CALLING ALL CREATORS

adidas

Q1 2017

ADIDAS FIRST QUARTER REPORT

JANUARY — MARCH 2017

ADIDAS FIRST QUARTER REPORT 2017

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

01 FINANCIAL HIGHLIGHTS (IFRS)

	First quarter 2017	First quarter 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	5,671	4,769	18.9%
Gross profit [1]	2,790	2,358	18.3%
Other operating expenses [1]	2,215	1,924	15.2%
EBITDA [1]	762	590	29.2%
Operating profit [1]	632	490	28.8%
Net income from continuing operations [1]	455	350	29.9%
Net income attributable to shareholders [2]	455	351	29.6%
Key Ratios			
Gross margin [1]	49.2%	49.4%	(0.2pp)
Other operating expenses in % of net sales [1]	39.1%	40.3%	(1.3pp)
Operating margin [1]	11.1%	10.3%	0.9pp
Effective tax rate [1]	28.9%	29.5%	(0.6pp)
Net income attributable to shareholders in % of net sales [2]	8.0%	7.4%	0.7pp
Average operating working capital in % of net sales [1, 3]	20.1%	20.2%	(0.1pp)
Equity ratio	42.8%	42.3%	0.5pp
Net borrowings/EBITDA [1, 4]	0.4	0.5	
Financial leverage	12.8%	14.2%	(1.5pp)
Return on equity [2]	6.8%	6.2%	0.6pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	15,684	13,415	16.9%
Inventories	3,609	2,939	22.8%
Receivables and other current assets	4,210	3,397	24.0%
Working capital	2,307	2,205	4.6%
Net borrowings	859	809	6.3%
Shareholders' equity	6,719	5,679	18.3%
Capital expenditure	116	68	71.5%
Net cash used in operating activities [2]	(542)	(266)	103.9%
Per Share of Common Stock (€)			
Basic earnings [2]	2.26	1.75	29.0%
Diluted earnings [2]	2.23	1.71	30.4%
Net cash used in operating activities [2]	(2.69)	(1.33)	102.9%
Dividend	2.00 [5]	1.60	25.0%
Share price at end of period	178.30	103.00	73.1%
Other (at end of period)			
Number of employees [1]	59,661	56,090	6.4%
Number of shares outstanding	201,550,844	200,197,417	0.7%
Average number of shares	201,209,054	200,197,417	0.5%

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.
2 Includes continuing and discontinued operations.
3 Twelve-month trailing average.
4 EBITDA of last twelve months.
5 Subject to Annual General Meeting approval.

OUR SHARE

ADIDAS AG CONTINUES TO OUTPERFORM INTERNATIONAL EQUITY MARKETS

International equity markets ended the first quarter of 2017 on a positive note, supported by improvements in leading economic indicators in the Eurozone, the US and China as well as hopes for business-friendly policies to be introduced by the new US administration. As a consequence, the DAX-30 closed the first quarter 7% above the 2016 year-end level. The adidas AG share continued to outperform international stock markets, driven by the release of the strong FY 2016 financial results and FY 2017 outlook as well as the publication of the company's 2020 acceleration plan. The adidas AG share closed the first quarter at € 178.30, up 19% compared to the end of December 2016. see Table 02

DIVIDEND PROPOSAL OF € 2.00 PER SHARE

The adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 2.00 per dividend-entitled share for 2016, representing an increase of 25% compared to the prior year (2015: € 1.60). Subject to approval by the Annual General Meeting (AGM) on May 11, 2017, the total payout of € 403 million (2015: € 320 million), as at March 31, 2017, reflects a payout ratio of 39.6% (2015: 47.9%) of net income attributable to shareholders, which is within the target range of between 30% and 50% of net income attributable to shareholders as defined in our dividend policy.

THIRD TRANCHE OF SHARE BUYBACK PROGRAMME COMPLETED

On November 7, 2016, adidas AG announced the commencement of the third tranche of the share buyback programme with an aggregate acquisition cost of up to € 300 million (excluding incidental purchasing costs). Within the third tranche, which was completed on January 31, 2017, adidas AG bought back 2,128,200 shares, corresponding to a notional amount of € 2,128,200 in the nominal capital and consequently 1.02% of the company's nominal capital. Thereof, a total of 472,966 shares were bought back between January 1, 2017 and January 31, 2017 and thus within the first quarter of 2017. The total number of shares bought back so far by adidas AG within the framework of the share buyback programme resolved upon on October 1, 2014 and initiated on November 7, 2014 amounts to 11,146,969 shares. This corresponds to a notional amount of € 11,146,969 in the nominal capital and consequently to 5.33% of adidas AG's nominal capital.

02 PERFORMANCE OF THE ADIDAS AG SHARE AND IMPORTANT INDICES AT MARCH 31, 2017 IN %

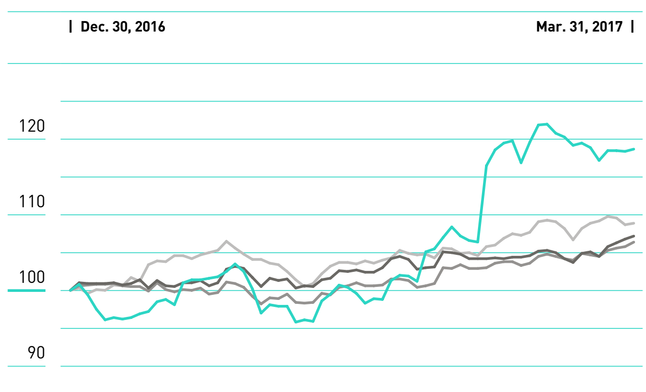
	YTD	1 year	3 years	5 years	10 years
adidas AG	19	73	127	205	336
DAX-30	7	24	29	77	78
EURO STOXX 50	6	17	11	41	(16)
MSCI World Textiles, Apparel & Luxury Goods	9	4	4	28	97

Source: Bloomberg.

57% OF CONVERTIBLE BOND CONVERTED

In March 2012, adidas AG successfully issued a convertible bond, due on June 14, 2019, for an aggregate nominal amount of € 500 million. The bonds were priced with a 0.25% annual coupon and a conversion premium of 40% above the reference price of € 59.61, resulting in an initial conversion price of € 83.46 per share which, as a consequence of contractual provisions relating to dividend protection, was adjusted to € 81.57 per share in May 2016. As a result of conversion rights exercised, a total of 534,500 shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from January 1, 2017 to March 31, 2017. In total, 3,481,627 shares were transferred following the exercise of conversion rights, all of which were serviced from treasury shares of the company. As at March 31, 2017, the remaining bonds were convertible into up to 2,648,018 new or existing adidas AG shares. Consequently, at the end of the first quarter of 2017, 57% of the convertible bond was converted. The convertible bond closed the quarter at € 217.80, well above the prior year level of € 133.27.

03 SHARE PRICE DEVELOPMENT IN 2017 [1]



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

BUSINESS PERFORMANCE

ECONOMIC AND SECTOR DEVELOPMENT

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

In the first quarter of 2017, the global economy strengthened at a moderate rate, reflecting buoyant financial markets, a modest recovery in investment and manufacturing activity as well as improved global trade. Nevertheless, policy uncertainties, heightened geopolitical tensions and political discord arising from the UK Brexit vote as well as the unknown outcome of the upcoming elections in France remained major sources of uncertainty and continued to weigh on economic activity. In developed economies, the economic recovery gained further momentum throughout the quarter, supported by an uptick in consumer confidence as well as improvements in domestic demand, manufacturing activity and global trade. Developing economies also grew in the first quarter of 2017, mainly reflecting improving domestic demand, the gradual recovery in commodity prices as well as accommodative fiscal and monetary policies and higher oil prices.

1 Source: IMF, World Economic Outlook.

ROBUST GROWTH FOR THE GLOBAL SPORTING GOODS INDUSTRY IN THE FIRST QUARTER[2, 3]

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

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

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
USA[2]	96.1	97.4	103.5	113.3	125.6
Euro area[3]	(9.7)	(7.2)	(8.2)	(5.1)	(5.0)
Japan[4]	41.3	42.1	42.6	42.3	44.0
China[5]	100.0	102.9	104.6	108.4	112.6
Russia[6]	(30.0)	(26.0)	(19.0)	(18.0)	(15.0)
Brazil[7]	97.6	101.0	103.1	100.3	102.0

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

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

	Average rate 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Average rate 2017[2]
USD	1.1069	1.1102	1.1161	1.0541	1.0691	1.0639
GBP	0.8188	0.8265	0.8610	0.8562	0.8555	0.8601
JPY	120.40	114.05	113.09	123.40	119.55	121.05
RUB	74.278	71.339	70.491	63.938	60.274	62.560
CNY	7.3515	7.3620	7.4531	7.3123	7.3760	7.3292

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

INCOME STATEMENT

ADIDAS RECORDS STRONG FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2017

In the first quarter of 2017, revenues increased 16% on a currency-neutral basis. In euro terms, revenues grew 19% to € 5.671 billion. see Table 06 From a brand perspective, currency-neutral adidas revenues grew 18%, driven by double-digit sales increases in the running and outdoor categories as well as at adidas Originals and adidas neo. In addition, high-single-digit growth in the training category also contributed to this development. Currency-neutral Reebok sales were up 13% versus the prior year, as a result of double-digit sales increases in the training category and in Classics as well as mid-single-digit growth in the running category. From a market segment perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands grew in all market segments except Russia/CIS. Growth was particularly strong in Western Europe, North America, Greater China, Japan and MEAA, where revenues increased at double-digit rates each. In addition, sales in Latin America grew at a high-single-digit rate.

The gross margin declined 0.2 percentage points to 49.2%, as the positive effect from an improved pricing and product mix as well as lower input costs was more than offset by unfavourable currency developments. see Table 06

Royalty and commission income increased 19% to € 29 million. On a currency-neutral basis, royalty and commission income increased 11%. Other operating income declined 9% to € 29 million, mainly due to a decrease in income from the release of accruals and provisions.

Other operating expenses were up 15% to € 2.215 billion, as a result of an increase in expenditure for point-of-sale and marketing investments as well as higher operating overhead expenditure. As a percentage of sales, however, other operating expenses decreased 1.3 percentage points to 39.1%. see Table 06 Expenditure for point-of-sale and marketing investments amounted to € 669 million, which represents an increase of 10% versus the prior year level. As a percentage of sales, the company's expenditure for point-of-sale and marketing investments declined 0.9 percentage points to 11.8%, reflecting the strong top-line improvement. Operating overhead expenses grew 17% to € 1.547 billion. As a percentage of sales, however, operating overhead expenses decreased 0.4 percentage points to 27.3% as a result of the company's strong top-line development.

Operating profit grew 29% to € 632 million, representing an operating margin of 11.1%, up 0.9 percentage points versus the prior year. see Table 06 This development was due to the positive effect of lower other operating expenses as a percentage of sales, which more than offset the decline in gross margin. Financial income increased 44% to € 28 million, mainly as a result of positive exchange rate effects. Financial expenses were up 49% to € 20 million, due to an increase in interest expenses. As a result, net financial income increased to € 8 million from € 6 million in the prior year. The company's tax rate was down 0.6 percentage points to 28.9%. see Financial Highlights, p. 3 Net income from continuing operations as well as net income attributable to shareholders, which in addition to net income from continuing operations includes the result from discontinued operations, grew 30% to € 455 million. see Table 06 The total number of shares outstanding increased by 61,534 shares in the first quarter of 2017 to 201,550,844 as a result of share conversions in relation to the company's outstanding convertible bond which were partly offset by shares repurchased as part of the company's share buyback programme. Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 201,209,054. Basic EPS from continuing and discontinued operations increased 29% to € 2.26. Diluted EPS from continuing and discontinued operations grew 30% to € 2.23. see Table 06

06 KEY FINANCIAL HIGHLIGHTS

	First quarter 2017	First quarter 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	5,671	4,769	19%
Operating profit [1]	632	490	29%
Net income attributable to shareholders [2]	455	351	30%
Key Ratios			
Gross margin [1]	49.2%	49.4%	(0.2pp)
Other operating expenses in % of net sales [1]	39.1%	40.3%	(1.3pp)
Operating margin [1]	11.1%	10.3%	0.9pp
Per Share of Common Stock (€)			
Diluted earnings [2]	2.23	1.71	30%

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.
2 Includes continuing and discontinued operations.

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

ASSETS

At the end of March 2017, total assets were up 17% to € 15.684 billion compared to the prior year, as a result of an increase in both current assets as well as non-current assets.

Total current assets increased 22% to € 9.348 billion at the end of March 2017. Cash and cash equivalents were up 15% to € 1.524 billion, as net cash generated from financing activities was only partly offset by net cash used in operating and investing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 40 million. Inventories increased 23% to € 3.609 billion. On a currency-neutral basis, inventories grew 18%, reflecting higher stock levels to support the company's top-line momentum. The company's accounts receivable increased 14% to € 2.876 billion. On a currency-neutral basis, receivables were up 11% and thus below the company's top-line development during the year, reflecting our strict discipline in trade terms management and concerted collection efforts. Other current financial assets more than doubled to € 605 million. This development was driven by an increase in the fair value of financial instruments and other financial assets, which was mainly related to the early termination of the Chelsea F.C. contract. Other current assets grew 22% to € 649 million, mainly due to an increase in prepaid promotion contracts as well as higher other prepaid expenses.

Total non-current assets grew 10% to € 6.336 billion at the end of March 2017. Fixed assets increased 10% to € 5.342 billion. Additions of € 757 million were primarily related to own-retail activities, investments into the company's logistics and IT infrastructure as well as the further development of the company's headquarters in Herzogenaurach. Currency translation effects of € 204 million also contributed to the increase in fixed assets. Additions were partly offset by depreciation and amortisation of € 418 million as well as disposals of € 38 million. Other non-current financial assets declined 8% to € 90 million. This development was mainly due to a decrease in other financial assets, partly offset by an increase in the fair value of financial instruments. see Diagram 07

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

	March 31, 2017	March 31, 2016
Assets (€ in millions)	**15,684**	13,415
Cash and cash equivalents	**9.7**	9.9
Accounts receivable	**18.3**	18.8
Inventories	**23.0**	21.9
Fixed assets	**34.1**	36.1
Other assets	**14.9**	13.3

2017 2016

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 13.

LIABILITIES AND EQUITY

Total current liabilities increased 29% to € 7.041 billion at the end of March 2017. Accounts payable were up 23% to € 1.931 billion. On a currency-neutral basis, accounts payable grew 21%, reflecting higher inventories compared to the prior year. Short-term borrowings more than doubled to € 1.406 billion at the end of March 2017, reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings as well as an increase in bank loans. These effects were partly offset by conversions of convertible bonds into adidas AG shares. Current accrued liabilities grew 16% to € 1.926 billion, mainly as a result of an increase in accruals for personnel, invoices not yet received and customer discounts. Other current liabilities were up 34% to € 531 million, mainly due to an increase in miscellaneous taxes payable.

Total non-current liabilities decreased 15% to € 1.941 billion at the end of March 2017. Long-term borrowings decreased 33% to € 982 million compared to the prior year, reflecting the reclassification of the company's convertible bond outstanding to short-term borrowings. see Diagram 08

Shareholders' equity increased 18% to € 6.719 billion at the end of March 2017. The net income generated during the last twelve months, the reissuance of treasury shares in an amount of € 284 million as well as positive currency effects of € 256 million were partly offset by the dividend of € 320 million paid to shareholders for the 2015 financial year and the repurchase of treasury shares in the amount of € 303 million, including incidental purchasing costs. The company's equity ratio increased to 42.8%.

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

	March 31, 2017	March 31, 2016
Liabilities and equity (€ in millions)	**15,684**	13,415
Short-term borrowings	**9.0**	5.0
Accounts payable	**12.3**	11.7
Long-term borrowings	**6.3**	10.9
Other liabilities	**29.7**	30.1
Total equity	**42.7**	42.2

2017 2016

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

OPERATING WORKING CAPITAL

Operating working capital increased 17% to € 4.554 billion at the end of March 2017. Average operating working capital as a percentage of sales from continuing operations decreased 0.1 percentage points to 20.1%, reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management. see Financial Highlights, p. 3

LIQUIDITY ANALYSIS

In the first quarter of 2017, net cash used in operating activities rose to € 542 million, driven by higher operating working capital requirements as well as an increase in income taxes paid which more than offset an increase in income before taxes. see Financial Highlights, p. 3 Net cash used in investing activities increased to € 131 million. The majority of investing activities in the first quarter of 2017 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of our own-retail stores and investments in IT systems as well as the further development of the company's headquarters in Herzogenaurach. Net cash generated from financing activities totalled € 725 million, mainly due to the increase in proceeds from short-term borrowings. Exchange rate effects negatively impacted the company's cash position by € 40 million. As a result of all these developments, cash and cash equivalents increased slightly by € 14 million to € 1.524 billion.

Net borrowings at March 31, 2017 amounted to € 859 million, representing an increase of € 51 million compared to the prior year. see Financial Highlights, p. 3 This development is mainly a result of the utilisation of cash for the purchase of fixed assets as well as the continued repurchase of adidas AG shares. The company's ratio of net borrowings over EBITDA amounted to 0.4, which is below the company's mid-term target corridor of below two times.

BUSINESS PERFORMANCE BY SEGMENT

WESTERN EUROPE

Sales in Western Europe increased 10% on a currency-neutral basis. In euro terms, sales grew 8% to € 1.523 billion. Despite difficult prior year comparisons resulting from the sell-in of UEFA EURO 2016 related product, adidas brand revenues grew 8% on a currency-neutral basis, driven by double-digit sales growth in the outdoor category as well as at adidas Originals and adidas neo. In addition, growth in the training and running categories also contributed to this development. Reebok brand revenues increased 25% on a currency-neutral basis, mainly due to double-digit sales growth in the training category as well as in Classics. From a market perspective, the main contributors to the increase were the UK, Spain, Italy and Poland, where revenues grew at double-digit rates each. In addition, high-single-digit sales growth in Germany also contributed to this development. see Table 09

Gross margin in Western Europe decreased 1.6 percentage points to 44.5%. The positive effects from an improved pricing and channel mix were more than offset by the negative impact from unfavourable currency developments. Operating expenses were up 4% to € 350 million. This development mainly reflects higher sales expenditure as well as an increase in expenditure for point-of-sale investments. As a percentage of sales, operating expenses were down 0.9 percentage points to 22.9%. The operating margin declined 0.6 percentage points to 21.6%, as the positive effect of lower operating expenses as a percentage of sales was more than offset by the gross margin decrease. see Table 09

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	1,523	1,414	8%	10%
adidas brand	1,374	1,294	6%	8%
Reebok brand	149	121	24%	25%
Gross profit	678	651	4%	–
Gross margin	44.5%	46.1%	(1.6pp)	–
Segmental operating profit	328	314	5%	–
Segmental operating margin	21.6%	22.2%	(0.6pp)	–

NORTH AMERICA

Sales in North America increased 31% on a currency-neutral basis. In euro terms, sales grew 36% to € 988 million. adidas brand revenues increased 36% on a currency-neutral basis, driven by double-digit sales growth in the running, training and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues decreased 2% on a currency-neutral basis, mainly reflecting the planned closure of Reebok factory outlets in the US. From a category perspective, double-digit growth in Classics was more than offset by sales declines in the training and running categories. see Table 10

Gross margin in North America increased 0.4 percentage points to 38.1%, driven by an improved product mix as well as lower input costs, partly offset by a less favourable channel mix. Operating expenses were up 10% to € 294 million, reflecting higher sales expenditure as well as higher expenditure for point-of-sale investments. Operating expenses as a percentage of sales decreased 6.9 percentage points to 29.7%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 7.2 percentage points to 9.8%. see Table 10

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	988	728	36%	31%
adidas brand	880	621	42%	36%
Reebok brand	108	106	2%	(2%)
Gross profit	376	274	37%	–
Gross margin	38.1%	37.7%	0.4pp	–
Segmental operating profit	97	19	401%	–
Segmental operating margin	9.8%	2.7%	7.2pp	–

GREATER CHINA

Sales in Greater China increased 30% on a currency-neutral basis. In euro terms, sales were also up 30% to € 990 million. adidas brand revenues grew 31% on a currency-neutral basis. This development was due to double-digit growth in the training, running and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues increased 19% on a currency-neutral basis, driven by double-digit sales growth in the running and training categories as well as in Classics. see Table 11

Gross margin in Greater China increased 1.7 percentage points to 58.9%, reflecting an improved pricing, product and channel mix as well as lower input costs, partly offset by negative currency effects. Operating expenses were up 36% to € 188 million. This development reflects a significant increase in sales expenditure as well as higher expenditure for point-of-sale and marketing investments. Operating expenses as a percentage of sales increased 0.8 percentage points to 19.0%. As a result of the gross margin increase, which more than offset the negative effect of higher operating expenses as a percentage of sales, the operating margin increased 0.9 percentage points to 39.9%. see Table 11

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	990	762	30%	30%
adidas brand	970	746	30%	31%
Reebok brand	20	17	22%	19%
Gross profit	583	436	34%	–
Gross margin	58.9%	57.2%	1.7pp	–
Segmental operating profit	396	298	33%	–
Segmental operating margin	39.9%	39.1%	0.9pp	–

RUSSIA/CIS

Sales in Russia/CIS decreased 10% on a currency-neutral basis. In euro terms, sales increased 16% to € 160 million. adidas brand revenues were down 15% on a currency-neutral basis, due to sales declines in most categories. Reebok brand revenues increased 6% on a currency-neutral basis, mainly as a result of double-digit sales increases in the training category. see Table 12

Gross margin in Russia/CIS increased 4.5 percentage points to 62.3%, reflecting an improved pricing mix as well as lower input costs which more than compensated negative currency effects. Operating expenses were up 31% to € 86 million. This development reflects a significant increase in sales expenditure as well as higher expenditure for marketing investments, which was mainly driven by currency effects. Operating expenses as a percentage of sales were up 6.2 percentage points to 54.0%. As a result of the negative effect of higher operating expenses as a percentage of sales which more than offset the gross margin increase, the operating margin decreased 1.7 percentage points to 8.2%. see Table 12

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	160	138	16%	(10%)
adidas brand	116	106	10%	(15%)
Reebok brand	44	32	36%	6%
Gross profit	100	80	25%	–
Gross margin	62.3%	57.7%	4.5pp	–
Segmental operating profit	13	14	(4%)	–
Segmental operating margin	8.2%	9.9%	(1.7pp)	–

LATIN AMERICA

Sales in Latin America grew 9% on a currency-neutral basis. In euro terms, sales were up 15% to € 454 million. Despite difficult prior year comparisons resulting from the sell-in of Copa América 2016 related product, adidas brand revenues increased 7% on a currency-neutral basis. This development was driven by double-digit sales growth at adidas Originals and adidas neo. Reebok brand revenues were up 25% on a currency-neutral basis, as a result of double-digit growth in the running and training categories as well as in Classics. From a market perspective, the main contributors to the increase were Mexico, Peru, Chile and Uruguay, where revenues grew at double-digit rates each. see Table 13

Gross margin in Latin America declined 5.3 percentage points to 39.9%, as the positive effects from an improved pricing and channel mix were more than offset by severe negative currency effects. Operating expenses were up 8% to € 132 million, reflecting an increase in sales expenditure as well as higher expenditure for point-of-sale investments. Operating expenses as a percentage of sales were down 2.0 percentage points to 29.0%. The operating margin decreased 3.3 percentage points to 10.9%, reflecting the gross margin decrease which more than offset the positive effect of lower operating expenses as a percentage of sales. see Table 13

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	454	394	15%	9%
adidas brand	397	350	14%	7%
Reebok brand	57	44	30%	25%
Gross profit	181	178	2%	–
Gross margin	39.9%	45.2%	(5.3pp)	–
Segmental operating profit	49	56	(11%)	–
Segmental operating margin	10.9%	14.1%	(3.3pp)	–

JAPAN

Sales in Japan increased 21% on a currency-neutral basis. In euro terms, revenues increased 27% to € 301 million. adidas brand revenues grew 21% on a currency-neutral basis, driven by double-digit sales growth in the training, running and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues were up 21% on a currency-neutral basis, due to double-digit sales increases in the training and running categories as well as in Classics. see Table 14

Gross margin in Japan increased 2.2 percentage points to 51.2%, driven by an improved pricing and channel mix as well as lower input costs, which were partly compensated by a less favourable product mix. Operating expenses were up 12% to € 78 million, reflecting higher sales expenditure as well as higher expenditure for point-of-sale and marketing investments. Operating expenses as a percentage of sales decreased 3.6 percentage points to 25.9%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin grew 5.6 percentage points to 26.8%. see Table 14

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	301	236	27%	21%
adidas brand	270	212	27%	21%
Reebok brand	30	24	27%	21%
Gross profit	154	116	33%	–
Gross margin	51.2%	49.0%	2.2pp	–
Segmental operating profit	81	50	61%	–
Segmental operating margin	26.8%	21.2%	5.6pp	–

MEAA

Sales in MEAA (Middle East, Africa and other Asian markets) were up 15% on a currency-neutral basis. In euro terms, sales grew 19% to € 833 million. adidas brand revenues grew 16% on a currency-neutral basis, due to double-digit sales growth in the running and outdoor categories as well as at adidas Originals and adidas neo. In addition, mid-single-digit increases in the training category also contributed to this development. Reebok brand revenues grew 12% on a currency-neutral basis due to strong double-digit growth in the training and running categories. From a market perspective, the main contributors to the increase were double-digit improvements in Australia, Thailand, South Africa and India as well as mid-single-digit sales growth in South Korea. see Table 15

Gross margin in MEAA decreased 0.2 percentage points to 50.5%, as the positive effect from an improved pricing, product and channel mix as well as lower input costs was more than offset by negative currency effects. Operating expenses were up 20% to € 171 million, due to significantly higher sales expenditure as well as higher expenditure for point-of-sale and marketing investments. As a percentage of sales, operating expenses grew 0.2 percentage points to 20.5%. The operating margin was down 0.5 percentage points to 30.1%, reflecting the decrease in gross margin as well as the negative effect of higher operating expenses as a percentage of sales. see Table 15

15 **MEAA AT A GLANCE** € IN MILLIONS

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	833	701	19%	15%
adidas brand	751	630	19%	16%
Reebok brand	83	71	16%	12%
Gross profit	421	356	18%	–
Gross margin	50.5%	50.7%	(0.2pp)	–
Segmental operating profit	250	214	17%	–
Segmental operating margin	30.1%	30.6%	(0.5pp)	–

OTHER BUSINESSES

Revenues in Other Businesses grew 4% on a currency-neutral basis. In euro terms, revenues in Other Businesses increased 6% to € 421 million. Revenues at TaylorMade-adidas Golf were up 4% on a currency-neutral basis, as a result of growth at TaylorMade which was partly offset by sales declines at Ashworth, Adams Golf and adidas Golf. Currency-neutral CCM Hockey sales were down 11%, reflecting sales declines in the licensed apparel business in light of the upcoming transition of the existing NHL partnership to the adidas brand as well as lower revenues in CCM Hockey's equipment business. Other centrally managed businesses revenues increased 8% on a currency-neutral basis, mainly as a result of double-digit sales growth at Y-3. see Table 16

Gross margin was up 3.8 percentage points to 40.8%, mainly due to higher product margins at TaylorMade-adidas Golf. Operating expenses declined 6% to € 140 million, as a result of lower sales expenditure. As a percentage of sales, operating expenses declined 4.2 percentage points to 33.3%. Operating margin was up 8.1 percentage points to 7.9%, reflecting the increase in gross margin as well as the positive effect of lower operating expenses as a percentage of sales. see Table 16

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

	First quarter 2017	First quarter 2016	Change	Change (currency-neutral)
Net sales	421	396	6%	4%
TaylorMade-adidas Golf	294	275	7%	4%
CCM Hockey	35	38	(7%)	(11%)
Other centrally managed businesses	85	78	9%	8%
Gross profit	172	146	17%	–
Gross margin	40.8%	36.9%	3.8pp	–
Segmental operating profit	33	(1)	n.a.	–
Segmental operating margin	7.9%	(0.2%)	8.1pp	–

1 Figures reflect continuing operations as a result of the divestiture of the Rockport business.

SUBSEQUENT EVENTS AND OUTLOOK

SUBSEQUENT EVENTS

NO SUBSEQUENT EVENTS

Since the end of the first quarter of 2017, there have been no significant organisational, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

OUTLOOK [1]

GLOBAL ECONOMY TO GROW IN 2017 [2, 3]

Global GDP is projected to increase by 3.5% in 2017. This development will be supported by a further stabilisation in commodity prices, improvements in global trade and manufacturing activity as well as continuous accommodative fiscal and monetary policies. Nevertheless, heightened policy uncertainty and weak productivity growth are expected to weigh on the economic recovery. Developing economies are forecasted to remain a major contributor to the global economic expansion in 2017. At 4.5%, their growth rate is projected to accelerate strongly compared to 2016. In developed economies, GDP is expected to grow at a level of 2.0% in 2017.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2017 [4]

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

ADIDAS CONFIRMS OUTLOOK FOR THE 2017 FINANCIAL YEAR

Against the background of the strong financial performance in the first quarter of 2017, management has confirmed the company outlook for the full year as outlined in the 2016 Annual Report.

We expect sales to increase at a rate between 11% and 13% on a currency-neutral basis in 2017. The gross margin is expected to increase up to 0.5 percentage points to a level of up to 49.1%. Gross margin will benefit from positive mix effects as well as higher product margins at TaylorMade-adidas Golf compared to the prior year. However, less favourable US dollar hedging rates will negatively impact the gross margin development, particularly in the first half of 2017. Other operating expenses as a percentage of sales are expected to be below the prior year level of 42.8%, driven by leverage from both expenditure for point-of-sale and marketing investments as well as operating overheads as a percentage of sales. This, together with the projected gross margin improvement, is expected to drive an increase in operating margin of between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5%. Consequently, we expect operating profit to increase between 18% and 20% in 2017. Net income from continuing operations is projected to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion. Basic earnings per share from continuing operations are also expected to increase at a rate between 18% and 20%.

RISKS AND OPPORTUNITIES

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

17 **2017 OUTLOOK [1]**

Sales development (currency-neutral)	to increase at a rate between 11% and 13%
Gross margin	to increase up to 0.5 percentage points to a level of up to 49.1%
Other operating expenses in % of sales	below prior year level
Operating profit	to increase at a rate between 18% and 20%
Operating margin	to increase between 0.6 and 0.8 percentage points to a level between 8.3% and 8.5%
Net income from continuing operations	to increase at a rate between 18% and 20% to a level between € 1.200 billion and € 1.225 billion
Basic earnings per share from continuing operations	to increase at a rate between 18% and 20%

1 The company outlook for the 2017 financial year as outlined in the 2016 Annual Report remains unchanged.

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

1 This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of adidas. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to uncertainties as described in the Risk and Opportunity Report of the adidas 2016 Annual Report (pp. 118–132), which are beyond the control of the company. In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialise, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.
2 Source: World Bank, Global Economic Prospects. 3 Source: IMF, World Economic Outlook. 4 Source: NPD Market Research.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	March 31, 2017	March 31, 2016	Change in %	December 31, 2016
Assets				
Cash and cash equivalents	1,524	1,328	14.7	1,510
Short-term financial assets	5	5	(2.5)	5
Accounts receivable	2,876	2,517	14.3	2,200
Other current financial assets	605	272	122.0	729
Inventories	3,609	2,939	22.8	3,763
Income tax receivables	81	76	6.3	98
Other current assets	649	531	22.1	580
Assets classified as held for sale	–	0	(100.0)	–
Total current assets	**9,348**	**7,669**	**21.9**	**8,886**
Property, plant and equipment	1,933	1,598	21.0	1,915
Goodwill	1,403	1,364	2.8	1,412
Trademarks	1,654	1,558	6.1	1,680
Other intangible assets	165	177	(6.7)	167
Long-term financial assets	187	145	29.0	194
Other non-current financial assets	90	97	(7.8)	96
Deferred tax assets	785	680	15.5	732
Other non-current assets	119	126	(5.6)	94
Total non-current assets	**6,336**	**5,746**	**10.3**	**6,290**
Total assets	**15,684**	**13,415**	**16.9**	**15,176**

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

	March 31, 2017	March 31, 2016	Change in %	December 31, 2016
Liabilities and equity				
Short-term borrowings	1,406	676	108.0	636
Accounts payable	1,931	1,573	22.8	2,496
Other current financial liabilities	214	235	(9.0)	201
Income taxes	455	446	2.0	402
Other current provisions	578	474	22.1	573
Current accrued liabilities	1,926	1,664	15.7	2,023
Other current liabilities	531	396	33.9	434
Liabilities classified as held for sale	–	0	(100.0)	–
Total current liabilities	**7,041**	**5,464**	**28.9**	**6,765**
Long-term borrowings	982	1,467	(33.0)	982
Other non-current financial liabilities	28	32	(11.4)	22
Pensions and similar obligations	361	274	31.8	355
Deferred tax liabilities	371	328	13.1	387
Other non-current provisions	60	53	12.3	44
Non-current accrued liabilities	92	92	(0.0)	120
Other non-current liabilities	47	43	9.9	46
Total non-current liabilities	**1,941**	**2,288**	**(15.2)**	**1,957**
Share capital	202	200	0.7	201
Reserves	582	254	128.6	749
Retained earnings	5,936	5,224	13.6	5,521
Shareholders' equity	**6,719**	**5,679**	**18.3**	**6,472**
Non-controlling interests	(17)	(16)	(6.0)	(17)
Total equity	**6,702**	**5,663**	**18.3**	**6,455**
Total liabilities and equity	**15,684**	**13,415**	**16.9**	**15,176**

CONSOLIDATED INCOME STATEMENT

ADIDAS AG CONSOLIDATED INCOME STATEMENT (IFRS) € IN MILLIONS

	First quarter 2017	First quarter 2016	Change
Net sales	5,671	4,769	18.9%
Cost of sales	2,881	2,411	19.5%
Gross profit	**2,790**	**2,358**	**18.3%**
(% of net sales)	49.2%	49.4%	(0.2pp)
Royalty and commission income	29	24	18.6%
Other operating income	29	31	(9.2%)
Other operating expenses	2,215	1,924	15.2%
(% of net sales)	39.1%	40.3%	(1.3pp)
Operating profit	**632**	**490**	**28.8%**
(% of net sales)	11.1%	10.3%	0.9pp
Financial income	28	19	44.2%
Financial expenses	20	13	49.0%
Income before taxes	**640**	**497**	**28.9%**
(% of net sales)	11.3%	10.4%	0.9pp
Income taxes	185	146	26.5%
(% of income before taxes)	28.9%	29.5%	(0.6pp)
Net income from continuing operations	**455**	**350**	**29.9%**
(% of net sales)	8.0%	7.3%	0.7pp
Gains from discontinued operations, net of tax	1	1	(33.1%)
Net income	**456**	**351**	**29.7%**
(% of net sales)	8.0%	7.4%	0.7pp
Net income attributable to shareholders	**455**	**351**	**29.6%**
(% of net sales)	8.0%	7.4%	0.7pp
Net income attributable to non-controlling interests	**1**	**0**	**119.1%**
Basic earnings per share from continuing operations (in €)	2.26	1.75	29.1%
Diluted earnings per share from continuing operations (in €)	2.23	1.71	30.5%
Basic earnings per share from continuing and discontinued operations (in €)	2.26	1.75	29.0%
Diluted earnings per share from continuing and discontinued operations (in €)	2.23	1.71	30.4%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	First quarter 2017	First quarter 2016
Net income after taxes	**456**	**351**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans (IAS 19), net of tax[1]	(0)	1
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**(0)**	**1**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met		
Net loss on cash flow hedges, net of tax	(183)	(158)
Currency translation differences	4	(180)
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	**(179)**	**(337)**
Other comprehensive income	**(179)**	**(336)**
Total comprehensive income	**277**	**15**
Attributable to shareholders of adidas AG	276	13
Attributable to non-controlling interests	0	2

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Other reserves[1]	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2015	**200**	**777**	**(123)**	**59**	**(122)**	**4,874**	**5,666**	**(18)**	**5,648**
Net income recognised directly in equity			(181)	(158)	1		(337)	1	(336)
Net income						351	351	0	351
Total comprehensive income			**(181)**	**(158)**	**1**	**351**	**13**	**2**	**15**
Balance at March 31, 2016	**200**	**777**	**(304)**	**(98)**	**(121)**	**5,224**	**5,679**	**(16)**	**5,663**
Balance at December 31, 2016	**201**	**838**	**(52)**	**146**	**(182)**	**5,521**	**6,472**	**(17)**	**6,455**
Net income recognised directly in equity			4	(182)	(0)		(178)	(1)	(179)
Net income						455	455	1	456
Total comprehensive income			**4**	**(182)**	**(0)**	**455**	**276**	**0**	**277**
Reissuance of treasury shares due to the conversion of convertible bonds	1	11				32	44		44
Repurchase of treasury shares	(0)					(73)	(73)		(73)
Repurchase of treasury shares due to equity-settled share-based payment	(0)					(4)	(4)		(4)
Reissuance of treasury shares due to equity-settled share-based payment	0					4	4		4
Equity-settled share-based payment						0	0		0
Balance at March 31, 2017	**202**	**848**	**(48)**	**(36)**	**(183)**	**5,936**	**6,719**	**(17)**	**6,702**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	First quarter 2017	First quarter 2016
Operating activities:		
Income before taxes	640	497
Adjustments for:		
Depreciation, amortisation and impairment losses	110	86
Reversals of impairment losses	(1)	(0)
Unrealised foreign exchange losses, net	6	7
Interest income	(7)	(6)
Interest expense	20	13
Losses/(gains) on sale of property, plant and equipment and intangible assets, net	3	(0)
Other non-cash expense	1	–
Operating profit before working capital changes	**772**	**597**
Increase in receivables and other assets	(725)	(560)
Decrease in inventories	178	139
Decrease in accounts payable and other liabilities	(607)	(358)
Cash used in operations before interest and taxes	**(383)**	**(181)**
Interest paid	(17)	(9)
Income taxes paid	(141)	(76)
Net cash used in operating activities – continuing operations	**(542)**	**(266)**
Net cash generated from/(used in) operating activities – discontinued operations	0	(0)
Net cash used in operating activities	**(542)**	**(266)**
Investing activities:		
Purchase of trademarks and other intangible assets	(14)	(7)
Proceeds from sale of trademarks and other intangible assets	0	0
Purchase of property, plant and equipment	(102)	(60)
Proceeds from sale of property, plant and equipment	1	3
Proceeds from sale of assets held for sale	–	14
Proceeds from sale of a disposal group	6	–
Proceeds from sale/(purchase of) short-term financial assets	0	(0)
Purchase of investments and other long-term assets	(28)	(8)
Interest received	7	6
Net cash used in investing activities	**(131)**	**(54)**
Financing activities:		
Repayments of long-term borrowings	–	0
Repayments of finance lease obligations	(1)	(1)
Repurchase of treasury shares	(85)	–
Repurchase of treasury shares due to share-based payments	(4)	–
Proceeds from reissuance of treasury shares due to share-based payments	3	–
Proceeds from short-term borrowings	811	447
Repayments of short-term borrowings	–	(138)
Net cash generated from financing activities	**725**	**309**
Effect of exchange rates on cash	**(40)**	**(26)**
Increase/(decrease) of cash and cash equivalents	14	(37)
Cash and cash equivalents at beginning of year	1,510	1,365
Cash and cash equivalents at end of period	**1,524**	**1,328**

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT MARCH 31, 2017

01 — GENERAL

The interim consolidated financial statements of adidas AG and its direct and indirect subsidiaries (collectively 'adidas', the 'Group' or 'the company') for the first three months ending March 31, 2017 are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The company applied all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee effective as at March 31, 2017.

These interim consolidated financial statements have been prepared in compliance with International Accounting Standard IAS 34 'Interim Financial Reporting' and with German Accounting Standard GAS 16 'Interim Financial Reporting'. Accordingly, these interim consolidated financial statements do not include all of the information and notes required for consolidated financial statements at financial year-ends. Therefore, these interim consolidated financial statements should be read in conjunction with the 2016 annual consolidated financial statements. The accounting policies as well as principles and practices applied in the consolidated financial statements for the year ending December 31, 2016 also apply to the interim consolidated financial statements for the first three months ending March 31, 2017.

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

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

  The project team is in the process of finalising a decision on whether to continue accounting under IAS 39 or to adopt IFRS 9 for hedge accounting. This decision is only available for the topic of hedge accounting and does not apply to other financial instruments. Additionally, the project team has determined that new impairment calculations according to IFRS 9 will affect the accumulated allowance for doubtful accounts on accounts receivable.

  Further effects from IFRS 9 on the 2018 consolidated financial statements will depend to a large extent on both the financial instruments which adidas holds and on the economic conditions at that point in time. Further analysis of the expected impact on the consolidated financial statements of adidas AG is ongoing.
- **IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 (EU effective date: January 1, 2018):** This new standard replaces the current guidance on recognising revenue in accordance with IFRS, in particular IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes and provides a holistic framework for all aspects of revenue recognition. IFRS 15 creates a centralised, single five-step model for recognising revenue arising from contracts with customers.

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

  Additionally, adidas has determined that the accounting for the licensing-out of trademarks is expected to be comparable to current practice in accordance with IAS 18.

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

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

- **IFRS 15 Amendment – Clarifications to IFRS 15 (IASB effective date: January 1, 2018):** The amendment provides some transition relief for modified and completed contracts and adds guidance for identifying performance obligations, principal vs. agent considerations, and licensing. If the amendment is endorsed in the EU, the company expects to use the transition relief available for the modified retrospective method. The transition relief would reduce the workload necessary to analyse contracts with customers.
- **IFRS 16 Leases (IASB effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 Leases and the respective interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognise a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months. For real estate leases, the company is in the process of introducing a global lease management system which captures information from lease contracts and uses this information

to create accounting reports. adidas also plans to use this system for IFRS 16 accounting purposes, and is in the process of analysing the system to ensure compliance with IFRS 16 requirements. The company is evaluating which other leased assets fall under the scope of IFRS 16. Further analysis of the expected impact on the company's consolidated financial statements is still in progress.

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

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

The results of operations for the first three months ending March 31, 2017 are not necessarily indicative of results to be expected for the entire year.

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

02 — SEASONALITY

The sales of the company in certain product categories are seasonal and therefore revenues and attributable earnings may vary within the financial year. Sales and earnings tend to be strongest in the first and third quarters of the financial year because these coincide with the launch of the spring/summer and fall/winter collections, respectively. This is especially relevant for the adidas and Reebok brands, whose sales account for more than 90% of the net sales of the company. However, shifts in the share of sales and attributable earnings of particular product categories, brands or the regional composition may occur throughout the year.

03 — DISCONTINUED OPERATIONS

In July 2015, adidas completed the sale of the Rockport operating segment. The net result of discontinued operations presented in the consolidated income statement as at March 31, 2017 mainly contains the fair value adjustment of the contingent consideration.

04 — SHAREHOLDERS' EQUITY

During the period from January 1, 2017 to March 31, 2017, the nominal capital of adidas AG remained unchanged. Consequently, on March 31, 2017, the nominal capital of adidas AG amounted to € 209,216,186, divided into 209,216,186 registered no-par-value shares ('registered shares').

As a result of conversion rights exercised, a total of 534,500 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from January 1, 2017 to March 31, 2017.

In addition, a further 642,381 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period between April 1, 2017 and April 26, 2017 due to conversion rights exercised.

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

On March 31, 2017, adidas AG thus held a total of 7,665,342 treasury shares, corresponding to a notional amount of € 7,665,342 in the nominal capital and consequently 3.66% of the nominal capital. In accordance with § 71b German Stock Corporation Act (Atkiengesetz – AktG), the treasury shares held directly or indirectly do not confer any rights to the company.

05 — SHARE-BASED PAYMENT

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

06 — FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT MARCH 31, 2017, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions	Category according to IAS 39	Carrying amount Mar. 31, 2017	Measurement according to IAS 39			Measurement according to IAS 17	Fair value Mar. 31, 2017
			Amortised cost	Fair value recognised in equity	Fair value recognised in net income		
Financial assets							
Cash and cash equivalents	n.a.	1,524	1,524				1,524
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,876	2,876				2,876
Other current financial assets							
Derivatives being part of a hedge	n.a.	193		193			193
Derivatives not being part of a hedge	FAHfT	31			31		31
Promissory notes	AfS	15			15		15
Other financial assets	LaR	366	366				366
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	92	51	41			92
Loans	LaR	13	13				13
Other non-current financial assets							
Derivatives being part of a hedge	n.a.	8		8			8
Derivatives not being part of a hedge	FAHfT	13			13		13
Promissory notes	AfS	30			30		30
Other financial assets	LaR	38	38				38
Assets classified as held for sale	LaR	–	–				–
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	1,191	1,191				1,191
Private placements	FLAC	–	–				–
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	215	215				470
Accounts payable	FLAC	1,931	1,931				1,931
Current accrued liabilities	FLAC	740	740				740
Other current financial liabilities							
Derivatives being part of a hedge	n.a.	122		122			122
Derivatives not being part of a hedge	FLHfT	30			30		30
Earn-out components	n.a.	10			10		10
Other financial liabilities	FLAC	49	49				49
Finance lease obligations	n.a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	982	982				1,043
Convertible bond	FLAC	–	–				–
Non-current accrued liabilities	FLAC	1	1				1
Other non-current financial liabilities							
Derivatives being part of a hedge	n.a.	13		13			13
Derivatives not being part of a hedge	FLHfT	1			1		1
Earn-out components	n.a.	11			11		11
Other financial liabilities	FLAC	1	1				1
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		131					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		131					
Loans and Receivables (LaR)		3,293					
Available-for-Sale Financial Assets (AfS)		138					
Financial Liabilities Measured at Amortised Cost (FLAC)		5,110					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		31					

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

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

FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 13 AS AT MARCH 31, 2017

€ in millions	Fair value Mar. 31, 2017	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	201		201	
Derivatives not being part of a hedge	44		44	
Long-term financial assets	174		41	133
Promissory notes	45			45
Financial assets	**470**		**292**	**178**
Short-term borrowings	1,661		1,661	
Derivative financial instruments				
Derivatives being part of a hedge	135		135	
Derivatives not being part of a hedge	31		31	
Long-term borrowings	1,043	1,043		
Earn-out components	20			20
Financial liabilities	**2,890**	**1,043**	**1,827**	**20**

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

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

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

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

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3

€ in millions		Fair value Jan. 1, 2017	Additions	Disposals	Gains	Losses	Currency translation	Fair value Mar. 31, 2017
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	81	–	–	–	–	–	81
Promissory notes	On January 23, 2015 the adidas Group signed a definitive agreement to sell the Rockport operating segment which was divested on July 31, 2015. The transaction included contingent promissory notes. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	45	–	–	1	–	(1)	45
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	64	2	(14)	–	–	–	51
Earn-out components	The aquisition of Runtastic includes earn-out components which are measured based on the discounted cash flow method. The earn-out components are dependent on retention of the Runtastic management as well as on the achievement of certain performance measures over the first three years after the acquisition. The fair value adjustment refers to accretion and is recognised in interest result.	22	–	(2)	–	0	–	20

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3

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

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

07 — OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

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

Other operating expenses include expenses for marketing, sales and research and development, as well as for logistics and central administration. In addition, they include impairment losses as well as depreciation on tangible assets and amortisation on intangible assets (except goodwill impairment losses), with the exception of depreciation and amortisation which is included in the cost of sales. In the first three months of 2017, depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses amounted to € 108 million (2016: € 85 million).

08 — EARNINGS PER SHARE

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

It is necessary to include potential dilutive shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share for the first three months ending March 31, 2017 as the conversion right has a value at the balance sheet date. The average share price reached € 158.45 per share during the first three months of 2017 and thus exceeded the conversion price of € 81.57 per share.

EARNINGS PER SHARE

	Continuing operations		Discontinued operations		Total	
	First quarter 2017	First quarter 2016	First quarter 2017	First quarter 2016	First quarter 2017	First quarter 2016
Net income from continuing operations (€ in millions)	455	350	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	1	0	–	–	–	–
Net income attributable to shareholders (€ in millions)	**454**	**350**	**1**	**1**	**455**	**351**
Weighted average number of shares	201,209,054	200,197,417	201,209,054	200,197,417	201,209,054	200,197,417
Basic earnings per share (in €)	**2.26**	**1.75**	**0.00**	**0.00**	**2.26**	**1.75**
Net income attributable to shareholders (€ in millions)	454	350	1	1	455	351
Interest expense on convertible bond, net of taxes (€ in millions)	1	2	–	–	1	2
Net income used to determine diluted earnings per share (€ in millions)	**455**	**352**	**1**	**1**	**456**	**353**
Weighted average number of shares	201,209,054	200,197,417	201,209,054	200,197,417	201,209,054	200,197,417
Weighted assumed conversion of the convertible bond	3,064,177	6,097,243	3,064,177	6,097,243	3,064,177	6,097,243
Weighted average number of shares for diluted earnings per share	**204,273,231**	**206,294,660**	**204,273,231**	**206,294,660**	**204,273,231**	**206,294,660**
Diluted earnings per share (in €)	**2.23**	**1.71**	**0.00**	**0.00**	**2.23**	**1.71**

09 — SEGMENTAL INFORMATION

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

As at March 31, 2017, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments', 14 operating segments were identified: Western Europe, North America (excluding USA Reebok), USA Reebok, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea, Southeast Asia/Pacific, TaylorMade-adidas Golf, CCM Hockey, Runtastic and Other centrally managed businesses. Effective January 1, 2017, the market North America was split into two markets: North America (excluding USA Reebok) and USA Reebok. Both markets meet the definition of an operating segment according to IFRS 8. The markets Middle East, South Korea and Southeast Asia/Pacific were aggregated to the segment MEAA ('Middle East, Africa and other Asian markets'). The markets North America (excluding USA Reebok) and USA Reebok were aggregated to the segment North America. According to the criteria in IFRS 8 for reportable segments, the business segments Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan and MEAA are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

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

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

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

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

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

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

There are no intersegment sales between the reportable segments.

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

Segmental assets include accounts receivable as well as inventories.

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

SEGMENTS

€ in millions	Net sales (third parties) [1]		Segmental operating profit [1]		Segmental assets [2]		Segmental liabilities [2]	
	2017	2016	2017	2016	2017	2016	2017	2016
Western Europe	1,523	1,414	328	313	1,710	1,474	75	59
North America	988	728	97	19	1,256	999	61	94
Greater China	990	762	396	298	554	430	149	119
Russia/CIS	160	138	13	14	274	200	9	10
Latin America	454	394	49	56	812	630	59	59
Japan	301	236	81	50	260	238	37	28
MEAA	833	701	250	214	852	686	86	64
Other Businesses	421	396	33	(0)	716	731	124	123
Total	**5,671**	**4,769**	**1,248**	**964**	**6,433**	**5,388**	**601**	**557**

1 First quarter.
2 At March 31.

Reconciliation

OPERATING PROFIT

€ in millions	First quarter 2017	First quarter 2016
Operating profit for reportable segments	1,214	965
Operating profit for Other Businesses	33	(0)
Segmental operating profit	**1,248**	**964**
HQ/Consolidation	(412)	(311)
Central expenditure for point-of-sale and marketing investments	(203)	(163)
Operating profit	**632**	**490**
Financial income	28	19
Financial expenses	(20)	(13)
Income before taxes	**640**	**497**

10 — EVENTS AFTER THE BALANCE SHEET DATE

Between the end of the first three months of 2017 and the finalisation of these interim consolidated financial statements on April 26, 2017, there were no major company-specific matters which we expect to influence our business materially going forward.

Herzogenaurach, April 26, 2017

The Executive Board of adidas AG

FINANCIAL CALENDAR

MAY
11

ANNUAL GENERAL MEETING
Fuerth (Bavaria), Germany /
Webcast

MAY
16

DIVIDEND PAYMENT
(Subject to Annual General Meeting approval)

AUGUST
3

FIRST HALF 2017 RESULTS
Press release / Conference call and webcast /
Publication of First Half Report

NOVEMBER
9

NINE MONTHS 2017 RESULTS
Press release / Conference call and webcast /
Publication of Nine Months Report

PUBLISHING DETAILS & CONTACT

adidas AG

Adi-Dassler-Str. 1
91074 Herzogenaurach
Germany

TEL + 49 (0) 91 32 84 - 0
FAX + 49 (0) 91 32 84 - 22 41
ADIDAS-GROUP.COM

Investor Relations
TEL + 49 (0) 91 32 84 - 29 20
FAX + 49 (0) 91 32 84 - 31 27

INVESTOR.RELATIONS@ADIDAS-GROUP.COM
ADIDAS-GROUP.COM/INVESTORS

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