Reebok brand has successfully introduced additional styles and has extended the toning platform to other sports categories as well as to apparel. Similarly, a growing trend is the move by athletes and sports enthusiasts towards more minimalistic products that promote natural body movement. The demand for sports equipment that promotes natural body movement is seen as potentially a major future trend. In order to tap into this opportunity, we are expanding our efforts to bring to market more lightweight and flexible products that support the athlete's natural course of motion.

Expanding distribution scope

The sporting goods retail environment is changing constantly. People increasingly want to get involved with our brands. We therefore continue to adapt our distribution strategy to cater for this change and have made controlled space initiatives a strategic priority. This includes retail space management with key retail partners as well as the introduction of new own-retail store formats. For example in November 2010, the Reebok Reetone World opened its doors in Munich. In close cooperation with major retailers, Reebok offers alongside the popular toning shoe some exclusive pieces of the "On the Move" collection. Customers can also design and personalise their own Reebok shoes at the YourReebok station. In addition, in the run-up to the 2010/11 basketball season, adidas launched exclusive NBA shop-in-shops within several hundred Champs Sports locations throughout the USA. Through initiatives like these, we believe we will be able to more effectively target consumers and involve them emotionally with our products.

Cost optimisation drives profitability improvements

Continued optimisation of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still significant opportunity to further streamline cost structures throughout our Group. For example, we believe we will be able to realise medium-term economies of scale as we look for possibilities to further integrate adidas and Reebok functions. In addition, we continue searching for ways to increase efficiency in our supply chain and make it truly demand-driven. Furthermore, by implementing end-to-end planning processes and improving our replenishment capabilities, we see opportunities to not only better serve our customers but also to reduce our operating working capital needs ⋙ see Global Operations, p. 106. Another example in this respect is the reduction of the number of articles; this reduces workload in the creation area and warehouse costs, and allows us to offer more focused ranges to our retail partners.

Financial opportunities

Favourable financial market changes

Favourable exchange and interest rate developments can potentially have a positive impact on the Group's financial results. Our Group Treasury department closely monitors the financial markets to identify and exploit opportunities ⋙ see Treasury, p. 146.

Management assessment of overall risks and opportunities

Overall risk profile unchanged versus prior year

Management aggregates all risks reported by different business units and functions. Based on the compilation of risks – taking into account the occurrence likelihood and potential financial impact and the current business outlook explained within this report – adidas Group Management does not foresee any individual or aggregate risks which could materially jeopardise the viability of the Group as a going concern. This assessment is also supported by the historical response to our financing demands ⋙ see Treasury, p. 146. The adidas Group therefore has not sought an official rating by any of the leading rating agencies.

Management remains confident that the Group's earnings power forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group.

Compared to the prior year's assessment, the following risks have increased: hazard risks, risks from rising input costs, customer risks, personnel risks, social and environmental risks, currency risks as well as interest rate risks. The assessment of the following risks has decreased: macroeconomic risks, inventory risks, product design and development risks, risks from non-compliance as well as financing and liquidity risks. Nonetheless, the changes in individual risks have no substantial impact on the overall adidas Group risk profile, which we believe remains unchanged compared to the prior year.

Subsequent Events and Outlook

In 2011, most major economies are projected to expand, with the sporting goods industry and the adidas Group expected to benefit from increasing consumer confidence and spending. Based on our innovative strength, extensive pipeline of new and fresh products as well as marketing initiatives, we expect top- and bottom-line improvements in our Group's financial results in 2011. We forecast adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis due to growth in the Wholesale and Retail segments as well as in Other Businesses. Group gross margin is expected to be in a range between 47.5% and 48.0%. Pressures from higher input costs will weigh on otherwise positive effects anticipated from our regional and product mix. Operating margin is forecasted to improve to a level between 7.5% and 8.0%, driven by lower other operating expenses as a percentage of sales. As a result, we project earnings per share to grow at a rate between 10% and 15% to a level between € 2.98 and € 3.12.

Subsequent Events

No subsequent events

Since the end of 2010, there have been no significant organisation, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

Outlook

Forward-looking statements

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of the adidas Group. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to risks and uncertainties as described in the Risk and Opportunity Report, which are beyond the control of the adidas Group see Risk and Opportunity Report, p. 158. In case the underlying assumptions turn out to be incorrect or described risks materialise, actual results and developments may materially deviate from those expressed by such statements. The adidas Group does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

Global economic recovery to support Group growth in 2011

The speed of economic recovery in 2010 has led to a higher degree of confidence amongst economic analysis bodies and research institutes for 2011. According to the World Bank, growth of the global economy in 2011 is expected to be at around 3.3%. Forecasters in general predict strong growth in emerging markets and a continuation of the modest recovery in advanced economies. Nonetheless, structural issues such as high levels of sovereign debt and high unemployment in many developed economies pose risks to global economic growth. In addition, the potential overheating of some emerging economies with rising asset prices and significant inflationary pressures are a concern, despite monetary policies and quantitative measures being implemented to rein in these excesses. On the positive side, regardless of anticipated inflation, economists predict that consumer spending will pick up globally in 2011.

Therefore, we believe the economic environment will be supportive to our growth aspirations in 2011. The growth of the economy, however, is likely to continue to drive commodity prices higher, which we predict will further add to input cost pressures in the second half of 2011 and beyond.

In Western Europe, GDP is expected to increase at a low rate of around 1.5% in 2011, driven by growth in Germany and France. Manufacturing investments, export activity and a steady improvement in consumer spending are expected to be the key drivers of growth. However, negative headwinds from austerity measures due to sovereign debt concerns and high unemployment levels in many peripheral economies of the region are expected to persist. European emerging markets are estimated to grow at around 4.1% in 2011, with most of the economies in this region forecasted to be positively impacted by rising exports and steadily improving consumer spending. Russia in particular is projected to benefit from expected increases in commodity prices.

In North America, GDP is forecasted to grow approximately 3.3% in 2011. Expansion in the USA is expected to be supported by further stimulus measures such as quantitative easing, tax cuts and benefit payments. Low interest rates, increases in consumer and corporate spending as well as strong exports supported by a weakening dollar are also forecasted to contribute to growth. Nevertheless, the USA's significant debt obligations, high unemployment rates and low wage and personal income growth are all negative factors for the region.

In Asia, growth rates are expected to remain high, but to decelerate slightly to 4.8% in 2011. This will be driven by growth in the region's emerging markets. Of these, GDP growth in China and India is expected to remain robust at 8.9% and 8.0%, respectively, driven by domestic demand. In Japan, however, growth rates are projected to decelerate to around 1.0% in 2011. As government stimulus comes to an end, low levels of domestic demand including declines in consumer spending are expected to weigh on the economy.

In Latin America, growth rates are likely to moderate to a level of around 4.8% in 2011. Increases in commodity prices as well as strong export levels are expected to positively impact many of the region's economies. Most Latin American economies are also forecasted to see continued wage growth and strong consumer spending levels.

Increases in consumer spending to support sporting goods industry growth

In the absence of any major economic shocks, we expect the global sporting goods industry to expand in 2011. In advanced economies, despite high unemployment rates and modest levels of wage growth, consumer spending increases are forecasted to be higher compared to the prior year. Private consumption in the emerging markets is forecasted to continue at robust rates, with increases particularly in discretionary spending. While these trends underpin the opportunity for growth for the sporting goods industry in 2011, inflation in footwear and apparel prices due to higher input costs may dampen growth.

In Western Europe, the sporting goods industry is expected to grow modestly in 2011, despite tough prior year comparisons due to the 2010 FIFA World Cup. Growth in apparel in particular is expected to be challenging, with increasing pressure on prices from rising input costs. The improvement in trends seen in the European emerging markets is expected to continue in 2011. Growth is projected to be led by Russia, where increasing disposable incomes and consumer spending are promoting expansion in the retail and sporting goods industry.

In North America, stimulus programmes and tax breaks are expected to support consumer spending in 2011, which is reflected in increasing levels of consumer confidence. Footwear and apparel sales in the sporting goods industry are projected to grow in 2011. From a category perspective, basketball, lightweight running and outdoor apparel are seen as particular drivers for the year.

In Greater China, rising domestic consumption is forecasted to propel sporting goods sales in 2011. Income levels have also been growing in the lower tier cities, which will support the expansion of the industry into these markets as these consumers spend more on discretionary items.

In other Asian markets, the sporting goods industry is forecasted to grow, however with regional variances. Rapidly growing markets such as India, Indonesia and Vietnam are expected to provide further potential for sporting goods brands. India should receive an additional tailwind from the 2011 ICC Cricket World Cup. However, in Japan falling consumer confidence and spending is forecasted to continue in 2011, with lacklustre demand ensuring the sporting goods sector is likely to remain challenged.

The sporting goods industry in Latin America is projected to grow in 2011, with falling unemployment rates and rising income levels promoting consumer spending. This is expected to support discretionary spending in this region and positively impact the sporting goods sector. However, inflationary pressure, particularly on apparel, is a potential headwind to growth.

adidas Group currency-neutral sales to increase at a mid- to high-single-digit rate in 2011

We expect adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis in 2011. The positive sales development will be driven by rising consumer confidence as the global economy continues to improve. The positive impacts of our high exposure to fast-growing emerging markets, the further expansion of Retail as well as continued momentum at the Reebok brand will more than offset the non-recurrence of sales related to the 2010 FIFA World Cup. As a result, we expect the adidas Group to outperform global economic growth in 2011.

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

We project currency-neutral Wholesale segment revenues to increase at a mid-single-digit rate compared to the prior year. Order backlog development as well as positive retailer and trade show feedback support our growth expectations for 2011. Currency-neutral adidas Sport Performance sales are forecasted to increase at a low- to mid-single-digit rate due to growth in key categories such as running and training. adidas Sport Style revenues are projected to increase at a high-single- to low-double-digit rate on a currency-neutral basis as a result of the expanded distribution scope and continued momentum in our product lines, in particular adidas NEO. Currency-neutral Reebok sales are expected to increase due to growth in the women's fitness and men's training category as well as increases in the Classics business.

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

adidas Group currency-neutral Retail segment sales are projected to grow at a low-double-digit rate in 2011. Expansion of the Group's own-retail store base and comparable store sales are expected to contribute at a similar rate to the revenue growth. The Group expects a net increase of its store base by around 100 adidas and Reebok stores in 2011. We forecast to open around 200 new stores, depending on the availability of desired locations. New stores will primarily be located in emerging markets in Eastern Europe. Approximately 100 stores will be closed over the course of the year. Around 220 stores will be remodelled. Comparable store sales are expected to increase at a mid-single-digit rate compared to the prior year. As a result of the forecasted improvements in the consumer environment in 2011, concept stores are expected to perform slightly better than factory outlets.

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

In 2011, revenues of Other Businesses are expected to increase at a mid-single-digit rate on a currency-neutral basis. TaylorMade-adidas Golf currency-neutral sales are projected to grow at a low- to mid-single-digit rate compared to the prior year. Product launches in core categories such as metalwoods, irons and putters should support growth in this segment against a slow recovery in the global golf market. Revenues at Rockport are forecasted to increase at a high-single- to low-double-digit rate as a result of improvements in the brand's product portfolio and own-retail expansion. Sales at Reebok-CCM Hockey are expected to grow at a low-single-digit rate in 2011, mainly due to new product introductions.

adidas Group 2011 Outlook 01

Currency-neutral sales development (in %):	
adidas Group	mid- to high-single-digit increase
Wholesale	mid-single-digit increase
Retail	low-double-digit increase
Comparable store sales	mid-single-digit increase
Other Businesses	mid-single-digit increase
TaylorMade-adidas Golf	low- to mid-single-digit increase
Rockport	high-single- to low-double-digit increase
Reebok-CCM Hockey	low-single-digit increase
Gross margin	47.5% to 48.0%
Operating margin	7.5% to 8.0%
Earnings per share	€ 2.98 to € 3.12
Average operating working capital as a percentage of sales	increase
Capital expenditure [1]	€ 350 million to € 400 million
Store base	net increase by around 100 stores
Net borrowings	decline

1) Excluding acquisitions and finance leases.

adidas Group sales expected to grow in all regions

We expect Group currency-neutral revenues to increase in all our regions in 2011, however at varying growth rates. In Western Europe, despite the non-recurrence of the 2010 FIFA World Cup which provided a positive stimulus in the region in 2010, the gradual improvement in the macroeconomic environment will positively impact sales development in this region, albeit at a moderate level. Growth in Central Europe is likely to offset challenging conditions in the region's peripheral markets. In European Emerging Markets, the expansion of and increasing sophistication in our own-retail activities as well as improving wholesale conditions in some of the region's markets are forecasted to have a positive influence on Group sales. In North America, we expect to benefit from continued momentum in particular with the adidas and Reebok brands. This will be driven by new product introductions and product extensions. In Greater China, following a sales decline in 2010, we expect a return to strong growth in this region in 2011. This will be driven by more current levels of inventory as well as the expansion of our retail footprint, including the further roll-out of adidas Originals and adidas NEO. In Other Asian Markets, lacklustre consumer demand in Japan will be more than offset by a strong performance in the region's other markets such as South Korea and India. Lastly, in Latin America, the strong positioning of our brands is expected to more than compensate for the non-recurrence of the positive impetus from sales associated with the 2010 FIFA World Cup.

Group gross margin to be in a range from 47.5% to 48.0%

In 2011, the adidas Group gross margin is forecasted to be roughly in line with the prior year, at a level between 47.5% and 48.0% (2010: 47.8%). While we expect gross margin in our Retail segment as well as Other Businesses to improve, gross margin in the Wholesale segment is forecasted to decline. In 2011, Group gross margin will benefit from positive regional mix effects, as growth rates in emerging markets are projected to be above growth rates in more mature markets. In addition, improvements in the Retail segment as well as at the Reebok brand will positively influence Group gross margin development. However, these positive effects will be offset by several factors. In particular, sourcing costs will increase significantly compared to the prior year as a result of rising raw material costs and capacity constraints. In addition, hedging terms in 2011 will be slightly less favourable compared to the prior year.

Major 2011 product launches 02

Product	Brand
adilibria and Techfit women's training apparel	adidas
adidas by Stella McCartney performance tennis collection	adidas
adiZero F50 Runner running shoe	adidas
CC Ride running shoe	adidas
Supernova Sequence 4 running shoe	adidas
adiZero Trainer training shoe	adidas
adiZero Crazy Light basketball shoe	adidas
adiPower Predator football boot	adidas
adiZero Feather tennis shoe	adidas
Techfit PowerWeb men's training apparel	adidas
Terrex Faster outdoor collection	adidas
adiPower Howard basketball shoe	adidas
Climawarm men's training apparel	adidas
Reebok Armani ZigTech footwear	Reebok
EasyTone apparel with ResisTone technology	Reebok
ZigTech apparel	Reebok
Premier ZigFly running shoe	Reebok
ClassicLite footwear and apparel collection	Reebok
RealFlex footwear	Reebok
Classic ModernLite footwear	Reebok
Kamikaze Classic footwear	Reebok
Rockeasy Classic footwear featuring Moving Air technology	Reebok
EasyTone Plus footwear	Reebok
ZigTech women's training shoe	Reebok
R11 and R11 TP driver	TaylorMade
Burner SuperFast 2.0 and Burner SuperFast 2.0 TP driver	TaylorMade
Tour Preferred MB iron and MC iron	TaylorMade
Ghost putter series	TaylorMade
Climacool apparel with Coolmax Energy fabric technology	adidas Golf
Climacool apparel with Soft Touch fabric technology	adidas Golf
Tour360 5.0 footwear	adidas Golf
Men's golf lifestyle apparel collection	Ashworth
Leucadia spikeless golf shoe	Ashworth
DresSports with truWalk men's footwear collection	Rockport
Naomi women's footwear collection	Rockport
11K KFS protective equipment	Reebok Hockey
Larceny goalie equipment	Reebok Hockey
CCM U+ Crazy Light Alexander Ovechkin limited edition skate	CCM Hockey
CCM U+ Crazy Light II stick	CCM Hockey

Group other operating expenses to decrease as a percentage of sales

In 2011, the Group's other operating expenses as a percentage of sales are expected to decrease modestly (2010: 42.1%). Sales and marketing working budget expenses as a percentage of sales are projected to decline modestly compared to the prior year. Marketing investments to support Reebok's growth strategy in the men's and women's fitness category, as well as investments to support growth in our key attack markets North America, Greater China and Russia/CIS will be offset by the non-recurrence of expenses in relation to adidas' presence at the 2010 FIFA World Cup. Operating overhead expenditures as a percentage of sales are forecasted to decline slightly in 2011. Higher administrative and personnel expenses in the Retail segment due to the planned expansion of the Group's store base will be offset by leverage and efficiency gains in the Group's non-allocated central costs.

We expect the number of employees within the adidas Group to increase versus the prior year level. Additional hires will be mainly related to own-retail expansion. The majority of new hires will be employed on a part-time basis and will be located in emerging markets. The adidas Group will continue to spend around 1% of Group sales on research and development in 2011. Areas of particular focus include customisation and digital sports products at adidas, as well as supporting the expansion of Reebok's fitness and training positioning »» see Research and Development, p. 110.

Operating margin to continue to expand

In 2011, we expect the operating margin for the adidas Group to increase to a level between 7.5% and 8.0% (2010: 7.5%). Lower other operating expenses as a percentage of sales are expected to be the primary driver of the improvement.

Earnings per share to increase to a level between € 2.98 and € 3.12

Earnings per share are expected to increase at a rate of 10% to 15% to a level between € 2.98 and € 3.12 (2010 diluted earnings per share: € 2.71). Top-line improvement and an increased operating margin will be the primary drivers of this positive development. In addition, we expect lower interest rate expenses in 2011 as a result of a lower average level of net borrowings. The Group tax rate is expected to be at a similar level compared to the prior year level (2010: 29.5%).

Operating working capital as a percentage of sales to increase

In 2011, average operating working capital as a percentage of sales is expected to increase compared to the prior year level (2010: 20.8%). This is mainly due to working capital increases to support the growth of our business.

Investment level to be between € 350 million and € 400 million

In 2011, investments in tangible and intangible assets are expected to amount to € 350 million to € 400 million (2010: € 269 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in emerging markets. These investments will account for almost one-third of total investments in 2011. Other areas of investment include the further development of the adidas Group Headquarters in Herzogenaurach, Germany, and the increased deployment of SAP and other IT systems in major subsidiaries within the Group. All investments within the adidas Group in 2011 are expected to be fully financed through cash generated from operations.

Excess cash to be used to support growth initiatives

In 2011, we expect continued positive cash flows from operating activities. Cash will be used to finance working capital needs, investment activities, as well as dividend payments. We intend to largely use excess cash to invest in our Route 2015 growth initiatives and to further reduce net borrowings. Over the long term, we aim to maintain a ratio of net borrowings over EBITDA of less than two times as measured at year-end (2010 ratio: 0.2).

Efficient liquidity management in place for 2011 and beyond

Efficient liquidity management continues to be a priority for the adidas Group in 2011. We focus on continuously anticipating the cash inflows from the operating activities of our Group segments, as this represents the main source of liquidity within the Group. On a quarterly basis, liquidity is forecasted on a multi-year financial and liquidity plan. Long-term liquidity is ensured by continued positive free cash flows and sufficient unused committed and uncommitted credit facilities. In 2011, we do not expect any financing activities in order to replace maturing credit facilities »» see Treasury, p. 146.

Management to propose dividend of € 0.80

In light of the strong cash flow generation in 2010 and the significantly reduced level of net borrowings, Management will recommend paying a dividend of € 0.80 to shareholders at the Annual General Meeting (AGM) on May 12, 2011, representing an increase of 129% compared to 2009 (2009: € 0.35). Subject to shareholder approval, the dividend will be paid on May 13, 2011. The proposal represents a payout ratio of 30% of net income as in the prior year and complies with our dividend policy, according to which we intend to pay out between 20% and 40% of net income attributable to shareholders annually. Based on the number of shares outstanding at the end of 2010, the dividend payout will increase to € 167 million compared to € 73 million in the prior year.

adidas Group defines long-term strategic goals

Based on the adidas Group's strong brands, premium products, extensive global presence and its commitment to innovation and the consumer, the adidas Group aspires to grow its business significantly until 2015. According to our 2015 strategic business plan "Route 2015", which was announced in November 2010, total Group sales are targeted to grow 45% to 50% on a currency-neutral basis over the five-year period, thereby outperforming total market growth (both GDP and sporting goods industry). In addition, we aim to grow our bottom line faster than the top line. It is targeted to grow annual earnings at a compound annual growth rate of 15% and to reach an operating margin of 11% sustainably by 2015 at the latest. For 2012, in line with our mid-term guidance, we project adidas Group sales and net income to increase compared to 2011.

In order to reach our strategic goals and create long-term sustainable shareholder value, we have defined clear strategic pillars. These include:

– Clear market positioning and brand prioritisation: We believe that we have significant growth potential to exploit from our portfolio of brands. The majority of our targeted growth will come from Global Brands which we anticipate will contribute 90% of the Group's expected revenue increase over the period see Global Brands Strategy, p. 87. Areas within the adidas and Reebok brands that were identified as key contributors to sustainable growth for the adidas Group include:

- Gaining sales and market share in the running and basketball categories within adidas Sport Performance
- Expanding adidas Sport Style in the fast fashion business with NEO
- Establishing Reebok as the leading fitness and training brand
- Leading the industry in the fields of customisation and interactivity.

By brand, we expect adidas Sport Performance sales to grow at a mid- to high-single-digit compound annual growth rate. We plan to increase adidas Sport Style and Reebok sales at a double-digit compound annual growth rate until 2015.

– Expand presence in key growth markets: We have identified North America, Greater China, Russia/CIS, Latin America, Japan, UK and India as key growth markets for the next five years. Of those markets, the three "attack markets" North America, Greater China and Russia/CIS are expected to contribute around 50% of the total Group growth until 2015, with each market targeting a double-digit compound annual growth rate. In the USA, the Group's brands have enormous potential to gain market share by focusing on improved distribution and allowing a higher share of products to be specifically designed for that market. In emerging markets such as China and Russia, rising standards of living, increasing disposable income, positive demographic trends and growing sports participation should support demand for sporting goods.

– Intensify controlled space focus: We intend to increase the portion of sales that comes from controlled space initiatives to at least 45% of Group sales in the coming years. This includes new openings of adidas and Reebok own-retail stores, the further extension of our mono-branded store base in markets such as China, as well as new shop-in-shop initiatives with retail partners around the world. In terms of our own retail, we intend to open at least 500 adidas and Reebok stores over the next five years, as well as grow significantly our eCommerce business, which we project to increase to € 500 million over the period see Global Sales Strategy, p. 82.

– Leverage growth and operational scale through to bottom line: A higher exposure to emerging markets as well as expanding controlled space activities are important levers to improving brand presence, increasing sell-through and driving higher Group profitability. In addition, we continuously work on streamlining internal processes to accelerate decision-making, reduce complexity and make our organisation leaner and more efficient. Therefore, we believe there is significant potential to increase the Group's operating margin to 11% sustainably by 2015.

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

It's Nice To Win

Rockport's "It's nice to win" campaign embodies the idea that busy metropolitan professionals can enjoy the freedom to do more, without being held back by their choice of footwear. The shown story is called "Last Minute Party Time" and features a woman being invited to a party while still at work. Her goal is to leave work without having to return home to change. She is able to do so because the Rockport shoes she has worn all day at work are stylish enough for a night out on the town.

05

Consolidated Financial Statements

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the 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 principal opportunities and risks associated with the expected development of the Group.

Herzogenaurach, February 15, 2011

Herbert Hainer
Chief Executive Officer

Glenn Bennett
Global Operations

Robin J. Stalker
Chief Financial Officer

Erich Stamminger
Global Brands

Auditor's Report

We have audited the consolidated financial statements prepared by adidas AG, Herzogenaurach, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes, together with the Group management report for the fiscal year January 1 to December 31, 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) German Commercial Code (Handelsgesetzbuch – HGB) is the responsibility of the company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, "IDW"). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and profit or loss of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 15, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

(Original German version signed by:)

Michael Kozikowski Wirtschaftsprüfer (German Public Auditor)	Achim Wolper Wirtschaftsprüfer (German Public Auditor)

adidas AG Consolidated Statement of Financial Position (IFRS)
€ in millions

	Note	Dec. 31, 2010	Dec. 31, 2009	Change in %
Cash and cash equivalents	4	1,156	775	49.2
Short-term financial assets	5	233	75	209.5
Accounts receivable	6	1,667	1,429	16.6
Other current financial assets	7	197	160	22.9
Inventories	8	2,119	1,471	44.1
Income tax receivables	33	71	89	(20.3)
Other current assets	9	390	360	8.2
Assets classified as held for sale	10	47	126	(62.6)
Total current assets		**5,880**	**4,485**	**31.1**
Property, plant and equipment	11	855	723	18.3
Goodwill	12	1,539	1,478	4.1
Trademarks	13	1,447	1,342	7.8
Other intangible assets	13	142	160	(11.2)
Long-term financial assets	14	93	91	2.4
Other non-current financial assets	15	54	58	(6.5)
Deferred tax assets	33	508	412	23.2
Other non-current assets	16	100	126	(20.3)
Total non-current assets		**4,738**	**4,390**	**7.9**
Total assets		**10,618**	**8,875**	**19.6**
Short-term borrowings	17	273	198	37.8
Accounts payable		1,694	1,166	45.3
Other current financial liabilities	18	123	101	21.2
Income taxes	33	265	194	36.1
Other current provisions	19	470	320	46.8
Current accrued liabilities	20	842	625	34.7
Other current liabilities	21	241	232	4.2
Liabilities classified as held for sale	10	0	0	n.a.
Total current liabilities		**3,908**	**2,836**	**37.8**
Long-term borrowings	17	1,337	1,569	(14.8)
Other non-current financial liabilities	22	15	25	(41.1)
Pensions and similar obligations	23	180	157	14.9
Deferred tax liabilities	33	451	433	4.0
Other non-current provisions	19	29	29	(0.3)
Non-current accrued liabilities	20	39	22	79.8
Other non-current liabilities	24	36	28	31.8
Total non-current liabilities		**2,087**	**2,263**	**(7.7)**
Share capital		209	209	—
Reserves		563	212	167.1
Retained earnings		3,844	3,350	14.7
Shareholders' equity	25	**4,616**	**3,771**	**22.4**
Non-controlling interests	26	7	5	29.9
Total equity		**4,623**	**3,776**	**22.4**
Total liabilities and equity		**10,618**	**8,875**	**19.6**

Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Income Statement (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009	Change
Net sales	35	11,990	10,381	15.5%
Cost of sales		6,260	5,669	10.4%
Gross profit		**5,730**	**4,712**	**21.6%**
(% of net sales)		47.8%	45.4%	2.4pp
Royalty and commission income		100	86	16.1%
Other operating income	29	110	100	9.7%
Other operating expenses	11, 13, 30	5,046	4,390	14.9%
(% of net sales)		42.1%	42.3%	(0.2pp)
Operating profit		**894**	**508**	**76.0%**
(% of net sales)		7.5%	4.9%	2.6pp
Financial income	32	25	19	28.3%
Financial expenses	32	113	169	(33.5%)
Income before taxes		**806**	**358**	**125.0%**
(% of net sales)		6.7%	3.5%	3.3pp
Income taxes	33	238	113	111.0%
(% of income before taxes)		29.5%	31.5%	(2.0pp)
Net income		**568**	**245**	**131.4%**
(% of net sales)		4.7%	2.4%	2.4pp
Net income attributable to shareholders		**567**	**245**	**131.1%**
(% of net sales)		4.7%	2.4%	2.4pp
Net income attributable to non-controlling interests		**1**	**0**	**794.7%**
Basic earnings per share (in €)	34	2.71	1.25	116.8%
Diluted earnings per share (in €)	34	2.71	1.22	121.8%

Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Comprehensive Income (IFRS)

€ in millions

03

	Note	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Net income after taxes		568	245
Net gain/(loss) on cash flow hedges, net of tax	28	31	(132)
Actuarial loss of defined benefit plans (IAS 19), net of tax	23	(10)	(11)
Asset ceiling effect (IAS 19), net of tax	23	(0)	(1)
Currency translation		331	(19)
Other comprehensive income		**352**	**(163)**
Total comprehensive income		**920**	**82**
Attributable to shareholders of adidas AG		918	82
Attributable to non-controlling interests		2	0

Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Changes in Equity (IFRS)

€ in millions

04

	Note	Share capital	Capital reserve	Cumulative translation adjustments	Hedging reserve	Other reserves [1]	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2008		**194**	**338**	**(432)**	**91**	**(6)**	**3,202**	**3,386**	**14**	**3,400**
Total comprehensive income				(19)	(132)	(12)	245	82	0	82
Dividend payment	25						(97)	(97)		(97)
Exercised share options	38	0	0					0		0
Conversion of convertible bond		16	384					400		400
Acquisition of shares from non-controlling interest shareholders	26								(12)	(12)
Newly created joint ventures	26								3	3
Reclassifications of non-controlling interests in accordance with IAS 32	26						0	0		0
Balance at December 31, 2009		**209**	**722**	**(451)**	**(41)**	**(18)**	**3,350**	**3,771**	**5**	**3,776**
Total comprehensive income				330	31	(10)	567	918	2	920
Dividend payment	25						(73)	(73)	(0)	(73)
Reclassifications of non-controlling interests in accordance with IAS 32	26						0	0		0
Balance at December 31, 2010		**209**	**722**	**(121)**	**(10)**	**(28)**	**3,844**	**4,616**	**7**	**4,623**

1) Reserves for actuarial gains/losses and share option plans.
Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Cash Flows (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Operating activities:			
Income before taxes		806	358
Adjustments for:			
Depreciation, amortisation and impairment losses	11, 13, 14, 30	270	299
Reversals of impairment losses		(7)	0
Unrealised foreign exchange (gains)/losses, net		(19)	15
Interest income	32	(23)	(16)
Interest expense	32	112	138
Losses on sale of property, plant and equipment, net		5	23
Other non-cash (income)/expenses	29, 30	(0)	5
Operating profit before working capital changes		**1,144**	**822**
(Increase)/decrease in receivables and other assets		(100)	464
(Increase)/decrease in inventories		(561)	617
Increase/(decrease) in accounts payable and other liabilities		757	(312)
Cash generated from operations before interest and taxes		**1,240**	**1,591**
Interest paid		(111)	(131)
Income taxes paid		(235)	(262)
Net cash generated from operating activities		**894**	**1,198**
Investing activities:			
Purchase of trademarks and other intangible assets		(42)	(46)
Proceeds from sale of trademarks and other intangible assets		17	10
Purchase of property, plant and equipment		(227)	(195)
Proceeds from sale of property, plant and equipment		1	16
Acquisition of further investments in subsidiaries	3	—	(14)
Acquisition of subsidiaries and other business units net of cash acquired	3, 36	—	(8)
(Purchase of)/proceeds from sale of short-term financial assets		(146)	60
Proceeds from sale/(purchase) of investments and other long-term assets		44	(1)
Interest received		23	16
Net cash used in investing activities		**(330)**	**(162)**
Financing activities:			
Proceeds from/(repayments of) long-term borrowings		33	(508)
Proceeds from issue of a Eurobond		0	497
Dividend paid to shareholders of adidas AG	25	(73)	(97)
Dividend paid to non-controlling interest shareholders		(0)	—
Exercised share options		—	0
Cash repayments of short-term borrowings		(198)	(404)
Net cash used in financing activities		**(238)**	**(512)**
Effect of exchange rates on cash		**55**	**7**
Net increase of cash and cash equivalents		381	531
Cash and cash equivalents at beginning of year	4	775	244
Cash and cash equivalents at year-end	4	**1,156**	**775**

Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

Notes

adidas AG (hereafter also referred to as "the company") is a listed German stock corporation and ultimate parent of the adidas Group. adidas AG and its subsidiaries (collectively the "adidas Group" or the "Group") design, develop, produce and market – increasingly through own-retail activities – a broad range of athletic and sports lifestyle products. The adidas Group's headquarters are located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany. The operating activities of the adidas Group are divided into six operating segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands.

The Wholesale segment comprises all business activities relating to the distribution of adidas and Reebok products to retail customers.

The Retail segment comprises all business activities relating to the sale of adidas and Reebok products directly to end consumers through own retail.

adidas and Reebok branded products include footwear, apparel and hardware, such as bags and balls.

TaylorMade-adidas Golf includes the three brands TaylorMade, adidas Golf and Ashworth. TaylorMade designs, develops and assembles or manufactures high-performance golf clubs, balls and accessories. adidas Golf branded products include footwear, apparel and accessories. Ashworth designs and distributes men's and women's lifestyle sportswear.

Rockport predominantly designs and markets leather footwear for men and women.

Reebok-CCM Hockey designs, produces and markets hockey equipment such as sticks and skates as well as apparel mainly under the brand names Reebok Hockey and CCM Hockey.

The Other Centrally Managed Brands segment primarily includes the business activities of the Y-3 label, under which premium footwear and apparel are designed and distributed.

General ⋙ 01

The consolidated financial statements of adidas AG as at December 31, 2010 comprise adidas AG and its subsidiaries and are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) as at December 31, 2010, and the additional requirements pursuant to § 315a section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations and amendments to existing standards and interpretations are applicable for the first time for financial years beginning on January 1, 2010:

– **IFRS 2 Amendment – Group Cash-settled Share-based Payment Transactions** (effective date: January 1, 2010): This amendment had no impact on the Group's financial statements.

– **IFRS 3 Business Combinations – Revised** (effective date: July 1, 2009): This amendment had no impact on the Group's financial statements.

– **IAS 27 Amendment – Consolidated and Separate Financial Statements** (effective date: July 1, 2009): This amendment had no material impact on the Group's financial statements.

– **IAS 39 Amendment – Financial Instruments: Recognition and Measurement – Eligible hedged items** (effective date: July 1, 2009): This amendment had no material impact on the Group's financial statements.

– **IFRIC 12 Service Concession Arrangements** (effective date: March 29, 2009): This interpretation had no impact on the Group's financial statements.

– **IFRIC 15 Agreements for the Construction of Real Estate** (effective date: January 1, 2010): This interpretation had no impact on the Group's financial statements.

– **IFRIC 16 Hedges of a Net Investment in a Foreign Operation** (effective date: July 1, 2009): This interpretation had no impact on the Group's financial statements.
– **IFRIC 17 Distributions on Non-cash Assets to Owners** (effective date: November 1, 2009): This interpretation had no impact on the Group's financial statements.
– **IFRIC 18 Transfers of Assets from Customers** (effective date: November 1, 2009): This interpretation had no impact on the Group's financial statements.
– **Improvements to IFRSs (2008) > IFRS 5** (effective date: July 1, 2009): These improvements had no material impact on the Group's financial statements.
– **Improvements to IFRSs (2009)** (effective date: January 1, 2010): These improvements had no material impact on the Group's financial statements.

New standards and interpretations and amendments to existing standards and interpretations that will be effective for financial years beginning after January 1, 2010, and which have not been applied in preparing these consolidated financial statements are:
– **IAS 24 Related Party Disclosures – Revised** (effective date: January 1, 2011): This amendment is not expected to have any impact on the Group's financial statements.
– **IAS 32 Amendment – Financial Instruments: Presentation – Classification of Rights Issues** (effective date: February 1, 2010): This amendment is not expected to have any impact on the Group's financial statements.
– **IFRIC 14 Amendment – Prepayments of a Minimum Funding Requirement** (effective date: January 1, 2011): This amendment is not expected to have any impact on the Group's financial statements.
– **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** (effective date: July 1, 2010): This interpretation is not expected to have any impact on the Group's financial statements.

Entities shall apply the new standards and interpretations, and amendments to existing standards and interpretations for annual periods beginning on or after the effective date.

New standards and interpretations, and amendments to existing standards and interpretations are usually not applied by the Group before the effective date.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain items such as financial instruments valued at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, plan assets and receivables, which are measured at fair value.

The consolidated financial statements are presented in euros (€) and all values are rounded to the nearest million (€ in millions).

Summary of significant accounting policies ⋙ 02

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below.

Principles of consolidation

The consolidated financial statements include the financial statements of adidas AG and its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles.

A company is considered a subsidiary if it is controlled by adidas AG, e.g. by directly or indirectly governing the financial and operating policies of the respective enterprise.

The number of consolidated subsidiaries evolved as follows for the years ending December 31, 2010 and 2009, respectively:

Number of consolidated subsidiaries

	2010	2009
January 1	**177**	**190**
First-time consolidated companies:	1	6
Thereof newly founded	1	5
Thereof purchased	—	1
Deconsolidated/divested companies	(1)	(9)
Merged companies	(8)	(10)
December 31	**169**	**177**

A schedule of the shareholdings of adidas AG is shown in Attachment II to these Notes. Further, a schedule of the shareholdings of adidas AG will be published on the electronic platform of the German Federal Gazette.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognised in the statement of financial position at fair value at the acquisition date. A debit difference between the acquisition cost and the proportionate fair value of assets, liabilities and contingent liabilities is shown as goodwill. A credit difference is recorded in the income statement.

Acquisitions of additional investments in Group companies which are already controlled are recorded as equity transactions. Therefore, neither fair value adjustments of assets and liabilities nor gains or losses are recognised. Any difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is directly recorded in shareholders' equity.

The financial effects of intercompany transactions, as well as any unrealised gains and losses arising from intercompany business relations are eliminated in preparing the consolidated financial statements.

Principles of measurement

The following table includes an overview of selected measurement principles used in the preparation of the consolidated financial statements.

Overview of selected measurement principles

Item	Measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Short-term financial assets	At fair value through profit or loss
Accounts receivable	Amortised cost
Inventories	Lower of cost or net realisable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant and equipment	Amortised cost
Goodwill	Impairment-only approach
Intangible assets (except goodwill)	
With definite useful life	Amortised cost
With indefinite useful life	Impairment-only approach
Other financial assets (categories according to IAS 39):	
At fair value through profit or loss	At fair value through profit or loss
Held to maturity	Amortised cost
Loans and receivables	Amortised cost
Available-for-sale	At fair value in other comprehensive income
Liabilities	
Accounts payable	Amortised cost
Financial liabilities	Amortised cost
Provisions	
Pensions	Projected unit credit method
Other provisions	Settlement amount
Accrued liabilities	Amortised cost

Currency translation

Transactions of assets and liabilities in foreign currencies are translated into the respective functional currency at spot rates on the transaction date.

In the individual financial statements of subsidiaries, monetary items denominated in non-functional currencies of the subsidiaries are generally measured at closing exchange rates at the balance sheet date. The resulting currency gains and losses are recorded directly in the income statement.

Assets and liabilities of the Group's non-euro functional currency subsidiaries are translated into the reporting currency, the "euro", which is also the functional currency of adidas AG, at closing exchange rates at the balance sheet date. Revenues and expenses are translated at exchange rates on the transaction dates. All cumulative differences from the translation of equity of foreign subsidiaries resulting from changes in exchange rates, are included in a separate item within shareholders' equity without affecting the income statement.

A summary of exchange rates to the euro for major currencies in which the Group operates is as follows:

Exchange rates
€ 1 equals

	Average rates for the year ending Dec. 31,		Spot rates at Dec. 31,	
	2010	2009	2010	2009
USD	1.3279	1.3932	1.3362	1.4406
GBP	0.8584	0.8912	0.8608	0.8881
JPY	116.56	130.23	108.65	133.16
CNY	8.9885	9.5148	8.8493	9.8350
RUB	40.303	44.144	40.820	43.154

Derivative financial instruments

The Group uses derivative financial instruments, such as currency options, forward contracts as well as interest rate swaps and cross-currency interest rate swaps, to hedge its exposure to foreign exchange and interest rate risks. In accordance with its Treasury Policy, the Group does not enter into derivative financial instruments with banks for trading purposes.

Derivative financial instruments are initially recognised in the statement of financial position at fair value, and subsequently also measured at their fair value. The method of recognising the resulting gains or losses is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of a forecasted transaction (cash flow hedge), a hedge of the fair value of a recognised asset or liability (fair value hedge) or a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges, and that are effective, as defined in IAS 39 "Financial instruments: recognition and measurement", are recognised in equity. When the effectiveness is not 100%, the ineffective portion of the fair value is recognised in the income statement. Accumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecasted transaction affects the income statement.

For derivative instruments designated as fair value hedges, the gains or losses on the derivatives and the offsetting gains or losses on the hedged items are recognised immediately in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, may not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. If, for example, the hedging instrument is a derivative (e.g. a forward contract) or, for example, a foreign currency borrowing, effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing, respectively, are recognised in equity.

The Group documents the relationship between hedging instruments and hedged items at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific firm commitments and forecasted transactions. The Group also documents its assessment of whether the derivatives that are used in hedging transactions are highly effective by using different methods of effectiveness testing, such as the "dollar offset method" or the "hypothetical derivative method".

The fair values of forward contracts and currency options are determined on the basis of market conditions on the reporting dates. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair market value of an option is influenced not only by the remaining term of the option but also by additional factors, such as the actual foreign exchange rate and the volatility of the underlying foreign currency base.

Cash and cash equivalents

Cash and cash equivalents represent cash and short-term bank deposits with maturities of three months or less from the date of acquisition.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables and other financial assets

Receivables and other financial assets are recognised at fair value, which is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date. Subsequently, these are measured at amortised cost using the "effective interest method". If necessary, required allowances are determined on the basis of individual risk assessment and of the ageing structure of receivables past due.

Inventories

Merchandise and finished goods are valued at the lower of cost or net realisable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method: the "average cost method". Costs of finished goods include cost of raw materials, direct labour and the components of the manufacturing overheads which can reasonably be attributed. The allocation of overheads is based on the planned average utilisation. The net realisable value allowances are computed consistently throughout the Group based on the age and expected future sales of the items on hand.

Assets/liabilities classified as held for sale

Assets and liabilities (primarily non-current) that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. These are measured at the lower of their carrying amount and fair value less costs to sell. A potential gain or loss is offset against the carrying amount of the assets and liabilities classified as held for sale.

Property, plant and equipment

Property, plant and equipment are measured at amortised cost. This comprises any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management less accumulated depreciation (except for land and construction in progress) and accumulated impairment losses. Depreciation is recognised utilising the "straight-line method", except where the "declining-balance method" is more appropriate in light of the actual utilisation pattern. Estimated useful lives are as follows:

Estimated useful lives of property, plant and equipment

	Years
Buildings/Leasehold improvements	5 – 50
Technical equipment and machinery as well as other equipment and furniture and fittings	2 – 10

Expenditures for repairs and maintenance are expensed as incurred. Renewals and improvements are capitalised and depreciated separately, if the recognition criteria are met.

Impairment losses

If facts and circumstances indicate that non-current assets (e.g. property, plant and equipment, intangible assets including goodwill and certain financial assets) might be impaired, the recoverable amount is determined. It is measured as the higher of its fair value less costs to sell and value in use. An impairment loss is recognised in other operating expenses if the carrying amount exceeds the recoverable amount. If there is an impairment loss for a cash-generating unit, first the carrying amount of any goodwill allocated to the cash-generating unit is reduced, and subsequently the other non-current assets of the unit are reduced pro rata on the basis of the carrying amount of each asset in the unit.

Irrespective of whether there is an impairment indication, intangible assets with an indefinite useful life and goodwill acquired in business combinations are tested annually for impairment.

An impairment loss recognised in goodwill is not reversible. With respect to all other impaired assets, an impairment loss recognised in prior periods is reversed affecting the income statement if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) if no impairment loss had been recognised.

Leases

Under finance lease arrangements, substantially all risks and rewards associated with an asset are transferred to the Group as the lessee. At the beginning of the lease arrangement the respective asset and a corresponding liability are recognised at the fair value of the asset or, if lower, the net present value of the minimum lease payments. For subsequent measurement, minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability. In addition, depreciation and any impairment losses for the associated assets are recognised.
Under operating lease agreements, rent expenses are recognised on a straight-line basis over the term of the lease.

Intangible assets (except goodwill)

Intangible assets are valued at amortised cost less accumulated amortisation (except for assets with indefinite useful lives) and impairment losses. Amortisation is calculated on a straight-line basis with the following estimated useful lives:

Estimated useful lives of intangible assets

	Years
Trademarks	indefinite
Software	3 – 5
Patents, trademarks and concessions	5 – 15

The adidas Group determined that there was no impairment necessary for any of its trademarks with indefinite useful lives in the years ending December 31, 2010 and 2009, respectively.

The recoverable amount is determined on the basis of fair value less costs to sell (costs to sell are calculated with 1% of the fair value). The fair value is determined in discounting notional royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset ("relief-from-royalty method"). These calculations use projections of net sales related royalty savings, based on financial planning which covers a period of five years in total. The level of the applied royalty rate for the determination of the royalty savings is based on contractual agreements between the adidas Group and external licensees as well as public available royalty rate agreements for similar assets. Notional royalty savings beyond this period are extrapolated using steady growth rates of 1.7% (2009: 1.7%). The growth rates do not exceed the long-term average growth rate of the business to which the trademarks are allocated.

The discount rate is based on a weighted average cost of capital calculation derived using a five-year average market-weighted debt/equity structure and financing costs referencing the Group's major competitors. The discount rate used is an after-tax rate and reflects the specific equity and country risk. The applied discount rate depends on the respective intangible asset being valued and ranges between 6.4% and 8.3% (2009: 9.3%).

Expenditures during the development phase of internally generated intangible assets are capitalised when they occur if they qualify for recognition under IAS 38 "Intangible Assets".

Goodwill

Goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised. This results when the purchase cost exceeds the fair value of acquired identifiable assets, liabilities and contingent liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets, liabilities and contingent liabilities of that foreign entity are treated as assets, liabilities and contingent liabilities of the respective reporting entity, and are translated at exchange rates prevailing at the date of the initial consolidation. Goodwill is carried in the functional currency of the acquired foreign entity.

Acquired goodwill is valued at cost and is tested for impairment on an annual basis and additionally when there are indications of potential impairment.

As a result of the Group's reorganisation in the second half of 2009, goodwill was reallocated to the corresponding cash-generating units based on a relative value approach. The corresponding cash-generating units comprise 17 regional markets which are responsible for the joint distribution of adidas and Reebok as well as TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey.

The cash-generating units (or groups of units) represent the lowest level within the Group at which goodwill is monitored for internal management purposes after the Group's reorganisation.

The impairment test for goodwill has been performed based on cash-generating units (or groups of units).

Overall, no impairment of goodwill resulted.

The recoverable amount of a cash-generating unit is determined on the basis of value in use. This calculation uses cash flow projections based on the financial planning covering a five-year period in total. The planning is based on the strategic business plan of the adidas Group "Route 2015" as communicated on November 8, 2010 see Subsequent Events and Outlook, p. 174 and reflects an expected mid- to high-single-digit sales increase for the majority of the cash-generating units (or groups of units). For a few emerging markets, we expect, on average, a low-double-digit sales growth rate. Furthermore, we expect the operating margin to improve primarily driven by a slight improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning for capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the single cash-generating units (or groups of units). Cash flows beyond this period are extrapolated using steady growth rates of 1.7% (2009: 1.7%). According to our expectations, these growth rates do not exceed the long-term average growth rate of the business in which each cash-generating unit operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market-weighted debt/equity structure and financing costs referencing the Group's major competitors for each cash-generating unit (or group of units). The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant cash-generating unit.

The carrying amounts of acquired goodwill as well as of intangible assets allocated to the respective cash-generating unit (or group of units) and the respective discount rates applied to the cash flow projections are as follows:

Allocation of goodwill

	Goodwill (€ in millions)	Intangible assets with indefinite useful lives (€ in millions)	Discount rate
TaylorMade-adidas Golf	284	27	7.6%
Greater China	221	247	8.3%
Other Asian Markets	167	169	7.9 – 11.0%
Western Europe	538	323	7.1 – 10.2%
Other Cash-generating Units	329	681	6.4 – 11.0%
Total	**1,539**	**1,447**	

The goodwill shown in the table under Other Asian Markets, Western Europe and Other Cash-generating Units is an aggregation of several cash-generating units, as the goodwill of each individual cash-generating unit is insignificant compared to the total amount of goodwill. The determination of the recoverable amounts of the cash-generating units aggregated under Other Asian Markets as well as Western Europe is based on the same key parameter assumptions.

Research and development

Research costs are expensed in full as incurred. Development costs are also expensed as incurred if they do not meet the recognition criteria of IAS 38 "Intangible Assets".

The Group spent € 102 million and € 86 million on product research and development for the years ending December 31, 2010 and 2009, respectively.

Financial assets

All purchases and sales of financial assets are recognised on the trade date. Costs of purchases include transaction costs. If the fair value of available-for-sale financial assets (i.e. non-derivative financial assets which are not allocable under another category of IAS 39) can be measured reliably, they are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets are included in the income statement for the period in which they arise, except for available-for-sale financial assets where unrealised gains and losses are recognised in equity unless they are impaired.

Borrowings and other liabilities

Borrowings and other liabilities are recognised at fair value using the "effective interest method", net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortised cost using the "effective interest method". Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowing.

Other provisions and accrued liabilities

Other provisions are recognised where a present obligation (legal or constructive) to third parties has been incurred as a result of a past event which can be estimated reliably and is likely to lead to an outflow of resources, and where the timing or amount is uncertain. Other non-current provisions are discounted if the effect of discounting is material.

Accrued liabilities are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Here, however, the timing and amount of an outflow of resources is not uncertain.

Pensions and similar obligations

Provisions and expenses for pensions and similar obligations relate to the Group's obligations for defined benefit and defined contribution plans. Obligations under defined benefit plans are determined separately for each plan by valuing the employee benefits accrued in return for their service during the current and prior periods. These benefit accruals are discounted to determine their present value, and the fair value of any plan assets is deducted in order to determine the net liability. The discount rate is set on the basis of yields at the balance sheet date for high-quality corporate bonds. Calculations are performed by qualified actuaries using the "projected unit credit method" in accordance with IAS 19 "Employee Benefits". Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

In addition to recognising actuarial gains and losses in the income statement according to the "corridor method", the amendment to IAS 19 issued in December 2004 grants the option to immediately recognise actuarial gains and losses within equity. As of January 1, 2005, the Group utilises this option in order to avoid earnings volatility and recognises actuarial gains or losses for defined benefit plans arising during the financial year immediately in "other reserves" within equity, as shown in the consolidated statement of comprehensive income.

Recognition of revenues

Sales are recognised at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, when the significant risks and rewards of ownership of the goods are transferred to the buyer, and when it is probable that the economic benefits associated with the transaction will flow to the Group.

Royalty and commission income is recognised based on the contract terms on an accrual basis.

Advertising and promotional expenditures

Production costs for media campaigns are included in prepaid expenses (other current and non-current assets) until the services are received, and upon receipt expensed in full. Significant media buying costs are expensed over the intended duration of the broadcast.

Promotional expenses that involve payments, including one-time up-front payments for promotional contracts, are expensed on a straight-line basis over the term of the agreement.

Interest

Interest is recognised as income or expense as incurred (using the "effective interest method") with the exception of interest that is directly attributable to the acquisition, construction or production of a qualifying asset. This interest is capitalised as part of the cost of the qualifying asset.

Income taxes

Current income taxes are computed in accordance with the applicable taxation rules established in the countries in which the Group operates.

The Group computes deferred taxes for all temporary differences between the carrying amount and the tax base of its assets and liabilities and tax loss carry-forwards. As it is not permitted to recognise a deferred tax liability for goodwill, the Group does not compute any deferred taxes thereon.

Deferred tax assets arising from deductible temporary differences and tax loss carry-forwards which exceed taxable temporary differences are only recognised to the extent that it is probable that the company concerned will generate sufficient taxable income to realise the associated benefit.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Equity compensation benefits

Stock options were granted to members of the Executive Board of adidas AG as well as to the managing directors/senior vice presidents of its affiliated companies and to further senior executives of the Group in connection with the Management Share Option Plan (MSOP) of adidas AG ⋙ see also Note 38. For the final time in 2009, the company had the choice to settle its arising obligations by issuing new shares or providing the equivalent cash compensation. The company decided to issue new shares, whereby the proceeds were credited net of any transaction costs to share capital and capital surplus.

In accordance with IFRS 2 "Share-based Payment", an expense and a corresponding entry to equity for equity-settled stock options is recorded.

Estimation uncertainties and judgements

The preparation of financial statements in conformity with IFRS requires the use of assumptions and estimates that affect reported amounts and related disclosures. Although such estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill ⋙ see Note 12, trademarks ⋙ see Note 13, other provisions ⋙ see Note 19, pensions ⋙ see Note 23, derivatives ⋙ see Note 28 as well as deferred taxes ⋙ see Note 33.

Judgements have for instance been used in classifying leasing arrangements as well as in determining valuation methods for intangible assets.

Acquisition/disposal of subsidiaries as well as assets and liabilities 03

Effective January 1, 2009, adidas International B.V. acquired the outstanding 25% of the shares of Reebok's subsidiary in Spain, adidas Finance Spain S.A. (formerly Reebok Spain S.A.), Alicante, for a purchase price in the amount of € 12 million. The goodwill resulting from this transaction amounted to € 1 million.

Effective January 1, 2009, adidas International B.V. acquired 51% of the shares of Life Sport Ltd. for a purchase price in the amount of ILS 25.6 million. Based in Holon (Israel), Life Sport Ltd. is a marketing company for adidas and Reebok products in Israel.

The acquisition had the following effect on the Group's assets and liabilities:

Life Sport Ltd.'s net assets at the acquisition date
€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	0	—	0
Accounts receivable	5	—	5
Inventories	7	—	7
Other current assets	2	—	2
Property, plant and equipment, net	6	—	6
Other intangible assets	0	1	1
Non-current financial assets	0	—	0
Deferred tax assets	0	—	0
Current financial liabilities	(9)	—	(9)
Accounts payable	(7)	—	(7)
Other current liabilities	(3)	—	(3)
Non-current financial liabilities	(1)	—	(1)
Pensions and similar obligations	(0)	—	(0)
Net assets	**0**	**1**	**1**
Goodwill arising on acquisition			4
Purchase price settled in cash			**5**
Cash and cash equivalents acquired			0
Cash outflow on acquisition			**5**

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The excess of the acquisition cost paid versus the net of the amounts of the fair values assigned to all assets acquired and liabilities assumed was recognised as goodwill. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognised as goodwill.

The goodwill arising on this acquisition was allocated to the cash-generating unit adidas at the time of the acquisition. As part of the Group's reorganisation in the second half of 2009, it has been reallocated and is denominated in the local functional currency of the acquired entity »» see also Note 2.

The acquired subsidiary contributed net losses of € 0 million to the Group's net income for the period from January to December 2009.

Effective January 23, 2009, adidas AG acquired the remaining 5% of the shares of its subsidiary in Greece, adidas Hellas A.E., Thessaloniki, for a purchase price in the amount of € 1 million.

On February 16, 2009, adidas International, Inc. acquired assets of Bones in Motion, Inc. as part of an asset deal for a purchase price in the amount of USD 5 million. Based in Austin/Texas (USA), Bones in Motion, Inc. is engaged in developing, manufacturing and selling sports- and fitness-specific location-aware software applications and web-based services.

The acquisition had the following effect on the Group's assets and liabilities:

Bones in Motion, Inc.'s net assets at the acquisition date
€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Accounts receivable	0	—	0
Trademarks and other intangible assets, net	—	3	3
Net assets	**—**	**3**	**3**
Goodwill arising on acquisition			1
Purchase price settled in cash			**4**
Cash and cash equivalents acquired			—
Cash outflow on acquisition			**4**

Pre-acquisition carrying amounts were based on applicable IFRS standards.
The following valuation methods for the acquired assets were applied:
– Trademarks and other intangible assets: The "multi-period-excess-earnings method" was used for the valuation of patents. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected sales by deducting variable and sales-related imputed costs for the use of contributory assets. Subsequently, the outcome was discounted using the appropriate discount rate and adding a tax amortisation benefit.

The excess of the acquisition cost paid versus the net of the amounts of the fair values assigned to all assets acquired and liabilities assumed was recognised as goodwill. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognised as goodwill.

The goodwill arising on this acquisition was allocated to the cash-generating unit adidas at the time of the acquisition. As part of the Group's reorganisation in the second half of 2009, it has been reallocated and is denominated in the local functional currency of the acquired entity »» see also Note 2.

If this acquisition had occurred on January 1, 2009, total Group net sales would have been € 10.4 billion and net income would have been € 245 million for the year ending December 31, 2009.

Notes to the Consolidated Statement of Financial Position

Cash and cash equivalents ⋙ 04

Cash and cash equivalents consist of cash at banks and on hand as well as short-term bank deposits. Short-term financial assets are only shown as cash and cash equivalents if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Short-term financial assets ⋙ 05

Short-term financial assets are classified at "fair value through profit or loss". Changes in the fair value are recognised in the income statement as they occur.

The majority of short-term financial assets are marketable securities relating to money market funds and structured deposits.

Accounts receivable ⋙ 06

Accounts receivable consist mainly of the currencies euro, US dollar and Japanese yen and are as follows:

Accounts receivable
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Accounts receivable, gross	1,794	1,553
Less: accumulated allowances for doubtful accounts	127	124
Accounts receivable, net	**1,667**	**1,429**

Movement in allowances for doubtful accounts
€ in millions

	2010	2009
Allowances at January 1	**124**	**119**
Additions	50	68
Reversals	(31)	(29)
Write-offs charged against the allowance accounts	(23)	(34)
Currency translation differences	7	0
Allowances at December 31	**127**	**124**

Accounts receivable past due but not impaired
€ in millions

	past due 1 – 30 days	past due 31 – 60 days	past due 61 – 90 days	past due 91 – 180 days	past due > 180 days
Dec. 31, 2010	**118**	**53**	**11**	**9**	**1**
Dec. 31, 2009	115	57	10	6	5

With respect to accounts receivable as at the balance sheet date past due but not impaired, based on credit history and current credit ratings, there are no indications that customers will not be able to meet their obligations.

Further, no indications of default are recognisable for accounts receivable that are neither past due nor impaired.

For further information ⋙ see Risk and Opportunity Report, p. 158.

Other current financial assets ⋙ 07

Other current financial assets consist of the following:

Other current financial assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Interest rate derivatives	—	0
Currency options	34	22
Forward contracts	30	20
Security deposits	69	60
Other financial assets	64	58
Other current financial assets	**197**	**160**

Information in relation to forward contracts as well as currency options and interest rate derivatives is also included in these Notes ⋙ see Note 28.

Inventories » 08

Inventories by major classification are as follows:

Inventories
€ in millions

	Dec. 31, 2010			Dec. 31, 2009		
	Gross value	Allowance for obsoles-cence	Net value	Gross value	Allowance for obsoles-cence	Net value
Merchandise and finished goods on hand	1,538	96	1,442	1,197	73	1,124
Goods in transit	641	—	641	317	—	317
Raw materials	23	1	22	26	2	24
Work in progress	14	—	14	6	—	6
Inventories	**2,216**	**97**	**2,119**	**1,546**	**75**	**1,471**

Goods in transit mainly relate to shipments of finished goods and merchandise from suppliers in Asia to subsidiaries in Europe, Asia and the Americas. The carrying amount of inventories which are measured at fair value less costs to sell amounts to € 195 million and € 355 million as at December 31, 2010 and 2009, respectively » see also Note 2.

Other current assets » 09

Other current assets consist of the following:

Other current assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Prepaid expenses	200	208
Tax receivables other than income taxes	122	84
Sundry	70	72
Other current assets, gross	**392**	**364**
Less: accumulated allowances	2	4
Other current assets, net	**390**	**360**

Prepaid expenses relate mainly to promotion agreements and service contracts as well as rents.

Assets/liabilities classified as held for sale » 10

Part of the assets of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG and of Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG are presented as held for sale following a contract signed in 2010. At December 31, 2010, the disposal groups contained assets amounting to € 30 million (2009: € 53 million). The prior year amount includes certain assets which have been reclassified to property, plant and equipment due to a change in conditions. For 2009, depreciation in the amount of € 0 million has been reflected for the assets reclassified to property, plant and equipment.

In addition, a warehouse in an amount of € 17 million in the Netherlands continues to be presented as held for sale due to a new Memorandum of Understanding. In 2010, impairment losses in the amount of € 6 million related to this warehouse were recognised in other operating expenses.

Due to a Memorandum of Understanding signed in 2009, assets of € 51 million in the USA were classified as held for sale as at December 31, 2009. In 2010, these have been reclassified to property, plant and equipment due to a change in conditions. For 2009, depreciation in the amount of € 0 million has been reflected for the assets reclassified to property, plant and equipment.

At December 31, 2009, the previous Reebok warehouse in the UK was classified as held for sale as a result of the intention to sell and the existence of purchase offers (€ 2 million). The warehouse was sold in the third quarter of 2010.

Assets classified as held for sale
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Accounts receivable and other current assets	0	18
Property, plant and equipment, net	47	108
Total	**47**	**126**

In 2010 and 2009, no material liabilities classified as held for sale have been reported.

Property, plant and equipment »» 11

Property, plant and equipment consist of the following:

Property, plant and equipment
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Land and buildings/Leasehold improvements	510	380
Technical equipment and machinery	161	156
Other equipment, furniture and fittings	987	876
	1,658	**1,412**
Less: accumulated depreciation and impairment losses	943	757
	715	**655**
Construction in progress, net	140	68
Property, plant and equipment, net	**855**	**723**

Depreciation expenses were € 194 million and € 198 million for the years ending December 31, 2010 and 2009, respectively »» see Note 30. Impairment losses amounted to € 10 million and € 16 million for the years ending December 31, 2010 and 2009, respectively »» see Note 30. These are related to assets within other equipment, furniture and fittings, mainly in the Group's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits. In 2010, reversals of impairment losses were recorded in an amount of € 7 million.

In 2010, assets amounting to € 80 million in connection with the unrealised sale of assets »» see Note 10 were transferred from "assets classified as held for sale" to "land and buildings" within property, plant and equipment.

The reclassified depreciation expenses consist of depreciation subsequently reflected »» see also Note 10 and the formerly reclassified depreciation which has now been taken back.

Contractual commitments for the acquisition of property, plant and equipment mainly relate to building projects in Herzogenaurach amounting to € 33 million.

For details see Statement of Movements of Intangible and Tangible Assets »» see Attachment I to these Notes.

Goodwill »» 12

Goodwill primarily relates to the Group's acquisitions of the Reebok and TaylorMade businesses as well as acquisitions of subsidiaries, primarily in the United States, Australia/New Zealand, Netherlands, Denmark and Italy.

Goodwill
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Goodwill, gross	1,539	1,478
Less: accumulated impairment losses	—	—
Goodwill, net	**1,539**	**1,478**

The majority of goodwill which primarily relates to the acquisition of the Reebok business in 2006 is denominated in US dollars. A positive currency translation effect of € 61 million and negative € 27 million was recorded for the years ending December 31, 2010 and 2009, respectively.

The Group determines whether goodwill impairment is necessary at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no impairment expense for the years ending December 31, 2010 and 2009.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted goodwill in the future. For details see Statement of Movements of Intangible and Tangible Assets »» see Attachment I to these Notes.

The reconciliation of goodwill is as follows:

Reconciliation of goodwill
€ in millions

	Western Europe	Greater China	Other Asian Markets	TaylorMade-adidas Golf	Other	Total
January 1, 2010	**513**	**210**	**159**	**283**	**313**	**1,478**
Currency translation differences	25	11	8	1	16	61
December 31, 2010	**538**	**221**	**167**	**284**	**329**	**1,539**

Trademarks and other intangible assets » 13

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Reebok	1,159	1,075
Rockport	163	152
Reebok-CCM Hockey	98	90
TaylorMade-adidas Golf	27	25
Trademarks, gross	**1,447**	**1,342**
Less: accumulated amortisation and impairment losses	0	0
Trademarks, net	**1,447**	**1,342**
Software, patents and concessions, gross	600	538
Less: accumulated amortisation and impairment losses	458	378
Other intangible assets, net	**142**	**160**
Trademarks and other intangible assets, net	**1,589**	**1,502**

At December 31, 2010, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and Ashworth, Inc. in 2008, have indefinite useful lives. This is due to the expectation of permanent use of the acquired brand names.

The Group tests at least on an annual basis whether trademarks with indefinite useful lives are impaired. This requires an estimation of the fair value less costs to sell of the trademarks. Estimating the fair value less costs to sell requires the Group to make an estimate of the expected future brand-specific sales and appropriate arm's length notional royalty rates from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no impairment expense for the years ending December 31, 2010 and 2009.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted trademarks in the future.

Amortisation expenses for intangible assets with definite useful lives were € 55 million and € 66 million for the years ending December 31, 2010 and 2009, respectively » see also Note 30. Impairment losses amounted to € 11 million and € 19 million for the years ending December 31, 2010 and 2009, respectively » see also Note 30. These are related to distribution and licensing rights, for which no future economic benefit exists.

For details see Statement of Movements of Intangible and Tangible Assets » see Attachment I to these Notes.

Long-term financial assets » 14

Long-term financial assets include a 9.7% investment in FC Bayern München AG (2009: 10%) of € 79 million (2009: € 79 million). The percentage share held in the investment has decreased due to the issuance of new shares which have been bought by another shareholder. This investment is classified as "fair value through profit or loss" and recorded at fair value. This equity security does not have a quoted market price in an active market, therefore existing contractual settlements were used in order to calculate the fair value as at December 31, 2010. Dividends are distributed by FC Bayern München AG instead of regular interest payments.
Additionally, long-term financial assets include investments which are mainly invested in insurance products and are measured at fair value, as well as other financial assets.

Long-term financial assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Investment in FC Bayern München AG	79	79
Investments	14	12
Other financial assets	0	0
Long-term financial assets	**93**	**91**

Fair value adjustments from impairment losses amounted to € 0 million and € 5 million for the years ending December 31, 2010 and 2009, respectively. These are related to impairments of other financial assets to cover anticipated risks of default » see also Note 32.

Other non-current financial assets » 15

Other non-current financial assets consist of the following:

Other non-current financial assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Interest rate derivatives	8	4
Currency options	12	19
Forward contracts	10	2
Security deposits	24	21
Other financial assets	—	12
Other non-current financial assets	**54**	**58**

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes » see also Note 28.

Other non-current assets »» 16

Other non-current assets consist of the following:

Other non-current assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Prepaid expenses	98	117
Sundry	2	9
Other non-current assets	**100**	**126**

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts »» see also Note 37 and Note 27.

Borrowings and credit lines »» 17

Borrowings are denominated in a variety of currencies in which the Group conducts its business. The largest portions of effective gross borrowings (before liquidity swaps for cash management purposes) as at December 31, 2010 are denominated in euros (2010: 55%; 2009: 61%) and US dollars (2010: 40%; 2009: 33%).

The weighted average interest rate on the Group's gross borrowings remained stable at 5.1% in 2010 (2009: 5.2%).

As at December 31, 2010, the Group had cash credit lines and other long-term financing arrangements totalling € 5.5 billion (2009: € 5.9 billion); thereof unused credit lines accounted for € 3.9 billion (2009: € 4.1 billion). In addition, the Group had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.3 billion (2009: € 0.4 billion).

The Group's outstanding financings are unsecured and may include standard financial covenants, which are reviewed on a quarterly basis. These covenants may include limits on the disposal of fixed assets, the maximum amount of debt secured by liens, cross default provisions and change of control. In addition, certain financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants.

As of December 31, 2010, and December 31, 2009, actual shareholders' equity was well above the amount of the minimum equity covenant. Likewise, the relevant amount of net income clearly exceeded net loss covenants.

The amounts disclosed as borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

Gross borrowings as at December 31, 2010
€ in millions

	Up to 1 year	Between1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings	—	95	—	—	95
Private placements	273	419	213	112	1,017
Eurobond	—	—	498	—	498
Total	**273**	**514**	**711**	**112**	**1,610**

In accordance with the long-term funding strategy, the bank borrowings with short-term maturities are also classified as long-term borrowings as they represent permanent funding volumes that are covered by the committed mid-term syndicated loan.

Gross borrowings as at December 31, 2009
€ in millions

	Up to 1 year	Between1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings	—	103	—	—	103
Private placements	198	458	324	186	1,166
Eurobond	—	—	498	—	498
Total	**198**	**561**	**822**	**186**	**1,767**

For further details on future cash outflows »» see Risk and Opportunity Report, p. 158.

Other current financial liabilities »» 18

Other current financial liabilities consist of the following:

Other current financial liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Interest rate derivatives	1	2
Currency options	10	10
Forward contracts	85	69
Finance lease obligations [1]	2	—
Other financial liabilities	25	20
Other current financial liabilities	**123**	**101**

1) From 2010 onwards, current finance lease obligations are presented under other current financial liabilities. For 2009 »» see Note 21.

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes »» see Note 28. For information regarding finance lease obligations »» see also Note 27.

Other provisions ››› 19

Other provisions consist of the following:

Other provisions
€ in millions

	Jan. 1, 2010	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2010	Thereof non-current
Marketing	45	0	17	1	36	—	63	0
Employee benefits	55	2	34	1	26	1	49	11
Returns, allowances, warranty	105	13	68	2	123	—	171	—
Taxes, other than income taxes	12	0	8	0	14	—	18	0
Sundry	132	5	24	1	84	2	198	18
Total other provisions	**349**	**20**	**151**	**5**	**283**	**3**	**499**	**29**

Marketing provisions mainly consist of provisions for promotion contracts.

Provisions for employee benefits mainly consist of provisions for profit-sharing plans. With regard to provisions for early retirement, claims for reimbursement in an amount of € 2 million (December 31, 2009: € 3 million) are shown under other non-current assets.

Provisions for returns, allowances and warranty primarily arise due to bonus agreements with customers and the obligation of fulfilling customer claims with regard to the return of faulty products sold by the Group. The amount of the provision follows the historical development of returns, allowances and warranty as well as current agreements.

Provisions for taxes other than income taxes mainly relate to value added tax, real estate tax and motor vehicle tax.

Sundry provisions mainly include provisions for customs risks as well as anticipated losses from purchases and other transactions, and contingent losses from pending lawsuits.

Management follows past experience from similar transactions when estimating the amounts recognised as other provisions while considering all evidence from events until the preparation of the consolidated financial statements.

Accrued liabilities ››› 20

Accrued liabilities consist of the following:

Accrued liabilities
€ in millions

	Jan. 1, 2010	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2010	Thereof non-current
Goods and services not yet invoiced	252	16	197	6	297	1	363	0
Marketing and sales	154	10	101	3	135	0	195	10
Payroll and commissions	162	11	97	9	189	(1)	255	25
Other accruals	79	1	31	0	22	(3)	68	4
Total accrued liabilities	**647**	**38**	**426**	**18**	**643**	**(3)**	**881**	**39**

Marketing accrued liabilities mainly consist of accruals for distribution, such as discounts, rebates and sales commissions.

Accrued liabilities for payroll and commissions mainly consist of accruals for outstanding salary payments, such as bonuses and overtime, as well as outstanding vacation.

Other accrued liabilities partly include accruals for interest.

Other current liabilities ⋙ 21

Other current liabilities consist of the following:

Other current liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Finance lease obligations [1]	—	1
Liabilities due to personnel	34	31
Tax liabilities other than income taxes	99	108
Liabilities due to social security	16	13
Deferred income	16	27
Sundry	76	52
Other current liabilities	**241**	**232**

1) From 2010 onwards, current finance lease obligations are presented under other current financial liabilities ⋙ see Note 18.

Other non-current financial liabilities ⋙ 22

Other non-current financial liabilities consist of the following:

Other non-current financial liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Interest rate derivatives	5	10
Currency options	6	10
Forward contracts	1	5
Finance lease obligations [1]	3	—
Other financial liabilities	0	0
Other non-current financial liabilities	**15**	**25**

1) From 2010 onwards, non-current finance lease obligations are presented under other non-current financial liabilities. For 2009 ⋙ see Note 24.

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes ⋙ see Note 28. For information regarding finance lease obligations ⋙ see also Note 27.

Liabilities due after more than five years amounted to € 0 million at December 31, 2010 (2009: € 1 million).

Pensions and similar obligations ⋙ 23

The Group has recognised post-employment benefit obligations arising from defined benefit plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country.

Pensions and similar obligations
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Pension liability	172	150
Similar obligations	8	7
Pensions and similar obligations	**180**	**157**

Defined contribution plans

The total expense for defined contribution plans amounted to € 34 million in 2010 (2009: € 35 million).

Defined benefit plans

Given the diverse Group structure, different defined benefit plans exist, comprising a variety of post-employment benefit arrangements. The benefit plans generally provide payments in case of death, disability or retirement to former employees and their survivors. The obligations arising from defined benefit plans are partly covered by plan assets.

Amounts for defined benefit plans recognised in the consolidated statement of financial position
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Present value of funded obligation	74	63
Fair value of plan assets	(67)	(61)
Funded status	**7**	**2**
Present value of unfunded obligation	163	144
Asset ceiling effect	1	2
Net defined benefit liability	**171**	**148**
thereof defined benefit liability	**172**	**150**
thereof adidas AG	138	123
thereof defined benefit asset	**(1)**	**(2)**
thereof adidas AG	(1)	(2)

The asset ceiling effect arises from the German funded defined benefit plan and is recognised in the consolidated statement of comprehensive income.

The determination of assets and liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as the discount rates or future increases in salaries) and demographic variables (such as mortality and employee turnover). The actuarial assumptions may differ significantly from the actual results, i.e. the present value of the actual future performance may differ from the reported present value.

Actuarial assumptions
in %

	Dec. 31, 2010	Dec. 31, 2009
Discount rate	4.6	5.0
Expected rate of salary increases	3.3	3.3
Expected pension increases	2.0	2.0
Expected return on plan assets	5.3	5.4

The actuarial assumptions as at the balance sheet date are used to determine the defined benefit liability at that date and the pension expense for the upcoming financial year.

The actuarial assumptions for withdrawal and mortality rates are based on statistical information available in the various countries, the latter for Germany on the Heubeck 2005 G mortality tables.

The Group recognises actuarial gains or losses arising in defined benefit plans during the financial year immediately outside the income statement in the consolidated statement of comprehensive income. The actuarial losses recognised in this statement for 2010 amount to € 13 million (2009: € 16 million). The accumulated actuarial losses recognised amount to € 38 million (2009: € 25 million) ⋙ see also Note 25.

The expected return on plan assets assumption is set separately for the various benefit plans. Around 90% of the plan assets are related to plan assets in the UK, Germany and Switzerland. The overall expected rate of return on assets is derived by aggregating the expected rate of return for each asset class over the underlying asset allocation. Historical markets are studied and expected returns are based on widely accepted capital market principles.

In the UK, the assumed long-term rate of return on each asset class is assumed to be in line with long-term government bonds, with an additional investment return of 3.5% for equity securities and 1.0% for corporate bonds.

In Germany, the plan assets are invested in insurance contracts and in a pension fund, and the expected return on assets is set equal to the expected return on the underlying insurance contracts.

The plan assets in Switzerland are held by a pension foundation and the expected rate of return is calculated as a weighted average per asset class, based on the investment strategy and the expected return on the varying asset categories.

In the rest of the world, the plan assets consist predominantly of insurance contracts, with the expected return based on the expected return on these insurance contracts.

Pension expenses for defined benefit plans
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Current service cost	11	11
Interest cost	10	10
Expected return on plan assets	(4)	(3)
Pension expenses for defined benefit plans	**17**	**18**

Of the total pension expenses, an amount of € 13 million (2009: € 13 million) relates to employees of adidas AG. The pension expense is recorded within the other operating expenses whereas the production-related part thereof is recognised within the cost of sales.

Present value of the defined benefit obligation
€ in millions

	2010	2009
Present value of the defined benefit obligation as at January 1	**207**	**172**
Currency translation differences	7	3
Current service cost	11	11
Interest cost	10	10
Contribution by plan participants	0	0
Pensions paid	(12)	(8)
Actuarial loss	14	19
Present value of the defined benefit obligation as at December 31	**237**	**207**

Fair value of plan assets
€ in millions

	2010	2009
Fair value of plan assets at January 1	**61**	**53**
Currency translation differences	3	2
Pensions paid	(5)	(3)
Contributions by the employer	3	3
Contributions paid by plan participants	0	0
Actuarial gain	1	3
Expected return on plan assets	4	3
Fair value of plan assets at December 31	**67**	**61**

The expected payments for 2011 amount to € 10 million. Thereof € 7 million relate to benefits paid directly by the Group companies and € 3 million to employer contributions paid into the plan assets. In 2010, the actual return on plan assets was € 5 million (2009: € 6 million).

Constitution of plan assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Equity instruments	21	19
Bonds	14	13
Real estate	1	1
Pension plan reinsurance	21	19
Other assets	10	9
Fair value of plan assets	**67**	**61**

Historical development
€ in millions

	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Present value of defined benefit obligation	237	207	172	171	170
Fair value of plan assets	67	61	53	60	46
Thereof: defined benefit assets	(1)	(2)	(5)	(4)	(2)
Deficit in plan	**171**	**148**	**124**	**115**	**126**
Experience adjustments arising on the plan liabilities	(1)	(3)	2	(1)	4
Experience adjustments arising on the plan assets	1	3	(8)	4	—

Other non-current liabilities

⋙ 24

Other non-current liabilities consist of the following:

Other non-current liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Finance lease obligations [1]	—	2
Liabilities due to personnel	16	7
Deferred income	19	17
Sundry	1	2
Other non-current liabilities	**36**	**28**

1) From 2010 onwards, non-current finance lease obligations are presented under other non-current financial liabilities ⋙ see Note 22.

Liabilities due after more than five years amounted to € 12 million at December 31, 2010 (2009: € 10 million).

Shareholders' equity

⋙ 25

On December 31, 2009, the nominal capital of adidas AG ("the company") amounted to € 209,216,186 divided into 209,216,186 no-par-value bearer shares and was fully paid in.

On May 6, 2010, the Annual General Meeting of the company resolved the conversion from no-par-value bearer shares into registered no-par-value shares. The corresponding amendments to the Articles of Association were entered into the commercial register on July 13, 2010 and thus became effective on the same date. On October 11, 2010, the no-par-value bearer shares of the company were converted into registered no-par-value shares ("registered shares") ⋙ see Our Share, p. 34.

At the balance sheet date, the nominal capital of the company amounted to a total of € 209,216,186 and was divided into 209,216,186 registered shares. The nominal capital is fully paid in.

The nominal capital remained unchanged. Consequently, on February 15, 2011, the nominal capital of adidas AG amounts to € 209,216,186 and is divided into 209,216,186 registered shares.

Each share grants one vote and is entitled to dividends starting from the beginning of the year it was issued. Treasury shares held directly or indirectly are not entitled to dividend payment in accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG). As at February 15, 2011, the company does not hold any treasury shares.

Authorised Capital

The Executive Board of adidas AG did not make use of the existing amounts of authorised capital of up to € 95,000,000 in the 2010 financial year or in the period beyond the balance sheet date up to and including February 15, 2011. The following description of the existing authorised capital does not contain the cancellation of the Authorised Capital 2006, resolved by the Annual General Meeting on May 6, 2010, which had also not been made use of up to May 6, 2010.
The authorised capital of the company, which is set out in § 4 sections 2, 3 and 4 of the Articles of Association as at the balance sheet date, entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital

until June 21, 2014
– by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights (Authorised Capital 2009/I);

until June 21, 2012
– by issuing new shares against contributions in kind once or several times by no more than € 25,000,000 and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorised Capital 2009/II);

until July 12, 2015
– by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to exclude shareholders' subscription rights when issuing the new shares at a value not essentially below the stock market price of shares with the same features (Authorised Capital 2010). The authorisation to exclude subscription rights pursuant to the previous sentence may, however, only be used to the extent that the pro-rata amount of the new shares in the nominal capital together with the pro-rata amount in the nominal capital of other shares which have been issued by the company since May 6, 2010, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorised capital or following a repurchase, or for which conversion or subscription rights or conversion or subscription obligations were granted after May 6, 2010, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded in accordance with § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of the entry of this authorisation into the commercial register or – if this amount is lower – as of the respective date on which the authorisation is used.

Contingent Capital

The following description of the Contingent Capital is based on § 4 section 5 of the Articles of Association of the company as well as on the underlying resolutions of the Annual General Meeting held on May 6, 2010. Additional contingent capital does not exist.

Contingent Capital 2010

At the balance sheet date, the nominal capital is conditionally increased by up to € 36,000,000 divided into no more than 36,000,000 registered shares (Contingent Capital 2010). The contingent capital increase will be implemented only to the extent that holders or creditors of option or conversion rights or the persons obligated to exercise option or conversion duties on bonds issued by the company or a group company, pursuant to the authorisation of the Executive Board granted by the resolution adopted by the Annual General Meeting of May 6, 2010 up to May 5, 2015 and guaranteed by the company, exercise their option or conversion rights or, if they are obliged to exercise the option or conversion duties, meet their obligations to exercise the warrant or convert the bond, or to the extent that the company exercises its rights to choose to deliver shares in the company for the total amount or partially instead of a payment and insofar as no cash settlement, treasury shares or shares of another public-listed company are used to serve these rights. The new shares shall be issued at the respective option or conversion price to be established in accordance with the aforementioned authorisation resolution. The new shares shall carry dividend rights from the commencement of the financial year in which the shares are issued. The Executive Board is authorised, subject to Supervisory Board approval, to stipulate any additional details concerning the implementation of the contingent capital increase.

The Executive Board of adidas AG did not issue any option or conversion rights, or any shares from the Contingent Capital 2010 in the 2010 financial year or in the period beyond the balance sheet date up to and including February 15, 2011.

Repurchase of adidas AG shares

At the Annual General Meeting on May 6, 2010, the shareholders of the company cancelled the authorisation to repurchase adidas AG shares granted by the Annual General Meeting on May 7, 2009, which had not been used. At the same time, the Annual General Meeting granted the Executive Board a new authorisation to repurchase adidas AG shares up to an amount totalling 10% of the nominal capital until May 5, 2015. The authorisation may be used by the company but also by its subsidiaries or by third parties on account of the company or its subsidiaries or third parties assigned by the company or one of its subsidiaries. For further information »» see Disclosures pursuant to § 315 Section 4 of the German Commercial Code, p. 143.

The authorisation was not utilised in the year under review and up to and including February 15, 2011.

Changes in the percentage of voting rights

Pursuant to § 160 section 1 no. 8 AktG, existing shareholdings which have been notified to the company in accordance with § 21 section 1 or section 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The following table reflects shareholdings existing as at February 15, 2011 which have been notified to the company. The respective details are taken from the most recent voting rights notification received by the company. Note that the details on the percentage of shareholdings and voting rights may no longer be up-to-date.

Existing shareholdings as at February 15, 2011

Notifying party	Date of reaching, exceeding or falling below	Reporting threshold	Attribution in accordance with § 22 WpHG	Shareholdings in %	Number of voting rights
Walter Scott & Partners Limited, Edinburgh, Scotland[1]	June 25, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6	3.0096	6,296,653
Neptune LLC, Pittsburgh, USA[1]	June 25, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	3.0096	6,296,653
Mellon International Holdings S.A.R.L., Luxembourg, Luxembourg[1]	June 25, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	3.0096	6,296,653
BNY Mellon International Limited, London, UK[1]	June 25, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	3.0096	6,296,653
MBC Investments Corp., Greenville, USA[1]	June 25, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	3.1682	6,628,400
Euro Pacific Growth Fund, Los Angeles, USA[2]	June 21, 2010	Falling below 3%	—	2.95	6,178,394
BlackRock Financial Management, Inc., New York, USA[3]	March 12, 2010	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	5.03	10,533,558
BlackRock Holdco 2, Inc., Wilmington, Delaware, USA[3]	March 12, 2010	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	5.03	10,533,558
BlackRock, Inc., New York, USA[3]	March 12, 2010	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	5.21	10,904,232
The Bank of New York Mellon Corporation, New York, USA[4]	March 12, 2010	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2	3.0745	6,432,398
Capital Research and Management Company, Los Angeles, USA[5]	December 19, 2008	Exceeding 5%	§ 22 sec. 1 sent. 1 no. 6	5.01	9,695,127

1) Transmission of notification through The Bank of New York Mellon Corporation, Pittsburgh, USA; see the company's disclosure dated July 23, 2010.
2) See the company's disclosure dated June 28, 2010.
3) Transmission of notification through BlackRock Investment Management (UK) Limited, London, UK; see the company's disclosure dated March 18, 2010.
4) See the company's disclosure dated March 17, 2010.
5) See the company's disclosure dated January 7, 2009.

All voting rights notifications disclosed by the company in the year under review and up to and including February 15, 2011 are available on the adidas Group website ⋙ www.adidas-Group.com/voting_rights_notifications.

Capital management

The Group's policy is to maintain a strong capital base so as to uphold investor, creditor and market confidence and to sustain future development of the business.

The Group seeks to maintain a balance between a higher return on equity that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Following the achievement of the medium-term goal of financial leverage below 50% in 2009, the Group aims to maintain net debt below two times EBITDA over the long term.

Financial leverage is derived by dividing net borrowings (short- and long-term borrowings less cash and cash equivalents as well as short-term financial assets) in an amount of € 221 million (2009: € 917 million) by shareholders' equity in an amount of € 4.616 billion (2009: € 3.771 billion). EBITDA amounted to € 1.159 billion for the fiscal year ending December 31, 2010 (2009: € 780 million). The ratio between net borrowings and EBITDA amounted to 0.2 for the fiscal year ending December 31, 2010 (2009: 1.2).

Reserves

Reserves within shareholders' equity are as follows:
– **Capital reserve:** comprises the paid premium for the issuance of share capital.
– **Cumulative translation adjustments:** this reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
– **Hedging reserve:** comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred as well as of hedges of net investments in foreign subsidiaries.
– **Other reserves:** comprise the cumulative net change of actuarial gains or losses and the asset ceiling effect regarding defined benefit plans, expenses recognised for share option plans as well as fair values of available-for-sale financial assets.
– **Retained earnings:** comprise the accumulated profits less dividends paid.

Distributable profits and dividends

Distributable profits to shareholders are determined by reference to the retained earnings of adidas AG and calculated under German Commercial Law.

The dividend for 2009 was € 0.35 per share (total amount: € 73 million), approved by the 2010 Annual General Meeting. The Executive Board of adidas AG will propose to shareholders a dividend payment of € 0.80 per dividend-entitled share for the year 2010 to be made from retained earnings of € 368 million reported as at December 31, 2010. The subsequent remaining amount will be carried forward.

209,216,186 dividend-entitled shares exist as at December 31, 2010, which would lead to a dividend payment of € 167 million.

Non-controlling interests ⋙ 26

This line item within equity comprises the non-controlling interests in several subsidiaries, which are not directly or indirectly attributable to adidas AG.

Non-controlling interests are assigned to seven subsidiaries as at December 31, 2010 and 2009, respectively ⋙ see Shareholdings of adidas AG/Attachment II to these Notes. These subsidiaries were partly acquired in connection with the acquisition of Reebok and partly through purchases or foundations in the last years.

In compliance with IAS 32 "Financial Instruments: Presentation", certain non-controlling interests are not reported within non-controlling interests. These include non-controlling interests of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG (Germany) as the company is a limited partnership. The fair value of these non-controlling interests is shown within other liabilities and the result for these non-controlling interests is reported within financial expenses ⋙ see Note 32.

Leasing and service arrangements ⋙ 27

Operating leases

The Group leases primarily retail stores as well as offices, warehouses and equipment. The contracts regarding these leases with expiration dates of between one and fourteen years partly include renewal options and escalation clauses. Rent expenses, which partly depend on net sales, amounted to € 544 million and € 480 million for the years ending December 31, 2010 and 2009, respectively.

Future minimum lease payments for minimum lease durations on a nominal basis are as follows:

Minimum lease payments for operating leases
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	404	360
Between 1 and 5 years	659	619
After 5 years	331	320
Total	**1,394**	**1,299**

Finance leases

The Group also leases various premises for administration, warehousing, research and development as well as production, which are classified as finance leases.

The net carrying amount of these assets of € 7 million and € 7 million was included in property, plant and equipment as at December 31, 2010 and 2009, respectively. For the year ending December 31, 2010, interest expenses were € 1 million (2009: € 1 million) and depreciation expenses were € 3 million (2009: € 1 million).

The minimum lease payments under these contracts over their remaining terms up to 2016 and their net present values are as follows:

Minimum lease payments for finance leases
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Lease payments falling due:		
Within 1 year	2	1
Between 1 and 5 years	3	1
After 5 years	0	1
Total minimum lease payments	**5**	**3**
Less: estimated amount representing interest	0	0
Present value of minimum lease payments	**5**	**3**
Thereof falling due:		
Within 1 year	2	1
Between 1 and 5 years	3	1
After 5 years	0	1

Service arrangements

The Group has outsourced certain logistics and information technology functions, for which it has entered into long-term contracts. Financial commitments under these contracts mature as follows:

Financial commitments for service arrangements
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	40	42
Between 1 and 5 years	65	59
After 5 years	44	—
Total	**149**	**101**

Financial instruments ⋙ 28

Additional disclosures on financial instruments

Carrying amounts of financial instruments as at December 31, 2010, according to categories of IAS 39 and their fair values
€ in millions

			Measurement according to IAS 39				
	Category according to IAS 39	Carrying amount Dec. 31, 2010	Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2010
Financial assets							
Cash and cash equivalents	n.a.	1,156	1,156				1,156
Short-term financial assets	FAHfT	233			233		233
Accounts receivable	LaR	1,667	1,667				1,667
Other current financial assets							
Derivatives being part of a hedge	n.a.	46		46			46
Derivatives not being part of a hedge	FAHfT	18			18		18
Other financial assets	LaR	133	133				133
Long-term financial assets							
Other equity investments	FAHfT	79			79		79
Available-for-sale financial assets	AfS	14		14			14
Loans	LaR	0	0				0
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	24		16	8		24
Derivatives not being part of a hedge	FAHfT	6			6		6
Other financial assets	LaR	24	24				24
Assets classified as held for sale	LaR	—	—				—
Financial liabilities							
Short-term borrowings							
Private placements	FLAC	273	273				286
Eurobond	FLAC	—	—				—
Accounts payable	FLAC	1,694	1,694				1,694
Accrued liabilities	FLAC	394	394				394
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	74		74			74
Derivatives not being part of a hedge	FLHfT	22			22		22
Other financial liabilities	FLAC	25	25				25
Finance lease obligations	n.a.	2				2	2
Long-term borrowings							
Bank borrowings	FLAC	95	95				95
Private placements	FLAC	744	744				773
Eurobond	FLAC	498	498				529

Carrying amounts of financial instruments as at December 31, 2010, according to categories of IAS 39 and their fair values
€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2010	Measurement according to IAS 39: Amortised cost	Measurement according to IAS 39: Fair value recognised in equity	Measurement according to IAS 39: Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2010
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	6		6			6
Derivatives not being part of a hedge	FLHfT	6			6		6
Other financial liabilities	FLAC	—	—				—
Finance lease obligations	n.a.	3				3	3
Liabilities classified as held for sale	FLAC	—	—				—
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		336					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—					
thereof: Held for Trading (FAHfT)		336					
Loans and Receivables (LaR)		1,824					
Available-for-Sale Financial Assets (AfS)		14					
Financial Liabilities Measured at Amortised Cost (FLAC)		3,723					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		28					

Carrying amounts of financial instruments as at December 31, 2009, according to categories of IAS 39 and their fair values

€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2009	Measurement according to IAS 39: Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2009
Financial assets							
Cash and cash equivalents	n.a.	775	775				775
Short-term financial assets	FAHfT	75			75		75
Accounts receivable	LaR	1,429	1,429				1,429
Other current financial assets							
Derivatives being part of a hedge	n.a.	17		17	0		17
Derivatives not being part of a hedge	FAHfT	25			25		25
Other financial assets	LaR	118	118				118
Long-term financial assets							
Other equity investments	FAHfT	79			79		79
Available-for-sale financial assets	AfS	12		12			12
Loans	LaR	0	0				0
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	11		7	4		11
Derivatives not being part of a hedge	FAHfT	14			14		14
Other financial assets	LaR	33	33				33
Assets classified as held for sale	LaR	—	—				—
Financial liabilities							
Short-term borrowings							
Private placements	FLAC	198	198				199
Eurobond	FLAC	—	—				—
Accounts payable	FLAC	1,166	1,166				1,166
Accrued liabilities	FLAC	282	282				282
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	72		72			72
Derivatives not being part of a hedge	FLHfT	9			9		9
Other financial liabilities	FLAC	20	20				20
Finance lease obligations	n.a.	1				1	1
Long-term borrowings							
Bank borrowings	FLAC	103	103				103
Private placements	FLAC	968	968				1,010
Eurobond	FLAC	498	498				518

Carrying amounts of financial instruments as at December 31, 2009, according to categories of IAS 39 and their fair values
€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2009	Measurement according to IAS 39: Amortised cost	Measurement according to IAS 39: Fair value recognised in equity	Measurement according to IAS 39: Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2009
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	13		13			13
Derivatives not being part of a hedge	FLHfT	12			12		12
Other financial liabilities	FLAC	—	—				—
Finance lease obligations	n.a.	2				2	2
Liabilities classified as held for sale	FLAC	—	—				—
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		193					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
thereof: Held for Trading (FAHfT)		193					
Loans and Receivables (LaR)		1,580					
Available-for-Sale Financial Assets (AfS)		12					
Financial Liabilities Measured at Amortised Cost (FLAC)		3,235					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		21					

Fair value hierarchy of financial instruments according to IFRS 7 as at December 31, 2010
€ in millions

Fair value hierarchy, aggregated by category	Fair value Dec. 31, 2010	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
thereof: designated as such upon initial recognition (Fair Value Option – FVO)	—			
thereof: Held for Trading (Financial Assets Held for Trading – FAHfT)	336		257	79[1]
Available-for-Sale Financial Assets (AfS)	14		14	
Other financial assets				
Derivatives being part of a hedge	70		70	
Financial assets	**420**		**341**	**79**
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)	28		28	
Other financial liabilities				
Derivatives being part of a hedge	80		80	
Financial liabilities	**108**		**108**	
	Fair value Jan. 1, 2010	Gains	Losses	Fair value Dec. 31, 2010
1) This category relates to a 9.7% investment in FC Bayern München AG of € 79 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments.	79	0	—	79

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).

Due to the short-term maturities of cash and cash equivalents, short-term financial assets, accounts receivable and payable as well as other current financial receivables and payables, their respective fair values approximate their carrying amount.

The fair values of non-current financial assets and liabilities are estimated by discounting expected future cash flows using current interest rates for debt of similar terms and remaining maturities, and adjusted by an adidas Group specific credit risk premium.

Fair values of long-term financial assets classified as available-for-sale are based on quoted market prices in an active market or are calculated as present values of expected future cash flows.

The fair values of forward contracts and currency options are determined on the basis of market conditions at the balance sheet date. The fair value of a currency option is determined using generally accepted models to calculate option prices, such as the "Garman-Kohlhagen-model". The fair market value of an option is influenced not only by the remaining term of the option, but also by other determining factors such as the actual foreign exchange rate and the volatility of the underlying foreign currency base.

Net gains/(losses) on financial instruments recognised in the consolidated income statement
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Financial assets or financial liabilities at fair value through profit or loss	(6)	4
thereof: designated as such upon initial recognition	—	—
thereof: classified as held for trading	(6)	4
Loans and receivables	(81)	(44)
Available-for-sale financial assets	—	—
Financial liabilities measured at amortised cost	6	5

Net gains or losses on financial assets or financial liabilities held for trading include the effects from fair value measurements of the derivatives that are not part of a hedging relationship, and changes in the fair value of other financial instruments as well as interest payments which mainly relate to investment funds.

Net gains or losses on loans and receivables comprise mainly impairment losses and reversals.

Net gains or losses on financial liabilities measured at amortised cost include effects from early settlement and reversals of accrued liabilities.

The disclosures required by IFRS 7 "Financial Instruments: Disclosures", paragraphs 31 – 42 ("Nature and Extent of Risks arising from Financial Instruments"), can be found in ››› Note 6 and the Group Management Report ››› see Risk and Opportunity Report, p. 158.

Financial instruments for the hedging of foreign exchange risk

The adidas Group uses natural hedges and arranges forward contracts, currency options and currency swaps to protect against foreign exchange risk. As at December 31, 2010, the Group had outstanding currency options with premiums paid totalling an amount of € 7 million (December 31, 2009: € 6 million). The effective part of the currency hedges is directly recognised in hedging reserves and the acquisition costs of secured inventories, respectively, and posted into the income statement at the same time as the underlying secured transaction is recorded. An amount of € 16 million (2009: € 4 million) for currency options and an amount of negative € 25 million (2009: negative € 41 million) for forward contracts were recorded in hedging reserves. Currency option premiums impacted net income in the amount of € 4 million in 2010 (2009: € 4 million).

The total time value of the currency options not being part of a hedge in an amount of € 1 million (2009: € 3 million) was recorded in the income statement in 2010. Due to a change in the exposure, some of the currency hedges were terminated and consequently an amount of negative € 3 million was reclassified from hedging reserves to the income statement.

The total net amount of US dollar purchases related to product sourcing versus other currencies was US $ 3.7 billion and US $ 3.7 billion in the years ending December 31, 2010 and 2009, respectively.

The notional amounts of all outstanding currency hedging instruments, which are mainly related to cash flow hedges, are summarised in the following table:

Notional amounts of all outstanding currency hedging instruments
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Forward contracts	3,100	3,118
Currency options	617	532
Total	**3,717**	**3,650**

The comparatively high amount of forward contracts is primarily due to currency swaps for liquidity management purposes and hedging transactions.
Of the total amount of outstanding hedges, the following contracts related to the US dollar (i.e. the biggest single exposure of product sourcing):

Notional amounts of outstanding US dollar hedging instruments
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Forward contracts	2,248	2,252
Currency options	576	532
Total	**2,824**	**2,784**

The fair value of all outstanding currency hedging instruments is as follows:

Fair values
€ in millions

	Dec. 31, 2010		Dec. 31, 2009	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward contracts	40	(86)	22	(74)
Currency options	38	(15)	28	(18)
Total	**78**	**(101)**	**50**	**(92)**

A total net fair value of negative € 35 million (2009: negative € 57 million) for forward contracts related to hedging instruments falling under hedge accounting as per definition of IAS 39 "Financial Instruments: Recognition and Measurement" was recorded in hedging reserve. The remaining net fair value of negative € 11 million (2009: € 5 million) mainly related to liquidity swaps for cash management purposes and forward contracts hedging intercompany dividend receivables was recorded in the income statement. The total fair value of € 23 million (2009: € 10 million) for outstanding currency options related to cash flow hedges.

The fair value adjustments of outstanding cash flow hedges for forecasted sales will be reported in the income statement when the forecasted sales transactions are recorded. The vast majority of these transactions are forecasted to occur in 2011. As at December 31, 2010, inventories were adjusted by € 6 million (2009: € 4 million) which will be recognised in the income statement in 2011.

In hedging reserve, an amount of negative € 3 million (2009: negative € 3 million) is included for hedges of net investments in foreign entities. This reserve will remain until the investment in the foreign entity has been sold or the loan has been paid back.

In order to determine the fair values of its derivatives that are not publicly traded, the adidas Group uses generally accepted quantitative financial models based on market conditions prevailing at the balance sheet date.

The fair values of the derivatives were determined applying the "zero method". The "zero method" is a theoretical model for the determination of forward rates based on deposit and swap interest rates. An alternative method is the "par method" which uses actively traded forward rates. A comparison of the fair valuation based on the alternative methods revealed no substantive differences.

Financial instruments for the hedging of interest rate risk

Interest rate hedges which were outstanding as at December 31, 2010 and 2009, respectively expire as detailed below:

Expiration dates of interest rate hedges
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	60	139
Between 1 and 3 years	105	150
Between 3 and 5 years	75	—
After 5 years	—	81
Total	**240**	**370**

The above summary for 2010 includes an interest rate swap in the amount of € 75 million (2009: € 79 million) which is classified as a fair value hedge pursuant to IAS 39. The aim of this US dollar interest rate swap was to obtain variable financing for a private placement in US dollars. The total positive fair value of € 8 million (2009: € 4 million) was offset by a total negative fair value change in the hedged private placements in the amount of € 8 million (2009: negative € 4 million).
The above summary further includes interest rate swaps in the nominal amount of € 150 million (2009: € 279 million), which are classified as cash flow hedges pursuant to IAS 39. The goal of these hedges is to protect future cash flows arising from private placements with variable interest rates by generating synthetic fixed interest rate financing. These interest rate swaps classified as cash flow hedges had a positive fair value in the amount of € 0 million (2009: € 0 million) and a negative fair value of € 6 million (2009: negative € 10 million). The negative fair value change of € 2 million (2009: negative € 7 million) for interest rate swaps which were classified as cash flow hedges was booked in hedging reserves. The amount that was reclassified from equity to the income statement for the period was negative € 4 million (2009: negative € 4 million). Interest rate swaps classified as cash flow hedges in a nominal amount of € 45 million and € 105 million secure variable interest payments arising from private placements with maturities in 2011 and 2012, respectively.

Notes to the Consolidated Income Statement

Other operating income

»» 29

Other operating income consists of the following:

Other operating income
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Income from accounts receivable previously written off	2	2
Income from release of accrued liabilities and other provisions	19	31
Gains from disposal of fixed assets	16	3
Sundry income	66	64
Reversals of impairment losses for intangible and tangible assets	7	0
Other operating income	**110**	**100**

In 2010, gains from disposal of fixed assets include income from the divestiture of a trademark. In 2010, sundry income partly relates to the positive settlement of a lawsuit.

Other operating expenses

»» 30

Operating expenses include expenses for sales, marketing, 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, with the exception of depreciation and amortisation which is included in the cost of sales.

Marketing working budget is the largest component of other operating expenses. The marketing working budget consists of promotion and communication spending such as promotion contracts, advertising, events and other communication activities. However, it does not include marketing overhead expenses, which are presented in marketing overheads. In 2010, marketing working budget accounted for approximately 26% (2009: 23%) of the total other operating expenses.

Expenses for central administration include the functions IT, Finance, Legal, Human Resources, Facilities & Services as well as General Management.

Depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses were € 263 million and € 299 million for the years ending December 31, 2010 and 2009, respectively. Thereof, € 3 million and € 5 million were recorded within the cost of sales as they are directly attributable to the production costs of goods sold.

Other operating expenses
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Marketing working budget	1,288	1,028
Sales working budget	308	241
Marketing overhead [1]	380	348
Sales force [1]	1,496	1,296
Logistics [1]	617	582
Research and development [1]	102	86
Central administration [1]	855	809
Other operating expenses	**5,046**	**4,390**
Thereof:		
Depreciation, amortisation and impairment losses	260	294

1) Including mainly personnel and administration expenses.

Cost by nature

››› 31

Expenses are presented by function according to the "cost of sales method" in the income statement. Supplementary information on the expenses by nature is detailed below.

Cost of materials

The total cost of materials relating to the amount of inventories recognised as an expense during the period was € 6.165 billion and € 5.546 billion for the years ending December 31, 2010 and 2009, respectively.

Personnel expenses

Personnel expenses were as follows:

Personnel expenses
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Wages and salaries	1,338	1,185
Social security contributions	132	114
Pension expenses	51	53
Personnel expenses	**1,521**	**1,352**

Personnel expenses are primarily included within other operating expenses. Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

Financial income/financial expenses

››› 32

Financial result consists of the following:

Financial income
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Interest income from financial instruments measured at amortised cost	16	11
Interest income from financial instruments at fair value through profit or loss	7	5
Interest income from non-financial assets	0	—
Net foreign exchange gains	2	—
Other	0	3
Financial income	**25**	**19**

Financial expenses
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Interest expense on financial instruments measured at amortised cost	112	138
Interest expense on financial instruments at fair value through profit or loss	0	—
Interest expense on other provisions and non-financial liabilities	0	—
Net foreign exchange losses	—	25
Other	1	6
Financial expenses	**113**	**169**

Interest income from financial instruments, measured at amortised cost, mainly consists of interest income from bank deposits and loans.

Interest income/expense from financial instruments at fair value through profit or loss mainly includes interest payments from investment funds as well as net interest payments from interest derivatives not being part of a hedging relationship. Unrealised gains/losses from fair value measurement of such financial assets are shown in other financial income or expenses.

Interest expense on financial instruments measured at amortised cost mainly includes interest on borrowings and effects from using the "effective interest method".

Interest expense on other provisions and non-financial liabilities particularly includes effects from measurement of other provisions at present value and interest on non-financial liabilities such as tax payables.

Other financial expenses include impairment losses on other financial assets amounting to € 0 million for the year ending December 31, 2010 (2009: € 5 million).

Also included in other financial expenses are non-controlling interests, which are not recorded in equity according to IAS 32 "Financial Instruments: Presentation" ⋙ see Note 26.

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes ⋙ see Notes 5, 14, 17 and 28.

Income taxes ⋙ 33

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2010 and 2009, respectively, the statutory corporate income tax rate of 15% plus a surcharge of 5.5% thereon is applied to earnings. The municipal trade tax is approximately 11.6% of taxable income.

For non-German subsidiaries, deferred taxes are calculated based on tax rates that have been enacted or substantively enacted by the closing date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if they relate to the same fiscal authority. The following deferred tax assets and liabilities, determined after appropriate offsetting, are presented in the consolidated statement of financial position:

Deferred tax assets/liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Deferred tax assets	508	412
Deferred tax liabilities	(451)	(433)
Deferred tax assets, net	**57**	**(21)**

The movements of deferred taxes are as follows:

Movement of deferred taxes
€ in millions

	2010	2009
Deferred tax assets, net as at January 1	**(21)**	**(119)**
Deferred tax income	76	43
Change in deferred taxes on assets classified as held for sale ⋙ see Note 10	—	(3)
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity ⋙ see Note 28	(12)	46
Currency translation differences	11	6
Change in deferred taxes attributable to actuarial gains and losses recorded in equity ⋙ see Note 23	3	6
Deferred tax assets, net as at December 31	**57**	**(21)**

Gross Group deferred tax assets and liabilities after valuation allowances, but before appropriate offsettings are attributable to the items detailed in the table below:

Deferred taxes
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Non-current assets	127	129
Current assets	111	87
Accrued liabilities and provisions	203	132
Accumulated tax loss carry-forwards	101	78
Deferred tax assets	**542**	**426**
Non-current assets	443	420
Current assets	19	25
Accrued liabilities and provisions	23	2
Deferred tax liabilities	**485**	**447**
Deferred tax assets, net	**57**	**(21)**

Deferred tax assets are recognised only to the extent that the realisation of the related benefit is probable. For the assessment of probability, in addition to past performance and the respective prospects for the foreseeable future, appropriate tax structuring measures are also taken into consideration.

Deferred tax assets for which the realisation of the related tax benefits is not probable increased on a currency-neutral basis from € 297 million to € 325 million for the year ending December 31, 2010. These amounts mainly relate to tax losses carried forward and unused foreign tax credits of the US tax group. The remaining unrecognised deferred tax assets relate to subsidiaries operating in markets where the realisation of the related tax benefit is not considered probable.

The Group does not recognise deferred tax liabilities for unremitted earnings of non-German subsidiaries to the extent that they are expected to be permanently invested in international operations. These earnings, the amount of which cannot be practicably computed, could become subject to additional tax if they were remitted as dividends or if the Group were to sell its shareholdings in the subsidiaries.

Tax expenses

Tax expenses are split as follows:

Income tax expenses
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Current tax expenses	314	156
Deferred tax (income)	(76)	(43)
Income tax expenses	**238**	**113**

The effective tax rate of the Group differs from an assumed tax rate of 30% for the year ending December 31, 2010 as follows:

Tax rate reconciliation
€ in millions

	Year ending Dec. 31, 2010		Year ending Dec. 31, 2009	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	242	30.0	108	30.0
Tax rate differentials	(89)	(11.0)	(94)	(26.1)
Non-deductible expenses	43	5.3	(36)	(10.1)
Losses for which benefits were not recognisable and changes in valuation allowances	8	1.0	119	33.2
Changes in tax rates	(11)	(1.4)	4	1.1
Other, net	1	0.1	1	0.3
	194	**24.0**	**102**	**28.3**
Withholding tax expenses	44	5.5	11	3.1
Income tax expenses	**238**	**29.5**	**113**	**31.5**

For 2010, the line "changes in tax rates" mainly reflects a UK tax rate deduction effective in 2011.

For 2010, the line "non-deductible expenses" includes tax benefits of in total € 14 million (2009: € 57 million) related to the favourable resolution of foreign tax disputes for prior years.

For 2009, the line "losses for which benefits were not recognisable and changes in valuation allowances" mainly relates to changes in valuation allowances of the US tax group.

Earnings per share »» 34

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the year.

In 2009, dilutive potential shares arose under the Management Share Option Plan (MSOP) of adidas AG, which was implemented in 1999. As the required performance criteria for the exercise of the stock options of all tranches of the share option plan were fulfilled in 2009, dilutive potential shares impacted the diluted earnings per share calculation for the year ending December 31, 2009 »» see Note 38.

It was also necessary to include dilutive potential shares arising from the convertible bond issuance in October 2003 in the calculation of diluted earnings per share of the 2009 financial year until conversion as the required conversion criteria were fulfilled at the balance sheet date 2009 »» see Note 17. During the financial year 2009, the convertible bond was assumed to be converted into ordinary shares and the net income is adjusted to eliminate the interest expense less the tax effect.

Following the full conversion of the Group's convertible bond in the fourth quarter of 2009 and as no share options are outstanding anymore from the MSOP, the Group had no dilutive potential shares for the year ending December 31, 2010.

Earnings per share

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Net income attributable to shareholders (€ in millions)	567	245
Weighted average number of shares	209,216,186	196,220,166
Basic earnings per share (in €)	**2.71**	**1.25**
Net income attributable to shareholders (€ in millions)	567	245
Interest expense on convertible bond, net of taxes (€ in millions)	—	10
Net income used to determine diluted earnings per share (€ in millions)	**567**	**255**
Weighted average number of shares	209,216,186	196,220,166
Weighted share options	—	34,369
Weighted assumed conversion convertible bond	—	12,983,564
Weighted average number of shares for diluted earnings per share	**209,216,186**	**209,238,099**
Diluted earnings per share (in €)	**2.71**	**1.22**

Notes – Additional Information

Segmental information »» 35

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

Due to the Group's reorganisation in 2009, the Group's internal management reporting has changed. The structure of the Group has been organised according to the two channels Wholesale and Retail and a joint business model for adidas and Reebok has been established. The reason for the change in organisational structure is to leverage channel synergies across both the adidas and Reebok brands as well as to facilitate the sharing of best practices and further alignment of brand management to drive long-term sustainable growth. Against this background and in accordance with the definition of IFRS 8 "Operating Segments", six operating segments have been identified: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands. According to the criteria of IFRS 8 for reportable segments, the business segments Wholesale and Retail are reported separately while the remaining are aggregated under Other Businesses due to their only subordinate materiality. The reportable segments Wholesale and Retail correspond with the presentation in the internal reporting.

The adidas and Reebok brands are reported under the segments Wholesale, Retail and Other Centrally Managed Brands.

The operating segment TaylorMade-adidas Golf contains the brands TaylorMade, adidas Golf and Ashworth.

Rockport and Reebok-CCM Hockey were formerly part of the Reebok segment.

Certain centralised Group functions do not meet the definition of IFRS 8 for a reportable operating segment. This includes functions such as central treasury, global sourcing as well as other headquarter departments. Assets, liabilities, income and expenses relating to these corporate functions are presented together with other non-allocable items and intersegment eliminations in the reconciliations.

The chief operating decision maker for the adidas Group has been defined as the joint Executive Board of adidas AG.

Information about the Group's segments, in accordance with Management's internal reporting structure, is outlined below.

There are no intersegment sales between the reportable segments. Transactions between the segments are based on the dealing-at-arm's-length principle. Accounting policies applied for reporting segmental information are the same as those used for the adidas Group as described in »» Note 2.

The results of the operating segments are reported in the line item "Segmental operating profit". This is defined as gross profit minus costs directly attributable to the segment or the group of segments (primarily sales and logistics costs) before marketing working budget expenditures and operating overhead costs not directly attributable.

Segmental assets include accounts receivable and inventories. Only these items are reported to the chief operating decision maker on a regular basis. Depreciation, amortisation, impairment losses and reversals of impairment losses as well as capital expenditures for tangible and intangible assets are part of the segmental reporting, even though segmental assets do not contain tangible and intangible assets. Depreciation and amortisation as well as impairment losses and reversals of impairment losses not directly attributable to a segment or a group of segments are presented under HQ/Consolidation in the reconciliations.

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

Interest income and interest expenses as well as income taxes are not allocated to the reportable segments and are not reported separately to the Executive Board of adidas AG.

Following minor changes to the adidas Group's organisational structure in the first quarter of 2010, the assignment of certain functions has been changed compared to the consolidated financial statements for the year ending December 31, 2009. This development has a limited effect on the Group segmental structure. To ensure full comparability of Group financial results in 2010, the Group has decided to adjust the segmental reporting for 2009 retrospectively. While these adjustments have no effect on total Group financial results, results of the individual segments have changed. 2009 Wholesale revenues now amount to € 7.164 billion (instead of € 7.174 billion reported). 2009 Retail revenues remain unchanged at € 1.906 billion. Sales of Other Businesses amount to € 1.293 billion (instead of € 1.283 billion reported). Operating profit for 2009 now amounts to € 2.342 billion in the Wholesale segment (instead of € 2.346 billion reported) and € 259 million in the Retail segment (instead of € 267 million reported). Operating profit of Other Businesses now amounts to € 283 million (instead of € 281 million reported). 2009 segmental assets now amount to € 1.938 billion in the Wholesale segment (instead of € 1.943 billion reported) and to € 420 million for Other Businesses (instead of € 415 million reported). Segmental liabilities for 2009 now amount to € 78 million for Other Businesses (instead of € 74 million reported). Capital expenditure of Other Businesses now amounts to € 23 million (instead of € 14 million reported). In the consolidated financial statements for the year ending December 31, 2010, these adjustments have already been reflected in the 2009 comparison base.

Segments
€ in millions

	Wholesale		Retail		Other Businesses		Total Segments	
	2010	2009	2010	2009	2010	2009	2010	2009
Net sales (non-Group)	8,181	7,164	2,389	1,906	1,420	1,293	11,990	10,363
Segmental operating profit	2,572	2,342	452	259	369	283	3,393	2,884
Segmental assets	2,690	1,938	541	429	514	420	3,745	2,787
Segmental liabilities	537	470	76	37	110	78	723	585
Capital expenditure	33	24	61	71	26	23	120	118
Depreciation and amortisation	22	24	88	88	8	6	118	118
Impairment losses, net of reversals of impairment losses	(1)	0	4	14	0	0	3	14

Reconciliations

The following tables include reconciliations of segmental information to the aggregate numbers of the consolidated financial statements taking into account items which are not directly attributable to a segment or a group of segments.

Net sales (non-Group)
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Reportable segments	10,570	9,070
Other businesses	1,420	1,293
HQ/Consolidation	0	18
Total	**11,990**	**10,381**

Operating profit
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Operating profit for reportable segments	3,024	2,601
Operating profit for other businesses	369	283
HQ/Consolidation	212	51
Marketing working budget	1,288	1,028
Other operating expenses	1,523	1,485
Royalty and commission income	100	86
Operating profit	**894**	**508**
Financial income	25	19
Financial expenses	113	169
Income before taxes	**806**	**358**

Operating profit of centralised functions which do not represent a segment is shown under HQ/Consolidation.

Capital expenditure
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Reportable segments	94	95
Other businesses	26	23
HQ/Consolidation	149	122
Total	**269**	**240**

Depreciation and amortisation
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Reportable segments	110	112
Other businesses	8	6
HQ/Consolidation	128	141
Total	**246**	**259**

Impairment losses, net of reversals of impairment losses
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Reportable segments	3	14
Other businesses	0	0
HQ/Consolidation	11	21
Total	**14**	**35**

Total assets
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Assets of reportable segments	3,231	2,367
Assets of other businesses	514	420
Non-segmental accounts receivable and inventories	41	113
Current financial assets	1,586	1,010
Other current assets	508	575
Non-current assets	4,738	4,390
Total assets	**10,618**	**8,875**

Total liabilities
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Liabilities of reportable segments	613	507
Liabilities of other businesses	110	78
Non-segmental accounts payable	971	581
Current financial liabilities	396	299
Other current liabilities	1,818	1,371
Non-current liabilities	2,087	2,263
Total liabilities	**5,995**	**5,099**

Product information

Net sales (non-Group)
€ in millions

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Footwear	5,389	4,642
Apparel	5,380	4,663
Hardware	1,221	1,076
Total	**11,990**	**10,381**

Geographical information

Net sales (non-Group) are shown in the geographic market in which the net sales are realised. Non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary independent of the segmental structure and consist of tangible assets, goodwill, trademarks, other intangible assets and other non-current assets.

Geographical information
€ in millions

	Net sales (non-Group)		Non-current assets	
	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Western Europe	3,543	3,261	1,515	1,505
European Emerging Markets	1,385	1,122	592	437
North America	2,805	2,362	683	666
Greater China	1,000	967	520	474
Other Asian Markets	1,972	1,647	557	521
Latin America	1,285	1,006	216	225
HQ/Consolidation	0	16	0	0
Total	**11,990**	**10,381**	**4,083**	**3,828**

With regard to Germany, Western Europe contains net sales (non-Group) amounting to € 655 million and € 587 million as well as non-current assets amounting to € 363 million and € 281 million for the years 2010 and 2009, respectively. With regard to the USA, North America contains net sales (non-Group) amounting to € 2.427 billion and € 2.068 billion as well as non-current assets amounting to € 546 million and € 547 million for the years 2010 and 2009, respectively.

Additional cash flow information ⋙ 36

In 2010, the decrease in cash provided by operating activities compared to the prior year was primarily due to increased receivables and inventories.

Net cash outflow from investing activities was mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of stores in the Retail segment, in new office buildings and IT systems as well as the purchase of short-term financial assets.

Cash outflows from financing activities were related to repayment of short-term borrowings totalling € 198 million and dividends paid in an amount of € 73 million.

In 2009, the line item "Acquisition of subsidiaries and other business units net of cash acquired" in the consolidated statement of cash flows includes the acquisition of Life Sport Ltd. and Bones in Motion, Inc. ⋙ see Note 3.

Current revolving financial transactions are offset within financing activities.

Commitments and contingencies ⋙ 37

Other financial commitments

The Group has other financial commitments for promotion and advertising contracts, which mature as follows:

Financial commitments for promotion and advertising
€ in millions

	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	613	554
Between 1 and 5 years	1,474	1,403
After 5 years	695	594
Total	**2,782**	**2,551**

Commitments with respect to advertising and promotion maturing after five years have remaining terms of up to 12 years from December 31, 2010.

Information regarding commitments under lease and service contracts is also included in these Notes ⋙ see Note 27.

Litigation

The Group is currently engaged in various lawsuits resulting from the normal course of business, mainly in connection with license and distribution agreements as well as competition issues. The risks regarding these lawsuits are covered by provisions when a reliable estimate of the amount of the obligation can be made ⋙ see Note 19. In the opinion of Management, the ultimate liabilities resulting from such claims will not materially affect the consolidated financial position of the Group.

Equity compensation benefits »» 38

Management Share Option Plan (MSOP) of adidas AG

Under the Management Share Option Plan (MSOP) adopted by the shareholders of adidas AG on May 20, 1999, and amended by resolution of the Annual General Meeting on May 8, 2002, and on May 13, 2004, the Executive Board was authorised to issue non-transferable stock options for up to 1,373,350 no-par-value bearer shares to members of the Executive Board of adidas AG as well as to managing directors/senior vice presidents of its related companies and to other executives of adidas AG and its related companies until August 27, 2004. The granting of stock options took place in tranches not exceeding 25% of the total volume for each fiscal year.

A two-year vesting period and a term of approximately seven years upon their respective issue applied for the stock options.

Management Share Option Plan (MSOP)

		Tranche I (1999)		Tranche II (2000)		Tranche III (2001)		Tranche IV (2002)		Tranche V (2003)	
	Share price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €
Originally issued		266,550		335,100		342,850		340,850		88,000	
Outstanding as at Jan. 1, 2009		**0**	**—**	**0**	**—**	**0**	**—**	**11,200**	**6.40**	**4,600**	**4.00**
Forfeited during the period		0	—	0	—	0	—	300	0.00	500	82.60
Exercised during the period											
May 2009 [1]	0.00	0	—	0	—	0	—	0	—	0	—
Aug. 2009 [1]	136.48	0	—	0	—	0	—	0	—	4,100	82.60
Nov. 2009 [1]	0.00	0	—	0	—	0	—	0	—	0	—
Expired during the period		0	—	0	—	0	—	10,900	0.00	0	—
Outstanding as at Dec. 31, 2009		**0**	**—**	**0**	**—**	**0**	**—**	**0**	**—**	**0**	**—**
Exercisable as at Dec. 31, 2009		0	—	0	—	0	—	0	—	0	—
Outstanding as at Jan. 1, 2010		**0**	**—**	**0**	**—**	**0**	**—**	**0**	**—**	**0**	**—**

1) Due to the share split effective May 2006, one option grants the right to purchase four shares. Accordingly, the share price information refers to four shares each.

There were no stock options outstanding at the end of the years ending December 31, 2010 and 2009. No stock options were issued during 2010.

Stock options could only be exercised subject to the attainment of at least one of the following performance objectives:

(1) Absolute Performance: During the period between the issuance and exercise of the stock options, the stock market price for the adidas AG share – calculated upon the basis of the "total shareholder return approach" – has increased by an annual average rate of at least 8%.

(2) Relative Performance: During the same period, the stock market price for the adidas AG share must have developed by an annual average of 1% more favourably than the stock market prices of a basket of global competitors of the adidas Group and in absolute terms may not have fallen.

The stock options could only be exercised against payment of the exercise price. The exercise price corresponded to the arithmetical mean of the closing price of the adidas AG share over the last 20 trading days of the respective exercise period, less a discount, based on the extent to which the share price at exercise exceeded the absolute and relative performance hurdles outlined above. In any case, the exercise price was at least the lowest issue price as stated in § 9 section 1 of the German Stock Corporation Act (AktG), currently € 1.00 (i.e. € 4.00 per option).

Option terms and conditions stipulated that the stock options could have been used for existing common shares in lieu of new shares from the contingent capital, or in the place of common shares the discount was paid in cash.

The new shares participated in profits from the beginning of the year in which they were issued.

Related party disclosures ⋙ 39

According to the definitions of IAS 24 "Related Party Disclosures", the Supervisory Board and the Executive Board of adidas AG were identified as related parties who solely received remuneration in connection with their function as key management personnel. For information about the remuneration of the Supervisory Board and the Executive Board of adidas AG ⋙ see Note 40 and Compensation Report, p. 30.

40 » Other information ⋙ 40

Employees

The average numbers of employees are as follows:

Employees

	Year ending Dec. 31, 2010	Year ending Dec. 31, 2009
Own retail	21,883	19,460
Sales	4,064	3,905
Logistics	4,749	5,484
Marketing	3,527	3,375
Central administration	3,260	3,075
Production	1,886	1,892
Research and development	991	1,005
Information technology	927	875
Total	**41,287**	**39,071**

Accountant service fees for the auditor of the financial statements

In 2010, the expenses for the professional service fees of the auditor KPMG Europe LLP amounted to € 1.6 million (2009: € 1.8 million).

Expenses for tax consultancy services provided by the auditor, for other confirmation services provided by the auditor and for other services provided by the auditor amounted to € 0.2 million (2009: € 0.3 million), € 0.0 million (2009: € 0.1 million) and € 0.0 million (2009: € 0.0 million), respectively.

Remuneration of the Supervisory Board and the Executive Board of adidas AG

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board members' fixed annual payment amounted to € 0.9 million (2009: € 0.9 million).

Members of the Supervisory Board were not granted any loans in 2010.

Executive Board

In 2010, the overall compensation of the members of the Executive Board totalled € 11.5 million (2009: € 10.5 million): € 7.1 million thereof relates to short-term benefits (2009: € 6.8 million) and € 4.4 million to long-term benefits (2009: € 3.7 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board) totalled € 0.5 million (2009: € 0.4 million).

In 2010, former members of the Executive Board and their survivors received pension payments totalling € 3.2 million (2009: € 2.6 million).

Provisions for pension obligations relating to former members of the Executive Board and their survivors amount in total to € 45.9 million (2009: € 45.7 million).

Members of the Executive Board were not granted any loans in 2010.

Members of the Executive Board have not been granted any stock options since 2004. In 2010 and 2009, current and former members of the Executive Board did not exercise any stock options. Details of the Management Share Option Plan are also included in these Notes ⋙ see Note 38.

Further information on disclosures according to § 314 section 1 no. 6a German Commercial Code (Handelsgesetzbuch – HGB) is provided in the Compensation Report ⋙ see Compensation Report, p. 30.

Information relating to the German Corporate Governance Code ⋙ 41

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)

On February 11, 2011, the Executive Board and Supervisory Board of adidas AG issued the updated declaration of conformity in accordance with §161 AktG. The full text of the Declaration of Compliance is available on the Group's corporate website.

Events after the balance sheet date ⋙ 42

Group-specific subsequent events

No Group-specific subsequent events are known which might have a material influence on the assets, liabilities, financial position and profit or loss of the Group.

Date of preparation

The Executive Board of adidas AG prepared and approved the consolidated financial statements for submission to the Supervisory Board on February 15, 2011. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorisation for issue.

Herzogenaurach, February 15, 2011
The Executive Board of adidas AG

Statement of Movements of Intangible and Tangible Assets

Attachment I

€ in millions

	Goodwill	Trademarks	Software, patents and concessions	Internally generated software	Total intangible assets	Land and buildings/leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fittings	Construction in progress	Total tangible assets
Acquisition cost										
January 1, 2009	**1,499**	**1,390**	**516**	**1**	**3,406**	**489**	**140**	**847**	**66**	**1,542**
Currency effect	(26)	(48)	(7)	—	(81)	(7)	(1)	(3)	(1)	(13)
Additions	1	0	48	0	50	17	4	101	72	195
Increase in companies consolidated	4	—	0	—	4	—	0	6	—	6
Transfers from assets held for sale	—	—	—	—	—	4	2	1	—	7
Transfers to assets held for sale	—	—	—	—	—	(126)	—	—	—	(126)
Decrease in companies consolidated	0	—	—	—	0	—	—	—	—	—
Transfers	—	—	2	1	3	28	28	6	(65)	(3)
Disposals	—	—	(24)	(0)	(25)	(25)	(19)	(82)	(2)	(128)
December 31, 2009 /January 1, 2010	**1,478**	**1,342**	**535**	**3**	**3,358**	**380**	**156**	**876**	**69**	**1,480**
Currency effect	61	105	28	—	194	18	12	75	1	106
Additions	0	—	41	0	42	20	5	103	100	227
Increase in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers from assets held for sale	—	—	—	—	—	95	—	—	—	95
Transfers to assets held for sale	—	—	(1)	—	(1)	(2)	—	(4)	—	(6)
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	(2)	2	0	6	4	18	(28)	(0)
Disposals	—	(0)	(5)	(0)	(6)	(6)	(16)	(82)	(2)	(105)
December 31, 2010	**1,539**	**1,447**	**595**	**5**	**3,586**	**511**	**161**	**987**	**140**	**1,798**

Statement of Movements of Intangible and Tangible Assets

Attachment I

€ in millions

	Goodwill	Trademarks	Software, patents and concessions	Internally generated software	Total intangible assets	Land and buildings/leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fittings	Construction in progress	Total tangible assets
Accumulated depreciation, amortisation and impairment losses, net of reversals of impairment losses										
January 1, 2009	**—**	**—**	**313**	**0**	**313**	**116**	**50**	**490**	**—**	**656**
Currency effect	—	—	(6)	—	(6)	(2)	(1)	(6)	—	(9)
Additions	—	0	65	1	66	32	20	147	—	198
Impairment losses	—	—	19	—	19	6	0	10	—	16
Reversals of impairment losses	—	—	0	—	0	—	—	(0)	—	(0)
Increase in companies consolidated	—	—	—	—	—	—	—	1	—	1
Transfers from assets held for sale	—	—	—	—	—	2	2	1	—	5
Transfers to assets held for sale	—	—	—	—	—	(20)	—	—	—	(20)
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	0	—	0	(1)	(0)	1	—	(0)
Disposals	—	—	(16)	(0)	(16)	(9)	(16)	(65)	—	(89)
December 31, 2009 /January 1, 2010	**—**	**0**	**377**	**0**	**377**	**123**	**55**	**579**	**—**	**757**
Currency effect	(0)	0	19	—	19	7	6	53	—	66
Additions	—	0	54	1	55	28	21	145	—	194
Impairment losses	—	—	11	—	11	5	0	5	—	10
Reversals of impairment losses	—	—	—	—	—	(0)	(0)	(7)	—	(7)
Increase in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers from assets held for sale	—	—	—	—	—	15	—	—	—	15
Transfers to assets held for sale	—	—	(1)	—	(1)	(0)	—	(2)	—	(2)
Decrease in companies consolidated	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	0	—	0	(0)	(1)	1	—	(0)
Disposals	—	—	(3)	(0)	(3)	(5)	(14)	(71)	—	(91)
December 31, 2010	**(0)**	**0**	**456**	**1**	**458**	**173**	**68**	**703**	**—**	**943**
Net carrying amount										
December 31, 2008	1,499	1,390	202	2	3,093	373	90	357	66	886
December 31, 2009	1,478	1,342	158	2	2,980	257	101	297	69	724
December 31, 2010	**1,539**	**1,447**	**139**	**4**	**3,128**	**338**	**93**	**284**	**140**	**855**

Rounding differences may arise in percentages and totals.

Shareholdings of adidas AG, Herzogenaurach **Attachment II**

at December 31, 2010

Company and domicile			Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
Germany						
1	GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG	Herzogenaurach (Germany)	EUR	972	directly	90
2	GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH	Herzogenaurach (Germany)	EUR	37	directly	100
3	adidas Insurance & Risk Consultants GmbH[12] (formerly: adidas Versicherungs-Vermittlungs GmbH)	Herzogenaurach (Germany)	EUR	26	directly	100
4	adidas Beteiligungsgesellschaft mbH[12]	Herzogenaurach (Germany)	EUR	354,103	directly	100
5	Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH	Herzogenaurach (Germany)	EUR	33	directly	100
6	Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG	Herzogenaurach (Germany)	EUR	2,395	directly	100
7	World of Commerce Management GmbH[6]	Herzogenaurach (Germany)	EUR	—	directly	100
8	World of Commerce GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	—	directly	100
9	Hotel Herzo-Base GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	—	directly	100
10	Herzo-Base Management GmbH[6]	Herzogenaurach (Germany)	EUR	—	directly	100
11	Factory Outlet Herzo-Base GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	—	directly	100
12	Reebok-CCM Hockey GmbH[10]	Kirchheim-Heimstetten (Germany)	EUR	4,043	94	100
Europe (incl. Middle East and Africa)						
13	adidas sport gmbh	Cham (Switzerland)	CHF	9,133	directly	100
14	Sarragan AG	Cham (Switzerland)	CHF	(3,057)	directly	100
15	adidas Austria GmbH	Klagenfurt (Austria)	EUR	6,997	directly	95.89
					13	4.11
16	adidas France S.a.r.l.	Landersheim (France)	EUR	93,151	30	100
17	adidas International B.V.	Amsterdam (Netherlands)	EUR	5,680,662	directly	93.97
					16	6.03
18	adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	762,088	17	100
19	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	36,967	17	100
20	adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	11,056	17	100
21	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	4,623	directly	100
22	Reebok International Finance B.V.	Amsterdam (Netherlands)	USD	562	110	100
23	Rockport (Europe) B.V.	Amsterdam (Netherlands)	USD	3,510	97	100
24	adidas (UK) Limited[1]	Stockport (Great Britain)	GBP	48,698	30	100
25	adidas (ILKLEY) Limited[1,6]	Stockport (Great Britain)	GBP	—	24	100
26	LARA SPORT (UK) Limited[1,6]	Stockport (Great Britain)	GBP	—	24	100
27	Sarragan (UK) Limited[1,6]	Stockport (Great Britain)	GBP	—	24	100
28	adidas Trefoil Trading (U.K.) Limited[1,6]	Stockport (Great Britain)	GBP	—	27	100
29	Three Stripes Limited[1,6]	Stockport (Great Britain)	GBP	—	24	50
					25	50
30	Reebok International Limited[11]	London (Great Britain)	GBP	1,036,627	17	65.1
					110	34.9

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14) Sub-group adidas Canada 15) Sub-group adidas Brazil

Shareholdings of adidas AG, Herzogenaurach — **Attachment II**
at December 31, 2010

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
31 Reebok Finance Limited[6] [11]	London (Great Britain)	GBP	—	110	100
32 RBK Holdings Limited[11]	London (Great Britain)	GBP	—	110	89
				96	11
33 Reebok Sports Limited	London (Great Britain)	USD	1,608	30	100
34 J.W. Foster & Sons (Athletic Shoes) Limited[6] [11]	London (Great Britain)	GBP	—	30	100
35 The Rockport Company Limited[6] [11]	London (Great Britain)	GBP	—	30	100
36 Reebok Eastern Trading Limited[6]	London (Great Britain)	USD	3,112	30	100
37 Reebok Pensions Management Limited[11]	London (Great Britain)	GBP	—	30	100
38 Reebok Europe Holdings	London (Great Britain)	GBP	86,877	30	100
39 Taylor Made Golf Limited[5]	Basingstoke (Great Britain)	GBP	(6,791)	17	100
40 Ashworth U.K. Ltd.[5]	Basingstoke (Great Britain)	GBP	—	39	100
41 adidas (Ireland) Limited	Dublin (Ireland)	EUR	3,610	17	100
42 adidas International Re Limited	Dublin (Ireland)	EUR	8,838	17	100
43 Reebok Ireland Limited	Dublin (Ireland)	EUR	56	41	100
44 adidas Belgium N.V.	Brussels (Belgium)	EUR	3,228	21	100
45 adidas Espana S.A.	Zaragoza (Spain)	EUR	25,482	4	100
46 adidas Finance Spain S.A.	Zaragoza (Spain)	EUR	34,308	110	75
				46	25
47 adidas Italy S.p.A	Monza (Italy)	EUR	43,602	17	100
48 adidas Portugal – Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	28,971	17	100
49 adidas Business Services Lda.	Maia (Portugal)	EUR	59	17	98
				directly	2
50 adidas Norge AS	Lillestrom (Norway)	NOK	28,107	directly	100
51 Reebok Jofa AS	Gressvik (Norway)	NOK	14,865	50	100
52 adidas Sverige AB	Stockholm (Sweden)	SEK	70,750	directly	100
53 Nordic Hockey Company AB[10]	Malung (Sweden)	SEK	539,015	94	100
54 Reebok Jofa AB	Malung (Sweden)	SEK	105,077	52	100
55 adidas Suomi Oy	Helsinki (Finland)	EUR	1,750	17	100
56 Reebok-CCM Hockey Oy	Forssa (Finland)	EUR	9,229	17	100
57 adidas Danmark A/S	Århus (Denmark)	DKK	18,381	17	100
58 adidas CR s.r.o.	Prague (Czech Republic)	CZK	141,127	directly	100
59 adidas Budapest Kft.	Budapest (Hungary)	HUF	1,320,477	directly	85
60 adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	9,707	directly	100
61 LLC "adidas, Ltd."	Moscow (Russia)	RUB	15,955,659	15	100
62 adidas Poland Sp.z.o.o.	Warsaw (Poland)	PLN	39,349	directly	100
63 adidas Finance Poland S.A.	Warsaw (Poland)	PLN	86,675	110	100
64 adidas Romania S.R.L.	Bucharest (Romania)	RON	15,212	17	100

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Shareholdings of adidas AG, Herzogenaurach

at December 31, 2010

Attachment II

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
65 adidas Baltics SIA	Riga (Latvia)	EUR	428	17	100
66 adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	SKK	2,614	directly	100
67 adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	1,265	directly	100
68 SC "adidas-Ukraine"	Kiev (Ukraine)	UAH	388,478	directly	100
69 adidas LLP	Almaty (Republic of Kazakhstan)	KZT	1,829,756	directly	100
70 adidas Serbia d.o.o.	New Belgrade (Serbia)	RSD	373,940	17	100
71 adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	16,771	17	100
72 adidas Hellas A.E.	Thessaloniki (Greece)	EUR	1,123	directly	100
73 adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	1,240	directly	100
74 adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	142,773	17	100
75 a-RET Tekstil ve Deri Ürünleri Ticaret A.S.	Istanbul (Turkey)	TRY	1,499	18	100
76 adidas Emerging Market L.L.C.	Dubai (United Arab Emirates)	USD	31,755	indirectly	51
				16	49
77 adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	12,514	17	100
78 adidas Levant Limited	Dubai (United Arab Emirates)	JOD	2,352	77	55
79 adidas Levant Limited – Jordan	Amman (Jordan)	JOD	1,533	78	100
80 adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	3,400	81	100
81 adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	23,842	17	90
				18	10
82 adidas Egypt Ltd.[6]	Cairo (Egypt)	USD	(1,831)	directly	100
83 adidas Israel Ltd.	Holon (Israel)	ILS	7,948	directly	100
84 Life Sport Ltd.	Holon (Israel)	ILS	40,608	17	51
85 adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	176,401	directly	100
North America					
86 adidas North America, Inc.	Portland, Oregon (USA)	USD	4,939,208	17	100
87 adidas America, Inc. (formerly adidas Sales, Inc.)	Portland, Oregon (USA)	USD	40,011	86	100
88 adidas International, Inc.	Portland, Oregon (USA)	USD	47,078	86	100
89 adidas Team, Inc.	Portland, Oregon (USA)	USD	(155)	86	100
90 Taylor Made Golf Co., Inc.[13]	Carlsbad, California (USA)	USD	49,600	86	100
91 Ashworth, LLC.[13]	Carlsbad, California (USA)	USD	—	90	100
92 The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	12,281	110	100
93 Reebok-CCM Hockey, Inc.[9]	Wilmington, Delaware (USA)	USD	156,648	110	100
94 Sports Holdings Corp.[10]	Wilmington, Delaware (USA)	USD	(18,339)	93	100
95 RFC, Inc.	Wilmington, Delaware (USA)	USD	(1)	110	100
96 Reebok Securities Holdings LLC[2]	Wilmington, Delaware (USA)	USD	—	110	100
97 The Rockport Company, LLC	Wilmington, Delaware (USA)	USD	226,761	110	100

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Shareholdings of adidas AG, Herzogenaurach **Attachment II**
at December 31, 2010

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
98 Textronics, Inc.	Wilmington, Delaware (USA)	USD	12,764	88	100
99 Ashworth Acquisition Corp.[13]	Wilmington, Delaware (USA)	USD	—	91	100
100 Ashworth Store I, Inc.[13]	Wilmington, Delaware (USA)	USD	—	91	100
101 Ashworth Store II, Inc.[13]	Wilmington, Delaware (USA)	USD	—	91	100
102 Ashworth EDC, LLC[13]	Wilmington, Delaware (USA)	USD	—	91	100
103 Putter, LLC (formerly Gekko Brands, LLC)[6] [13]	Montgomery, Alabama (USA)	USD	—	99	100
104 Bunker Shot, LLC (formerly Kudzu, LLC)[6] [13]	Montgomery, Alabama (USA)	USD	—	103	100
105 Tee Off, LLC (formerly The Game, LLC)[6] [13]	Montgomery, Alabama (USA)	USD	—	103	100
106 Sunice Holdings, Inc.[13]	Wilmington, Delaware (USA)	USD	—	91	100
107 SLM Trademark Acquisition Corp.[6] [9]	Dover, Delaware (USA)	USD	—	93	100
108 Onfield Apparel Group, LLC[8]	Dover, Delaware (USA)	USD	—	110	99
				109	1
109 Reebok Onfield, LLC[8]	Dover, Delaware (USA)	USD	—	110	100
110 Reebok International Ltd.[2]	Canton, Massachusetts (USA)	USD	(1,192,508)	86	100
111 Reebok CHC, Inc.[2] [6]	Stoughton, Massachusetts (USA)	USD	—	110	100
112 Sports Licensed Division of the adidas Group, LLC	Boston, Massachusetts (USA)	USD	109,699	110	99
				96	1
113 RBK Thailand, Inc.[2]	Boston, Massachusetts (USA)	USD	369	110	100
114 Reebok-CCM Hockey U.S., Inc.	Montpelier, Vermont (USA)	USD	10,402	93	64
				94	36
115 adidas Canada Ltd.[14]	Concord, Ontario (Canada)	CAD	81,525	directly	100
116 adidas Style Retail Canada Limited[14]	Concord, Ontario (Canada)	CAD	—	115	100
117 R.C. Investments Ltd.	Montreal (Canada)	CAD	2,218	110	100
118 Reebok Canada Inc.	Montreal (Canada)	CAD	6,879	115	100
119 CCM Holdings (1983) Inc.	Montreal (Canada)	CAD	6,317	121	100
120 Sport Maska Inc.	New Brunswick (Canada)	CAD	45,870	93	100
121 SLM Trademark Acquisition Canada Corporation[6] [9]	New Brunswick (Canada)	CAD	—	107	100
Asia					
122 adidas Sourcing Limited	Hong Kong (China)	USD	258,447	18	100
123 adidas Services Limited	Hong Kong (China)	USD	5,616	17	100
124 adidas Hong Kong Ltd.	Hong Kong (China)	HKD	184,288	directly	100
125 Smedley Industries (Hong Kong) Limited[6] [9]	Hong Kong (China)	HKD	—	93	100
126 Reebok Trading (Far East) Limited	Hong Kong (China)	USD	33,569	110	100
127 Reebok (China) Services Limited	Hong Kong (China)	USD	7,416	126	100
128 RIL Indonesia Services Limited	Hong Kong (China)	USD	1,876	126	100
129 adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	137,218	4	100

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Attachment II

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
130 adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	2,794,820	4	100
131 adidas (China) Ltd.	Shanghai (China)	CNY	24,578	17	100
132 Zhuhai adidas Technical Services Limited	Zhuhai (China)	USD	1,600	122	100
133 adidas Japan K.K.	Tokyo (Japan)	JPY	4,111,657	30	100
134 Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	5,350,911	30	100
135 adidas Korea Ltd.	Seoul (Korea)	KRW	110,986,329	directly	100
136 Taylor Made Korea Ltd.	Seoul (Korea)	KRW	20,593,684	directly	100
137 adidas Korea Technical Services Ltd.	Pusan (Korea)	KRW	(5,802,755)	122	100
138 adidas India Private Ltd.[3]	New Delhi (India)	INR	(81,589)	directly	99
				17	1
139 adidas India Marketing Pvt. Ltd.[3]	New Delhi (India)	INR	—	138	91.4
				17	8.6
140 adidas Technical Services Pvt. Ltd.	New Delhi (India)	USD	883	122	100
141 Reebok India Company	New Delhi (India)	INR	859,995	152	93.15
142 P.T. adidas Indonesia Ltd.	Jakarta (Indonesia)	IDR	22,245,799	17	99
				directly	1
143 adidas (Malaysia) Sdn. Bhd.	Kuala Lumpur (Malaysia)	MYR	32,501	directly	60
				17	40
144 adidas Philippines Inc.	Manila (Philippines)	PHP	251,568	directly	100
145 adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	18,411	directly	100
146 adidas Taiwan Limited	Taipei (Taiwan)	TWD	602,334	17	100
147 adidas Holding (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	(25,481)	indirectly	51
				directly	49
148 adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	682,277	147	50.01
				directly	49.99
149 adidas Australia Pty. Limited	Mulgrave (Australia)	AUD	48,754	17	100
150 adidas New Zealand Limited	Auckland (New Zealand)	NZD	3,375	directly	100
151 adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	(22,794,881)	17	100
152 Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,194	110	99
				92	1
Latin America					
153 adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	179,155	17	95
				4	5
154 Reebok Argentina S.A.	Buenos Aires (Argentina)	ARS	5,461	17	89.99
				18	10
155 adidas do Brasil Ltda.[15]	Sao Paulo (Brazil)	BRL	411,297	4	100

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Shareholdings of adidas AG, Herzogenaurach

at December 31, 2010

Attachment II

Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
156 ASPA do Brasil Ltda.	Sao Paulo (Brazil)	BRL	(11,065)	122	100
157 adidas Trading Paraná Ltda.[15]	Pinhais (Brazil)	BRL	—	155	99.99
158 Reebok Produtos Esportivos Brasil Ltda.	Jundiai (Brazil)	BRL	44,484	17	99.99
159 adidas Chile Ltda.	Santiago de Chile (Chile)	CLP	41,427,037	directly	99
				3	1
160 adidas Colombia Ltda.	Bogota (Columbia)	COP	51,182,945	directly	100
161 adidas de Mexico, S.A. de C.V.[4]	Mexico City (Mexico)	MXN	230,556	directly	100
162 adidas Industrial, S.A. de C.V.[4]	Mexico City (Mexico)	MXN	—	directly	100
163 Reebok de Mexico, S.A. de C.V.	Neucalpan de Juarez (Mexico)	MXN	(307,643)	directly	100
164 adidas Latin America, S.A.	Panama City (Panama)	USD	(23,523)	directly	100
165 Concept Sport, S.A.	Panama City (Panama)	USD	1,306	17	100
166 adidas Market LAM, S.A.	Panama City (Panama)	USD	—	17	100
167 3 Stripes S.A. (adidas Uruguay)[6]	Montevideo (Uruguay)	UYU	(436)	directly	100
168 adidas Corporation de Venezuela, S.A.[6]	Caracas (Venezuela)	VEF	(17)	directly	100
169 adisport Corporation	San Juan (Puerto Rico)	USD	(2,477)	17	100

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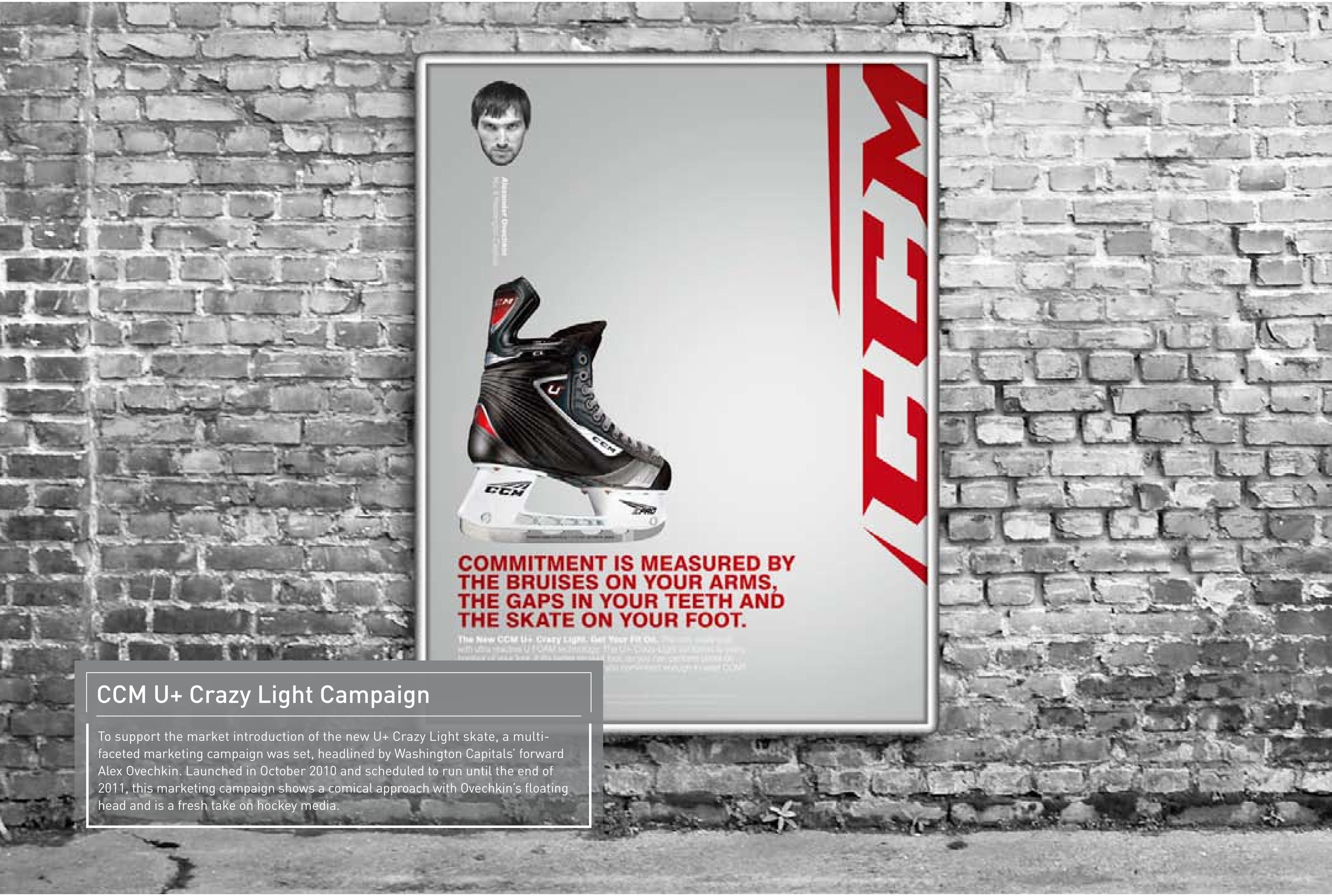

CCM U+ Crazy Light Campaign

To support the market introduction of the new U+ Crazy Light skate, a multi-faceted marketing campaign was set, headlined by Washington Capitals' forward Alex Ovechkin. Launched in October 2010 and scheduled to run until the end of 2011, this marketing campaign shows a comical approach with Ovechkin's floating head and is a fresh take on hockey media.

06

Additional Information

Ten-Year Overview

	2010	2009	2008	2007	2006[1]	2005	2004	2003	2002	2001
Income Statement Data (€ in millions)										
Net sales[2]	11,990	10,381	10,799	10,299	10,084	6,636	5,860	6,267	6,523	6,112
Gross profit[2]	5,730	4,712	5,256	4,882	4,495	3,197	2,813	2,814	2,819	2,601
Royalty and commission income[2]	100	86	89	102	90	47	42	42	46	42
Other operating income[2]	110	100	103	80	55	36	n/a	n/a	n/a	n/a
Other operating expenses[2]	5,046	4,390	4,378	4,115	3,759	2,573	n/a	n/a	n/a	n/a
EBITDA[2]	1,159	780	1,280	1,165	1,078	806	716	652	622	620
Operating profit[2][3]	894	508	1,070	949	881	707	584	490	477	475
Financial result[2][4]	(88)	(150)	(166)	(135)	(158)	(52)	(59)	(49)	(87)	(102)
Income before taxes[2][4]	806	358	904	815	723	655	526	438	390	376
Income taxes[2]	238	113	260	260	227	221	193	167	148	147
Net income attributable to non-controlling interests[2][4]	(1)	0	(2)	(4)	(13)	(8)	(7)	(11)	(14)	(21)
Net income attributable to shareholders[5]	567	245	642	551	483	383	314	260	229	208
Income Statement Ratios										
Gross margin[2]	47.8%	45.4%	48.7%	47.4%	44.6%	48.2%	48.0%	44.9%	43.2%	42.6%
Operating margin[2][3]	7.5%	4.9%	9.9%	9.2%	8.7%	10.7%	10.0%	7.8%	7.3%	7.8%
Interest coverage[2]	10.1	3.9	7.4	6.8	5.9	18.4	10.2	8.4	6.4	4.9
Effective tax rate[2]	29.5%	31.5%	28.8%	31.8%	31.4%	33.7%	36.7%	38.0%	37.9%	39.0%
Net income attributable to shareholders as a percentage of net sales[5]	4.7%	2.4%	5.9%	5.4%	4.8%	5.8%	5.4%	4.2%	3.5%	3.4%
Net sales by brand (€ in millions)										
adidas	8,714	7,520	7,821	7,113	6,626	5,861	5,174	4,950	5,105	4,825
Reebok	1,913	1,603	1,717	1,831	1,979	—	—	—	—	—
TaylorMade-adidas Golf	909	831	812	804	856	709	633	637	707	545
Rockport	252	232	243	291	293	—	—	—	—	—
Reebok-CCM Hockey	200	177	188	210	202	—	—	—	—	—
Net sales by product category (€ in millions)										
Footwear[2]	5,389	4,642	4,919	4,751	4,733	2,978	2,620	2,767	2,851	2,650
Apparel[2]	5,380	4,663	4,775	4,426	4,105	2,798	2,462	2,222	2,288	2,212
Hardware[2]	1,221	1,076	1,105	1,121	1,246	860	778	1,278	1,385	1,250

Rounding differences may arise in percentages and totals.
1) Including Reebok, Reebok-CCM Hockey and Rockport from February 1, 2006 onwards. 2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation. 4) 2003 and 2004 figures have been restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
5) Includes income from continuing and discontinued operations. 6) Figures adjusted for 1:4 share split conducted on June 6, 2006. 7) Subject to Annual General Meeting approval.

Ten-Year Overview

	2010	2009	2008	2007	2006[1]	2005	2004	2003	2002	2001
Balance Sheet Data (€ in millions)										
Total assets[4]	10,618	8,875	9,533	8,325	8,379	5,750	4,434	4,188	4,261	4,183
Inventories	2,119	1,471	1,995	1,629	1,607	1,230	1,155	1,164	1,190	1,273
Receivables and other current assets	2,324	2,038	2,523	2,048	1,913	1,551	1,425	1,335	1,560	1,520
Working capital[4]	1,972	1,649	1,290	1,522	1,733	2,644	1,336	1,433	1,445	1,485
Net borrowings	221	917	2,189	1,766	2,231	(551)	665	1,018	1,498	1,679
Shareholders' equity[4]	4,616	3,771	3,386	3,023	2,828	2,684	1,544	1,285	1,081	1,015
Balance Sheet Ratios										
Net borrowings/EBITDA[2]	0.2	1.2	1.7	1.5	2.1	(0.7)	0.9	1.6	2.4	2.7
Financial leverage[4]	4.8%	24.3%	64.6%	58.4%	78.9%	(20.5%)	43.1%	79.2%	138.5%	165.5%
Equity ratio[4]	43.5%	42.5%	35.5%	36.3%	33.8%	46.7%	34.8%	30.7%	25.4%	24.3%
Equity-to-fixed-assets ratio[4]	97.4%	85.9%	73.6%	72.2%	63.5%	194.0%	110.4%	91.1%	75.4%	77.8%
Asset coverage I[4]	141.5%	137.4%	127.7%	136.1%	138.7%	284.1%	194.1%	197.6%	196.9%	209.3%
Asset coverage II[4]	97.7%	102.9%	89.1%	98.0%	102.0%	150.4%	106.3%	108.3%	107.6%	105.9%
Fixed asset intensity of investments	44.6%	49.5%	48.2%	50.3%	53.2%	24.1%	31.6%	33.7%	33.7%	31.2%
Current asset intensity of investments	55.4%	50.5%	51.8%	49.7%	46.8%	75.9%	68.4%	66.3%	66.3%	68.8%
Liquidity I[4]	35.5%	30.0%	10.5%	14.5%	15.8%	92.0%	26.8%	20.8%	5.5%	6.1%
Liquidity II[4]	78.2%	80.4%	55.1%	70.3%	80.4%	148.0%	88.4%	100.8%	99.1%	96.0%
Liquidity III[4]	132.4%	132.2%	109.8%	132.6%	153.7%	219.4%	156.4%	187.4%	185.3%	187.4%
Working capital turnover[4]	6.1	6.3	8.4	6.8	5.8	2.6	4.4	4.4	4.5	4.1
Return on equity[4] [5]	12.3%	6.5%	18.9%	18.2%	17.1%	14.3%	20.4%	20.2%	21.1%	20.5%
Return on capital employed[4] [5]	20.2%	11.3%	19.8%	20.2%	17.6%	49.3%	27.5%	22.1%	16.8%	16.7%
Data Per Share[6]										
Share price at year-end (in €)	48.89	37.77	27.14	51.26	37.73	40.00	29.69	22.58	20.58	21.08
Basic earnings[5] (in €)	2.71	1.25	3.25	2.71	2.37	2.05	1.72	1.43	1.26	1.15
Diluted earnings[5] (in €)	2.71	1.22	3.07	2.57	2.25	1.93	1.64	1.43	1.26	1.15
Price/earnings ratio at year-end	18.0	31.0	8.8	19.9	16.8	20.7	18.1	15.8	16.3	18.3
Market capitalisation at year-end (€ in millions)	10,229	7,902	5,252	10,438	7,679	8,122	5,446	4,104	3,738	3,823
Operating cash flow (in €)	4.28	6.11	2.52	3.83	3.74	1.88	3.17	3.58	2.94	2.12
Dividend (in €)	0.80[7]	0.35	0.50	0.50	0.42	0.33	0.33	0.25	0.25	0.23
Dividend payout ratio (in %)	29.5	29.8	15.1	18.0	17.7	17.2	18.9	17.5	19.8	20.0
Number of shares outstanding at year-end (in thousands)	209,216	209,216	193,516	203,629	203,537	203,047	183,436	181,816	181,692	181,396
Employees										
Number of employees at year-end[2]	42,541	39,596	38,982	31,344	26,376	15,935	14,254	15,686	14,716	13,941
Personnel expenses[2] (€ in millions)	1,521	1,352	1,283	1,186	1,087	706	637	709	758	695

Rounding differences may arise in percentages and totals.
1) Including Reebok, Reebok-CCM Hockey and Rockport from February 1, 2006 onwards. 2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation. 4) 2003 and 2004 figures have been restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
5) Includes income from continuing and discontinued operations. 6) Figures adjusted for 1:4 share split conducted on June 6, 2006. 7) Subject to Annual General Meeting approval.

Glossary

A

AFIRM (Apparel and Footwear International Restricted Substances List Management Working Group)
A centre of excellence comprising experts whose aim it is to reduce the use and impact of harmful substances in the apparel and footwear supply chains »» see also www.afirm-group.org.

American Depositary Receipt (ADR)
US-traded negotiable certificate of a foreign-based company held by a US bank that entitles the holder to all dividends and rights of the underlying stock. ADRs provide a way for US-based investors to invest in foreign-based companies by buying their shares in the USA instead of through an overseas exchange.

B

Backlogs
Also called order backlogs. The value of orders received for future delivery. Most retailers' orders are received six to nine months in advance.

Basic Earnings Per Share (Basic EPS)
Performance indicator used to gauge a company's earnings per share, based on the number of shares outstanding (excluding stock options, as well as options and conversion rights related to a convertible bond).

Basic EPS = net income / weighted average number of shares outstanding during the year

»» see also Diluted Earnings Per Share.

Beta coefficient
Indicates a stock's relative risk. A beta coefficient of more than one indicates that the stock has a higher risk than the overall market. Conversely, a beta coefficient of less than one indicates a lower risk.

Better Cotton Initiative
The Better Cotton Initiative (BCI) was created through a collaboration between the World Wildlife Fund (WWF) and a wide range of stakeholders involved in the cotton supply chain. BCI aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide to make it more economically, environmentally, and socially sustainable »» see also www.bettercotton.org.

C

CAD
Computer-aided design (CAD) is the use of computer technology for the process of design and design documentation.

Capital expenditure
Total cash expenditure used for the purchase of tangible and intangible assets, excluding acquisitions and finance leases.

Celliant fibres
Celliant is a component for use in the textile industry. It is a fabric material that modifies visible and infrared light, redirecting this energy back to the body to increase blood flow and blood oxygen levels.

Commercial paper
Tradable unsecured promissory notes issued for the purpose of short-term financing. Commercial paper is issued on an ongoing, revolving basis with maturities typically between seven days and 12 months or more.

Concession corners
Retail space that is fully operated by one brand of the adidas Group and is part of a larger sales area operated by a retail partner.

Consumer price index (CPI)
Measure of the average price of consumer goods and services purchased by households. Determined by measuring the price of a standard group of goods meant to represent the typical market basket of a typical urban consumer. The percentage change in the CPI is a measure of inflation.

Controlled space
Controlled space includes own-retail business, mono-branded stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

Corporate Governance
Distribution of rights and responsibilities among the primary stakeholders in a company, in particular shareholders, the Executive Board and the Supervisory Board.

Cost of sales
The amount the Group pays to third parties for expenses associated with producing and delivering our products. Own-production expenses are also included in the Group's cost of sales.

Credit default swap
A credit default swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) undergoes a defined "Credit Event", often described as a default (fails to pay).

Credit spread
Risk premium which represents the yield difference between risk-free government bonds and corporate bonds with the same duration. A potential investor demands an additional yield (risk premium = credit spread) for the higher risk of default with corporate bonds versus government bonds.

Currency-neutral
Financial figures translated at prior-year exchange rates. This indicates increases or decreases to reported figures by eliminating variances arising from currency translation, thus reflecting the underlying business performance.

Customer relationship management (CRM)
Capabilities and methodologies used by a company with its customers to systematically design and build customer relationships and processes.

D

D&O liability insurance
Directors and Officers (D&O) liability insurance. Protects directors and officers from liability and litigation from actions against them, claiming wrongdoing in connection with the company's business.

DAX-30 (DAX)
The DAX (Deutscher Aktienindex) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Days of sales outstanding (DSO)
Average time of receipt of outstanding payments from customers.

Diluted Earnings Per Share (Diluted EPS)
Performance indicator used to gauge a company's earnings per share, assuming that all stock options and conversion rights related to a convertible bond are exercised, which would result in an increase of the number of shares outstanding.
Diluted EPS = (net income + interest expense on convertible bonds net of tax) / (weighted average number of shares outstanding during the year + weighted share options + shares from assumed conversion of convertible bonds).

Dow Jones Sustainability Index
The Dow Jones Sustainability Index (DJSI) measures companies' sustainability initiatives, focusing on how a company recognises the risks and opportunities arising from sustainability issues in its business strategy.

E

EBITDA
Earnings before interest, taxes, depreciation, amortisation and impairment losses as well as reversals of impairment losses for tangible and intangible assets.

Emerging markets
Developing countries showing potential for growth in both economic strength and private wealth in the future. For the adidas Group, emerging markets are the developing countries of Asia, Eastern Europe, Latin America and Africa.

Enterprise Resource Planning (ERP)
A business management system that integrates all facets of the business, including planning, manufacturing, sales and marketing.

Equity derivatives
Class of derivatives whose value is at least partly derived from one or more underlying equity securities. Options and futures are by far the most common equity derivatives, however there are many other types of equity derivatives that are actively traded.

Equity ratio
Shows the role of shareholders' equity within the overall financing structure of a company.
Equity ratio = (shareholders' equity / total assets) × 100.

Equity-to-fixed-asset ratio
Defines the percentage of non-current assets financed by equity.
Equity-to-fixed-asset ratio = equity / non-current assets.

E-tailer
Retailer that primarily uses the internet as a medium for consumers to shop for the goods or services provided. E-tailers optimise the internet potential to attract, convert and retain consumers.

F

Fair Factories Clearinghouse
The Fair Factories Clearinghouse (FFC) was established in 2004 with the purpose of improving social, environmental and security standards and helping create humane working conditions for workers making consumer goods globally. Membership includes many sporting and consumer goods companies as well as a wide range of consumer goods suppliers »» see also www.fairfactories.org.

Fair Labor Association (FLA)
The Fair Labor Association (FLA), a non-profit labour rights organisation, is a multi-stakeholder initiative bringing together companies, colleges and universities, and civil society organisations to improve working conditions worldwide by promoting adherence to international and national labour laws »» see also www.fairlabor.org.

Fair value
Amount at which assets are traded fairly between business parties. Fair value is often identical to market price.

Finance lease
Method of acquiring an asset that involves a lease with a special leasing company for a specific, non-terminable initial leasing term. The investment risk is borne by the lessee.

Financial leverage
Ratio reflecting the role of borrowings within the financing structure of a company.
Financial leverage = (net borrowings / shareholders' equity) × 100.

Forward contract
Agreement to exchange amounts of one currency for another currency at an agreed fixed rate at a future date.

Franchising
Form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). The franchisor offers assistance in organising, training, merchandising, marketing and managing in return for a monetary consideration.

Free cash flow
Cash that is generated by a company's operating activities after the deduction of capital expenditure and other cash expenses such as taxes and interest from the operating profit.
Free cash flow = operating profit + depreciation and amortisation (incl. goodwill) +/– changes in operating working capital – capital expenditure +/- non-operating components.

G

German Co-Determination Act
Mitbestimmungsgesetz (MitbestG). This act governs the form of co-determination of employees in corporations employing more than 2,000 employees. It stipulates, among other things, that such a corporation's Supervisory Board must be composed of an equal number of employee and shareholder representatives.

Goodwill
Intangible asset that quantifies the price that a buyer of a company has paid for the reputation, know-how and market position of the acquired company. Goodwill is the excess of the amount paid over the fair value of the net assets acquired at the purchase date.

Go-to-market
All instruments, tools and channels used to connect with consumers in order to best fulfil their needs.

Green grass retailers
Golf distribution channel. Small golf specialty shops typically located at a golf course.

Gross Domestic Product (GDP)
Market value of all finished goods and services produced within a country in a given period of time.
GDP = consumption + investment + government spending + (exports – imports).

Gross margin
Gross profit as a percentage of net sales.
Gross margin = (gross profit / net sales) × 100.

Gross profit
Difference between net sales and the cost of sales.
Gross profit = net sales – cost of sales.

H

Halo effect
The halo effect refers to the cognitive bias effect that when we consider something good (or bad) in one category, we are likely to make a similar evaluation in other (related) categories.

Hardware
Product category which comprises equipment that is used rather than worn by the athlete, such as bags, balls, fitness equipment, golf clubs and hockey sticks.

Hedging
A strategy used to minimise exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.) ››› see also Natural hedges.

I

Institutional investors
Investors such as investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. They are financially sophisticated, with a greater knowledge of investment vehicles and risks, and have the means to make large investments.

Interest coverage
Indicates the ability of a company to cover net interest expenses with income before net interest and taxes.
Interest coverage = (income before net interest expense and tax / net interest expense) × 100.

International Financial Reporting Standards (IFRS)
Reporting standards (formerly called IAS) which have been adopted by the International Accounting Standards Board (IASB). The objective is to achieve uniformity and transparency in the accounting principles that are used by businesses and other organisations for financial reporting around the world.

International Labour Organization
The International Labour Organization (ILO) is a specialised agency of the United Nations that engages in formulating and implementing international social and workplace standards and guidelines ››› see also www.ilo.org.

ISO 14001
International Organization for Standardization (ISO) Standard 14001 specifies the requirements for an environmental management system within companies/ organisations. It applies to those environmental aspects over which the organisation has control and over which it can be expected to have an influence (e.g. energy and water consumption).

J

Joint venture
A cooperation between companies involving the foundation of a new, legally independent business entity in which the founding companies (two or more companies) participate with equity and significant resources.

K

Key accounts
Wholesalers or retailers which are primary customers for the Group and account for a large percentage of sales.

Kicks
Informal word for athletic footwear.

Kinesiology
The science of the psychological mechanisms associated with human movement.

L

Leather Working Group
The Leather Working Group (LWG) was formed in April 2005 to promote sustainable and appropriate environmental stewardship practices within the leather industry ››› see also www.leatherworkinggroup.com.

Licensed apparel
Apparel products which are produced and marketed under a licence agreement. The adidas Group has licence agreements with sports organisations (e.g. FIFA, UEFA, IOC), sports leagues (e.g. NFL, NBA), professional teams (e.g. Real Madrid, AC Milan) and universities (e.g. UCLA, Notre Dame).

Lien
The right to take and hold or sell the asset of a debtor as security or payment for a debt.

Liquidity I, II, III
The liquidity ratio indicates how quickly a company can liquidate its assets to pay for current liabilities.
Liquidity I:
((Cash + short-term financial assets) / current liabilities) × 100.
Liquidity II:
((Cash + short-term financial assets + accounts receivable) / current liabilities) × 100.
Liquidity III:
((Cash + short-term financial assets + accounts receivable + inventories) / current liabilities) × 100.

M

Market capitalisation
Total market value of all shares outstanding.
Market capitalisation = number of shares out-standing × current market price.

Marketing working budget (MWB)
Promotion and communication spending including sponsorship contracts with teams and individual athletes, as well as advertising, retail support, events and other communication activities, but excluding marketing overhead expenses. As MWB expenses are not distribution channel-specific, they are not allocated to the Group's operating segments.

Mono-branded stores
adidas, Reebok or Rockport branded stores not operated or owned by the adidas Group but by franchise partners. This concept is used especially in the emerging markets such as China, benefiting from local expertise of the respective franchise partners ››› see also Franchising.

N

Natural hedges
Offset of currency risks that occurs naturally as a result of a company's normal operations, without the use of derivatives. For example, revenue received in a foreign currency and used to pay known commitments in the same foreign currency.

Net borrowings
Portion of gross borrowings not covered by the sum of cash and short-term financial assets. If a negative figure is shown, this indicates a net cash position.
Net borrowings = short-term borrowings + long-term borrowings – cash – short-term financial assets.

Non-controlling interests
Part of net income which is not attributable to the reporting company as it relates to outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

O

OHSAS 18000
OHSAS 18000 is an international occupational health and safety management system specification.

ÖKO-Tex Standard 100
An international testing and certification system for textiles, defining and limiting the use of certain chemicals.

Operating lease
Method of leasing assets over periods less than the expected lifetime of those assets. An operating lease is accounted for by the lessee without showing an asset or a liability on his balance sheet. Periodic payments are accounted for by the lessee as operating expenses for the period.

Operating overheads
Expenses which are not directly attributable to the products or services sold, such as costs for sales, marketing overhead costs, logistics, research and development, as well as general and administrative costs, but not including costs for promotion, advertising and communication.

Operating profit
Profit from operating activities after cost of sales and other operating expenses.
Operating profit = gross profit + royalty and commission income + other operating income – sales working budget – marketing working budget – operating overheads.

Operating working capital
Company's short-term disposable capital which is used to finance its day-to-day business. In comparison to working capital, operating working capital does not include non-operational items such as cash, financial assets and taxes.
Operating working capital = accounts receivable + inventories – accounts payable
»» see also Working capital.

Option
Financial instrument which ensures the right to purchase (call option) or to sell (put option) a particular asset (e.g. shares or foreign exchange) at a predetermined price (strike price) on or before a specific date.

P

Performance business
In the sporting goods industry, business related to technical footwear and apparel, used primarily in doing sports.

Price-earnings ratio (P/E)
A company's share price divided by its current or future diluted earnings per share. The P/E ratio is used by investors as a fundamental measure of the attractiveness of a particular security versus other securities or the overall market. It is usually more useful to compare P/E ratios of one company to other companies in a similar industry. In general, a high P/E ratio suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

Price points
Specific selling prices, normally using "psychological" numbers, for example a product price of US $ 99.99 instead of US $ 100.

Private investor
Individual who invests his/her own money in the capital market, as opposed to an institutional investor.

Private placement
Placement of debt securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds and foundations.

Product licensees
Companies that have the authorisation to use the name of a brand or business for the production and sale of products. For adidas, licensed products include cosmetics, watches and eyewear, for Reebok, fitness equipment and for TaylorMade-adidas Golf, bags and gloves.

Promotion partnerships
Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the adidas Group, the party is provided with cash and/or promotional material.

Push-pull model
A push-pull system in the retail business describes the supply and demand dynamic between retailers and consumers. Under the push model, products are supplied based on anticipated customer orders (speculative) whereas in a pull model system goods are supplied based on consumer point-of-sale demands and actual market sales trends.

R

Regions
The adidas Group distinguishes seventeen markets which are aggregated into six regions: Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.

Return on capital employed (ROCE)
Measure of the returns that a company is realising from its capital.
ROCE = (income before taxes + financial result) / (average of shareholders' equity + non-controlling interests + total net borrowings) × 100.

Return on equity (ROE)
Indicator of company profitability related to the shareholders' financing.
ROE = (net income / shareholders' equity) × 100.

Risk-free rate
Rate of return to be expected on a risk-less investment, e.g. government bonds.

Risk premium
Extra return that the overall market or a particular stock must provide over the risk-free rate to compensate an investor for taking a relatively higher risk.
Risk premium = market risk – risk-free rate.

S

Sales working budget
Sales working budget expenditures relate to advertising and promotion initiatives at the point of sale as well as store fittings and furniture. As sales working budget expenses are channel-specific, they are allocated to the Group's operating segments.

Segment
Also Business Segment. Units within a company that have profit and loss responsibility. The adidas Group is currently divided into six major business segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands.

Sell-through
An indicator of how fast retailers are selling a particular product to the consumer.

Shop-in-shop
adidas, Reebok or Rockport area within a larger store. The concept may be operated by the store or the adidas Group depending on individual arrangements. The goal of this distribution method is to give consumers a similar experience to an own-retail environment, albeit on a smaller scale.

Signature Collection
Collection bearing the name or the brand of top athletes.

Stakeholders
All groups that have a direct or indirect interest in the efforts and results of a company, for example lenders, shareholders, consumers, retailers, suppliers, licensees, business partners in the supply chain, employees, international sport federations, non-governmental organisations, media, etc.

Swap
A derivative in which two counterparties agree to exchange one stream of cash flows against another stream.

Syndicated loan
A syndicated loan is one that is provided by a group of lenders and is structured, arranged and administered by one or several commercial banks or investment banks known as arrangers.

T

Top- and bottom-line growth
A company's bottom line is its net income, or the "bottom" figure on a company's income statement. More specifically, the bottom line is a company's income after all expenses have been deducted from revenues. The top line refers to a company's sales or revenues.

Top-down, bottom-up
Specific concept for information and knowledge processing. Information and empowerment of management decisions is delegated from top to bottom in a first step. After going into more detail on the bottom level, the final information/decision is transported back to the top.

Toxproof mark/TÜV Rheinland Group
The Toxproof mark is a safety mark issued by TÜV Rheinland, especially for testing the quantities of toxins in products.

Trendscouting
Identification and commercialisation of future trends, particularly lifestyle trends.

V

Vertical retailer
A retail company that (vertically) controls the entire design, production and distribution processes of its products.

Visual merchandising
Activity of promoting the sale of goods, especially by their presentation in retail outlets.This includes combining products, environments and spaces into a stimulating and engaging display to encourage the sale of a product or service.

VOC (Volatile Organic Compounds)
Volatile organic compounds (VOCs) are organic chemical compounds that can vapourise into the air and may be harmful and cause breathing and health problems. VOCs are by-products of the shoe manufacturing process.

W

Weighted average cost of capital (WACC)
Calculation of the cost of capital according to the debt / equity structure, utilising a weighted average cost of capital (WACC) formula. The cost of equity is typically computed utilising a risk-free rate, market risk premium and a beta factor. The cost of debt is calculated through the risk-free rate, credit spread and average tax rate.

Working capital
A company's short-term disposable capital used to finance the day-to-day operations.
Working capital = total current assets – total current liabilities
»» see also Operating working capital.

Working capital turnover
Shows how often a working capital item was used in and replaced by the generation of sales in the period under review. The ratio shows how long working capital is tied up and thus is an indicator of the volume of capital needed to generate sales. The higher the ratio, the more positive it is deemed to be.
Working capital turnover = net sales / working capital.

World Business Council for Sustainable Development (WBCSD)
The WBCSD is a global association of some 200 international companies dealing exclusively with business and sustainable development
»» see also www.wbcsd.org.

World Federation of the Sporting Goods Industry (WFSGI)
The WFSGI is an independent non-profit organisation formed by sporting goods brands, manufacturers, suppliers, retailers and other sporting industry-related businesses. It is the world authoritative body for the sporting goods industry and is officially recognised by the International Olympic Committee (IOC) as the industry representative »» see also www.wfsgi.org.

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Declaration of Support

adidas AG declares support, except in the case of political risk, that the following companies are able to meet their contractual liabilities:

adidas (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia
adidas (South Africa) (Pty) Ltd., Cape Town, South Africa
adidas (UK) Limited, Stockport, Great Britain
adidas Argentina S.A., Buenos Aires, Argentina
adidas Austria GmbH, Klagenfurt, Austria
adidas Benelux B.V., Amsterdam, Netherlands
adidas Chile Ltda., Santiago de Chile, Chile
adidas Colombia Ltda., Bogota, Columbia
adidas Croatia d.o.o., Zagreb, Croatia
adidas do Brasil Ltda., Sao Paulo, Brazil
adidas Espana S.A., Zaragoza, Spain
adidas France S.a.r.l., Landersheim, France
adidas India Marketing Pvt. Ltd., New Delhi, India
adidas Industrial, S.A. de C.V., Mexico City, Mexico
adidas International B.V., Amsterdam, Netherlands
adidas International Finance B.V., Amsterdam, Netherlands
adidas International Trading B.V., Amsterdam, Netherlands
adidas Italy S.p.A, Monza, Italy
adidas Japan K.K., Tokyo, Japan
adidas Korea Ltd., Seoul, Korea
adidas LLP, Almaty, Republic of Kazakhstan
adidas Philippines Inc., Manila, Philippines
adidas Portugal – Artigos de Desporto, S.A., Lisbon, Portugal
adidas Serbia d.o.o., New Belgrade, Serbia
adidas Spor Malzemeleri Satis ve Pazarlama A.S., Istanbul, Turkey
adidas sport gmbh, Cham, Switzerland
adidas Sports (China) Co. Ltd., Suzhou, China
adidas Sverige AB, Stockholm, Sweden
adidas Taiwan Limited, Taipei, Taiwan
adidas Vietnam Company Limited , Ho Chi Minh City, Vietnam
LLC "adidas, Ltd.", Moscow, Russia
P.T. adidas Indonesia Ltd., Jakarta, Indonesia
Sarragan AG, Cham, Switzerland
SC "adidas-Ukraine", Kiev, Ukraine
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For further adidas Group publications, please see our corporate website.

To improve readability, registered trademarks are omitted in this Annual Report.

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Financial Calendar 2011

Event	Date
Full Year 2010 Results Analyst and press conferences in Herzogenaurach, Germany Press release, conference call and webcast Publication of Annual Report 2010	**March 2, 2011**
First Quarter 2011 Results Press release, conference call and webcast	**May 5, 2011**
Annual General Meeting Fürth (Bavaria), Germany Webcast	**May 12, 2011**
Dividend paid (Subject to Annual General Meeting approval)	**May 13, 2011**
First Half 2011 Results Press release, conference call and webcast	**August 4, 2011**
Nine Months 2011 Results Press release, conference call and webcast	**November 3, 2011**

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