CALLING ALL CREATORS

adidas

Q3 2017

ADIDAS NINE MONTHS REPORT

JANUARY — SEPTEMBER 2017

ADIDAS NINE MONTHS REPORT 2017

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

01 FINANCIAL HIGHLIGHTS (IFRS)

	Nine months 2017	Nine months 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	16,162	13,983	16%
Gross profit [1]	8,090	6,874	18%
Other operating expenses [1]	6,323	5,620	13%
EBITDA [1]	2,238	1,813	23%
Operating profit [1]	1,938	1,541	26%
Net income from continuing operations [1]	1,358	1,078	26%
Net income attributable to shareholders [2]	1,139	1,027	11%
Key Ratios			
Gross margin [1]	50.1%	49.2%	0.9pp
Other operating expenses in % of net sales [1]	39.1%	40.2%	(1.1pp)
Operating margin [1]	12.0%	11.0%	1.0pp
Effective tax rate [1]	28.5%	29.3%	(0.8pp)
Net income attributable to shareholders in % of net sales [2]	7.0%	7.3%	(0.3pp)
Average operating working capital in % of net sales [1,3]	20.3%	21.3%	(1.0pp)
Equity ratio	43.5%	43.0%	0.5pp
Net borrowings/EBITDA [1,4]	0.1	0.4	n.a.
Financial leverage	5.3%	12.6%	(7.2pp)
Return on equity [2]	17.6%	16.8%	0.8pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	14,871	14,255	4%
Inventories	3,441	3,203	7%
Receivables and other current assets	3,892	3,844	1%
Operating working capital	4,502	4,228	6%
Net borrowings	345	769	(55%)
Shareholders' equity	6,470	6,126	6%
Capital expenditure	465	361	29%
Net cash generated from operating activities [2]	742	376	97%
Per Share of Common Stock (€)			
Basic earnings [2]	5.63	5.13	10%
Diluted earnings [2]	5.58	5.01	11%
Net cash generated from operating activities [2]	3.67	1.88	95%
Share price at end of period	191.40	154.50	24%
Other (at end of period)			
Number of employees [1]	55,414	55,943	(1%)
Number of shares outstanding	202,838,144	200,307,750	1%
Average number of shares	202,111,204	200,207,215	1%

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

OUR SHARE

ADIDAS AG SHARE OUTPERFORMS INTERNATIONAL EQUITY MARKETS AND REACHES NEW ALL-TIME HIGH DURING THE THIRD QUARTER

Despite highly volatile trends within the third quarter of 2017, international equity markets were ultimately able to end the period in positive territory. This development was supported by strong economic data in the Eurozone and the US, the rising oil price and the strong second quarter earnings season. The appreciating euro against the US dollar as well as the persistent North Korea crisis pressured equity markets only temporarily. As a consequence, the DAX-30 closed the third quarter 4% above the end of June 2017 level. see Table 02 The adidas AG share was able to outperform international equity markets, driven by strong second quarter 2017 results as well as an uplift in full year 2017 guidance, resulting in a new all-time high of € 199.95 on August 4, 2017. This development was partly offset by negative newsflow around an overall challenging retail environment in the US market. Consequently, the adidas AG share closed the third quarter at € 191.40, 14% above the level of June 30, 2017. Since the beginning of the year, the adidas AG share grew 27%, as at September 30, 2017, thus outperforming the DAX-30, which saw a 12% increase in the same period. see Table 02

02 **PERFORMANCE OF THE ADIDAS AG SHARE AND IMPORTANT INDICES AT SEPTEMBER 30, 2017** (IN %)

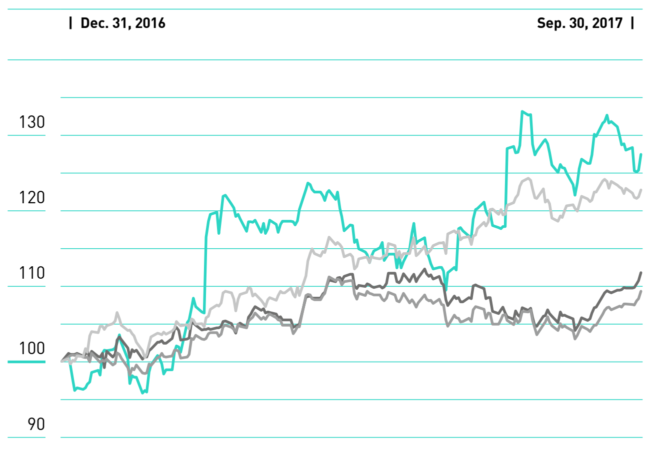
	Q3	YTD	1 year	3 years	5 years	10 years
adidas AG	14	27	24	223	200	316
DAX-30	4	12	22	35	78	63
EURO STOXX 50	4	9	20	11	46	(18)
MSCI World Textiles, Apparel & Luxury Goods	5	23	23	25	62	110

Source: Bloomberg.

77% OF CONVERTIBLE BOND CONVERTED

In March 2012, adidas AG successfully issued a convertible bond, due on June 14, 2019, for an aggregate nominal amount of € 500 million. The bonds were priced with a 0.25% annual coupon and a conversion premium of 40% above the reference price of € 59.61, resulting in an initial conversion price of € 83.46 per share which, as a consequence of contractual provisions relating to dividend protection, was adjusted to € 81.13 per share in May 2017. As a result of conversion rights exercised, a total of 150,382 shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from July 1, 2017 to September 30, 2017. In total, 4,738,507 shares were transferred following the exercise of conversion rights, all of which were serviced from treasury shares of the company. As at September 30, 2017, the remaining bonds were convertible into up to 1,400,289 new or existing adidas AG shares. Consequently, at the end of the third quarter of 2017, 77% of the convertible bond was converted. The convertible bond closed the quarter at € 235.71, well above the prior year level of € 189.23.

03 **SHARE PRICE DEVELOPMENT IN 2017**[1]



1 Index: December 31, 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 THIRD QUARTER OF 2017[1]

In the third quarter of 2017, the global economy continued to grow at a moderate rate, reflecting improvements in consumer confidence and global trade as well as a notable pick-up in investment and industrial activity. Nevertheless, weak growth in various countries, the possibility of financial market disruptions as well as ongoing geopolitical tensions and political discord remained major sources of uncertainty and continued to weigh on economic activity. In developed economies, economic activity strengthened throughout the quarter, supported by improvements in consumer confidence and in domestic demand as well as growth in manufacturing and investment activity. Developing economies also grew in the third quarter of 2017, mainly reflecting the recovery in investment and manufacturing activities, firm domestic demand as well as accommodative fiscal and monetary policies.

1 Source: IMF, World Economic Outlook.

MODERATE GROWTH FOR THE GLOBAL SPORTING GOODS INDUSTRY IN THE THIRD QUARTER[2, 3]

In the third quarter of 2017, the global sporting goods industry was 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 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 uncertainties in several regions. In particular, retailers in the US experienced severe challenges, arising from the ongoing consolidation and weaker store traffic, which resulted in an uptick in promotional activity. Furthermore, new entrants in activewear from several fashion brands led to increased competition in the sporting goods industry globally.

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

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

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
USA[2]	103.5	113.3	124.9	117.3	119.8
Euro area[3]	(8.3)	(5.2)	(5.1)	(1.3)	(1.2)
Japan[4]	42.6	42.3	44.0	43.5	43.9
China[5]	104.6	108.4	114.2	113.3	114.7
Russia[6]	(19.0)	(18.0)	(15.0)	(14.0)	(11.0)
Brazil[7]	103.1	100.3	102.0	100.5	98.5

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

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

	Average rate 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Average rate 2017[2]
USD	1.1069	1.0541	1.0691	1.1412	1.1806	1.1097
GBP	0.8188	0.8562	0.8555	0.8793	0.8818	0.8716
JPY	120.40	123.40	119.55	127.75	132.82	124.00
RUB	74.278	63.938	60.274	67.428	68.495	64.487
CNY	7.3515	7.3123	7.3760	7.8664	7.8355	7.5538

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

INCOME STATEMENT

FOCUS ON CONTINUING OPERATIONS

Due to the completed divestiture of the TaylorMade business (including the TaylorMade, Adams Golf and Ashworth brands) as well as the CCM Hockey business, all income and expenses of the TaylorMade and CCM Hockey businesses are reported as discontinued operations at the end of September 2017. For the sake of clarity, all figures related to the 2016 financial year in this report refer to the company's continuing operations unless otherwise stated.

ADIDAS WITH STRONG FINANCIAL PERFORMANCE IN THE FIRST NINE MONTHS OF 2017

In the first nine months of 2017, revenues increased 16% on a currency-neutral basis and in euro terms to € 16.162 billion. see Table 06 From a brand perspective, currency-neutral revenues for brand adidas grew 17%, 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 contributed to this development. Currency-neutral Reebok sales were up 6% versus the prior year, mainly as a result of double-digit sales increases in Classics. From a regional perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands grew at double-digit rates in all regions except Russia/CIS.

The gross margin increased 0.9 percentage points to 50.1%, reflecting the positive effects from an improved pricing and product mix, which more than offset unfavourable currency developments as well as higher input costs. see Table 06

Royalty and commission income increased 5% to € 86 million. On a currency-neutral basis, royalty and commission income grew 4%. Other operating income declined 59% to € 85 million, mainly due to the non-recurrence of extraordinary gains related to the early termination of the Chelsea FC contract and the Mitchell & Ness divestiture.

Other operating expenses were up 13% to € 6.323 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 1.1 percentage points to 39.1%. see Table 06 Expenditure for point-of-sale and marketing investments amounted to € 1.917 billion, 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 0.6 percentage points to 11.9%, reflecting the strong top-line improvement as well as this year's different phasing of the company's marketing spend. Operating overhead expenses grew 14% to € 4.406 billion. As a percentage of sales, operating overhead expenses decreased 0.5 percentage points to 27.3%. Operating profit grew 26% to € 1.938 billion, representing an operating margin of 12.0%, an increase of 1.0 percentage points compared to the prior year. see Table 06 The improvement was driven by the increase in gross margin as well as the positive effect of lower other operating expenses as a percentage of sales. This development more than offset the significant decline in other operating income mainly caused by the non-recurrence of the extraordinary gain related to the early termination of the Chelsea FC contract. Financial income grew 1% to € 35 million, as a result of an increase in interest income which was largely offset by a decrease in positive exchange rate effects. Financial expenses were up 47% to € 75 million, partly due to an increase in interest expenses. As a result, net financial expenses more than doubled to € 39 million from € 16 million in the prior year. The company's tax rate was down 0.8 percentage points to 28.5%. see Financial Highlights, p. 3 Consequently, net income from continuing operations grew 26% to € 1.358 billion, resulting in basic earnings per share of € 6.71, up 25% versus the prior year, and diluted earnings per share of € 6.65, an increase of 27% compared to the prior year.

In the first nine months of 2017, adidas incurred losses from discontinued operations of € 217 million, net of tax, mainly related to the TaylorMade and CCM Hockey businesses (2016: losses of € 48 million). These losses from discontinued operations were due to a loss recognised on the measurement to fair value less costs to sell, net of tax, in the amount of € 221 million, partly offset by income from discontinued operating activities of € 4 million. However, net income attributable to shareholders, which in addition to net income from continuing operations includes the losses from discontinued operations, increased 11% to € 1.139 billion. see Table 06 As a result, basic EPS from continuing and discontinued operations increased 10% to € 5.63 and diluted EPS from continuing and discontinued operations grew 11% to € 5.58. see Table 06

The total number of shares outstanding increased by 1,348,834 shares in the first nine months of 2017 to 202,838,144 as a result of share conversions in relation to the company's outstanding convertible bond which were partly offset by shares repurchased as part of the company's share buyback programme. see Financial Highlights, p. 3 Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 202,111,204.

06 KEY FINANCIAL HIGHLIGHTS

	Nine months 2017	Nine months 2016	Change
Operating Highlights (€ in millions)			
Net sales [1]	16,162	13,983	16%
Operating profit [1]	1,938	1,541	26%
Net income from continuing operations [1]	1,358	1,078	26%
Net income attributable to shareholders [2]	1,139	1,027	11%
Key Ratios			
Gross margin [1]	50.1%	49.2%	0.9pp
Other operating expenses in % of net sales [1]	39.1%	40.2%	(1.1pp)
Operating margin [1]	12.0%	11.0%	1.0pp
Per Share of Common Stock (€)			
Diluted earnings [2]	5.58	5.01	11%

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

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

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

At September 30, 2017, all assets and liabilities of the TaylorMade business (including the TaylorMade, Adams Golf and Ashworth brands) are presented as assets and liabilities classified as held for sale. At the end of the first nine months of 2017, assets of € 316 million and liabilities of € 152 million were allocated to the TaylorMade business. However, a restatement of the 2016 balance sheet items is not permitted under IFRS. With the completed divestiture of the CCM Hockey business as of September 1, 2017, all relevant assets and liabilities were derecognised from the consolidated statement of financial position.

ASSETS

At the end of September 2017, total assets were up 4% to € 14.871 billion compared to the prior year, as a result of an increase in current assets which more than offset a decline in non-current assets.

Total current assets increased 9% to € 9.057 billion at the end of September 2017. Cash and cash equivalents were up 6% to € 1.343 billion, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 99 million. Inventories increased 7% to € 3.441 billion. On a currency-neutral basis, inventories grew 11%. Inventories from continuing operations increased 13% (+16% currency-neutral), reflecting higher stock levels to support the company's top-line momentum. The company's accounts receivable increased 3% to € 2.808 billion. On a currency-neutral basis, receivables were up 8%. Receivables from continuing operations increased 12% (+17% currency-neutral), mainly reflecting the company's top-line development in the third quarter of 2017. Other current financial assets decreased 14% to € 414 million. This development was mainly due to a shift of current financial assets to non-current financial assets as well as an increase in the fair value of financial instruments. Other current assets increased 3% to € 562 million, mainly due to an increase in prepaid promotion contracts.

Total non-current assets decreased 2% to € 5.815 billion at the end of September 2017. Fixed assets declined 4% to € 4.813 billion, mainly as a result of the reclassification of the net book value of fixed assets of the TaylorMade and CCM Hockey businesses to assets classified as held for sale. Currency translation effects of € 170 million also contributed to the decrease in fixed assets. Other non-current financial assets increased 82% to € 160 million. This development was due to a shift of current financial assets to non-current financial assets. see Diagram 07

LIABILITIES AND EQUITY

Total current liabilities increased 5% to € 6.552 billion at the end of September 2017. Accounts payable increased 3% to € 1.747 billion. On a currency-neutral basis, accounts payable grew 5%. Accounts payable from continuing operations increased 8% (+10% currency-neutral), reflecting higher inventories compared to the prior year. Short-term borrowings decreased 33% to € 711 million at the end of September 2017, reflecting conversions of the company's convertible bond into adidas AG shares. Other current financial liabilities grew 74% to € 345 million, mainly as a result of an increase in the fair value of financial instruments. Other current provisions were up 12% to € 593 million, partly due to an increase in provisions for customs risks. Current accrued liabilities grew 5% to € 2.030 billion, mainly as a result of an increase in invoices not yet received as well as higher accruals for customer discounts. Other current liabilities were up 15% to € 445 million, primarily due to an increase in miscellaneous taxes payable.

Total non-current liabilities decreased 1% to € 1.865 billion at the end of September 2017. Long-term borrowings as well as pensions and similar obligations remained virtually unchanged compared to the prior year at € 983 million and € 333 million, respectively. see Diagram 08

Shareholders' equity increased 6% to € 6.470 billion at the end of September 2017. The net income generated during the last twelve months and the reissuance of treasury shares in an amount of € 393 million were partly offset by the dividend of € 405 million paid to shareholders for the 2016 financial year, the repurchase of treasury shares in an amount of € 314 million, including incidental purchasing costs, as well as negative currency effects of € 291 million. The company's equity ratio increased 0.5 percentage points to 43.5% compared to the prior year. see Financial Highlights, p. 3

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

	September 30, 2017	September 30, 2016
Assets (€ in millions)	**14,871**	14,255
Cash and cash equivalents	**9.0**	8.9
Accounts receivable	**18.9**	19.0
Inventories	**23.1**	22.5
Fixed assets	**32.4**	35.4
Other assets	**16.6**	14.3

2017 2016

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

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

	September 30, 2017	September 30, 2016
Liabilities and equity (€ in millions)	**14,871**	14,255
Short-term borrowings	**4.8**	7.4
Accounts payable	**11.7**	11.8
Long-term borrowings	**6.6**	6.9
Other liabilities	**33.5**	31.0
Total equity	**43.4**	42.9

2017 2016

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

OPERATING WORKING CAPITAL

Operating working capital increased 6% to € 4.502 billion at the end of September 2017. On a currency-neutral basis, operating working capital grew 11%. Operating working capital from continuing operations rose 14% (+19% currency-neutral). Average operating working capital as a percentage of sales from continuing operations decreased 1.0 percentage points to 20.3%, 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 nine months of 2017, net cash generated from operating activities increased to € 742 million (2016: € 376 million). see Financial Highlights, p. 3 Net cash generated from continuing operating activities rose to € 760 million (2016: € 419 million), driven by an increase in income before taxes and lower operating working capital requirements, partly offset by an increase in income taxes paid. Net cash used in investing activities rose to € 533 million (2016: € 332 million). Net cash used in continuing investing activities increased to € 529 million (2016: € 326 million). The majority of continuing investing activities in the first nine months of 2017 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of our own-retail stores and investments in IT systems as well as the further development of the company's headquarters in Herzogenaurach. Net cash used in financing activities and net cash used in continuing financing activities both totalled € 277 million (2016: € 116 million and € 120 million, respectively), mainly due to the dividend paid to shareholders as well as the repurchase of treasury shares. Exchange rate effects negatively impacted the company's cash position by € 99 million. As a result of all these developments, cash and cash equivalents increased by € 79 million to € 1.343 billion.

Net borrowings at September 30, 2017 amounted to € 345 million, representing a decrease of € 424 million compared to the prior year. see Financial Highlights, p. 3 This development was mainly related to conversions of convertible bonds into adidas AG shares. The company's ratio of net borrowings over EBITDA amounted to 0.1, 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 12% on a currency-neutral basis. In euro terms, sales grew 10% to € 4.600 billion. Despite difficult prior year comparisons mainly resulting from revenues generated with UEFA EURO 2016 related products, adidas brand revenues grew 10% 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, high-single-digit increases in the running category as well as mid-single-digit sales growth in the training category supported this development. Reebok brand revenues increased 26% on a currency-neutral basis, mainly due to double-digit sales growth in the training category and in Classics. In addition, mid-single-digit increases in the running category also contributed to this development. From a country perspective, the main contributors to the increase were the UK, Germany, Poland and Spain where revenues grew at double-digit rates each. see Table 09

Gross margin in Western Europe increased 0.4 percentage points to 44.8%, driven by an improved pricing and channel mix, which more than offset unfavourable currency developments and higher input costs. Operating expenses were up 6% to € 1.066 billion. 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 0.8 percentage points to 23.2%. The operating margin improved 1.2 percentage points to 21.7%, as a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales. see Table 09

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	4,600	4,185	10%	12%
adidas brand	4,200	3,865	9%	10%
Reebok brand	400	320	25%	26%
Gross profit	2,063	1,861	11%	–
Gross margin	44.8%	44.5%	0.4pp	–
Segmental operating profit	997	857	16%	–
Segmental operating margin	21.7%	20.5%	1.2pp	–

NORTH AMERICA

Sales in North America increased 26% on a currency-neutral basis. In euro terms, sales grew 27% to € 3.100 billion. adidas brand revenues increased 33% 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 14% on a currency-neutral basis, reflecting the planned closure of own-retail stores in the US. From a category perspective, double-digit growth in Classics was more than offset by sales declines in the training and running categories. see Table 10

Gross margin in North America increased 1.9 percentage points to 39.8%, driven by an improved product mix, which was partly offset by a less favourable channel mix as well as the negative impact from unfavourable currency developments and higher input costs. Operating expenses were up 15% to € 927 million, reflecting higher expenditure for point-of-sale and marketing investments as well as higher sales expenditure. Operating expenses as a percentage of sales decreased 3.0 percentage points to 29.9%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 4.6 percentage points to 11.3%. see Table 10

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	3,100	2,443	27%	26%
adidas brand	2,789	2,082	34%	33%
Reebok brand	312	361	(14%)	(14%)
Gross profit	1,233	926	33%	–
Gross margin	39.8%	37.9%	1.9pp	–
Segmental operating profit	352	165	113%	–
Segmental operating margin	11.3%	6.8%	4.6pp	–

GREATER CHINA

Sales in Greater China increased 29% on a currency-neutral basis. In euro terms, sales were up 26% to € 2.867 billion. adidas brand revenues grew 29% on a currency-neutral basis. This development was due to double-digit growth in the running, training, outdoor and basketball categories as well as at adidas Originals and adidas neo. Reebok brand revenues increased 16% on a currency-neutral basis, driven by double-digit sales growth in the training and running categories. see Table 11

Gross margin in Greater China increased 0.1 percentage points to 58.1%, reflecting an improved pricing, product and channel mix as well as lower input costs, partly offset by negative currency effects. Operating expenses were up 25% to € 597 million. This development reflects an increase in sales expenditure as well as higher expenditure for point-of-sale and marketing investments. As a percentage of sales, operating expenses decreased 0.3 percentage points to 20.8%. The operating margin increased 0.4 percentage points to 37.2%, reflecting the higher gross margin as well as the positive effect of lower operating expenses as a percentage of sales. see Table 11

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	2,867	2,269	26%	29%
adidas brand	2,808	2,218	27%	29%
Reebok brand	59	51	16%	16%
Gross profit	1,664	1,316	27%	–
Gross margin	58.1%	58.0%	0.1pp	–
Segmental operating profit	1,067	837	28%	–
Segmental operating margin	37.2%	36.9%	0.4pp	–

RUSSIA/CIS

Sales in Russia/CIS decreased 13% on a currency-neutral basis, reflecting the significant number of store closures in the first nine months of 2017. In euro terms, sales increased 2% to € 514 million. adidas brand revenues were down 16% on a currency-neutral basis, due to sales declines in most categories. Reebok brand revenues remained stable on a currency-neutral basis, as increases in the training and running categories were offset by declines in Classics. see Table 12

Gross margin in Russia/CIS increased 7.3 percentage points to 64.9%, driven by an improved pricing mix as well as positive currency effects, which more than offset a less favourable channel mix. Operating expenses were up 7% to € 228 million and, as a percentage of sales, grew 2.3 percentage points to 44.4%. This development mainly reflects an increase in sales expenditure, which was entirely driven by currency effects. The operating margin increased 5.0 percentage points to 20.5% as a result of the gross margin increase which more than offset the negative effect of higher operating expenses as a percentage of sales. see Table 12

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	514	505	2%	(13%)
adidas brand	376	386	(3%)	(16%)
Reebok brand	138	119	16%	(0%)
Gross profit	334	291	15%	–
Gross margin	64.9%	57.6%	7.3pp	–
Segmental operating profit	105	78	35%	–
Segmental operating margin	20.5%	15.5%	5.0pp	–

LATIN AMERICA

Sales in Latin America grew 10% on a currency-neutral basis. In euro terms, sales were up 11% to € 1.397 billion. Despite difficult prior year comparisons resulting from revenues generated with Copa América 2016 related products, adidas brand revenues increased 10% on a currency-neutral basis. This development was driven by double-digit sales growth at adidas Originals and adidas neo, as well as increases in the running and training categories. Reebok brand revenues were up 11% on a currency-neutral basis, driven by double-digit sales growth in the training category and in Classics. From a country perspective, the main contributors to the increase were Mexico and Peru, where revenues grew at double-digit rates each. In addition, high-single-digit growth in Argentina also contributed to this development. see Table 13

Gross margin in Latin America declined 2.4 percentage points to 39.6%, as the positive effects from an improved pricing and channel mix were more than offset by severe negative currency effects and higher input costs. Operating expenses were up 8% to € 390 million, mainly reflecting an increase in sales expenditure. Operating expenses as a percentage of sales were down 0.9 percentage points to 27.9%. The operating margin decreased 1.5 percentage points to 11.7%, reflecting the gross margin decrease which more than offset the positive effect of lower operating expenses as a percentage of sales. see Table 13

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	1,397	1,260	11%	10%
adidas brand	1,226	1,105	11%	10%
Reebok brand	171	155	10%	11%
Gross profit	554	529	5%	–
Gross margin	39.6%	42.0%	(2.4pp)	–
Segmental operating profit	164	167	(1%)	–
Segmental operating margin	11.7%	13.2%	(1.5pp)	–

JAPAN

Sales in Japan increased 12% on a currency-neutral basis. In euro terms, revenues increased 9% to € 805 million. adidas brand revenues grew 12% on a currency-neutral basis, driven by double-digit sales growth in the running category as well as at adidas neo. In addition, high-single-digit growth in the training category as well as at adidas Originals contributed to this development. Reebok brand revenues were up 9% on a currency-neutral basis, due to double-digit sales growth in the training and running categories, which more than offset declines in Classics. see Table 14

Gross margin in Japan increased 3.3 percentage points to 52.7%, driven by a more favourable currency development as well as an improved pricing and channel mix. This was partly offset by a less favourable product mix and higher input costs. Operating expenses were up 5% to € 227 million, reflecting an increase in sales expenditure as well as higher expenditure for point-of-sale investments. Operating expenses as a percentage of sales decreased 1.3 percentage points to 28.2%. As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin grew 4.6 percentage points to 26.0%. see Table 14

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	805	736	9%	12%
adidas brand	723	660	10%	12%
Reebok brand	81	77	6%	9%
Gross profit	424	364	17%	–
Gross margin	52.7%	49.4%	3.3pp	–
Segmental operating profit	209	157	33%	–
Segmental operating margin	26.0%	21.4%	4.6pp	–

MEAA

Sales in MEAA (Middle East, Africa and other Asian markets) increased 11% on a currency-neutral basis and in euro terms to € 2.291 billion. adidas brand revenues grew 11% on a currency-neutral basis, due to double-digit sales growth in the running category as well as at adidas Originals and adidas neo. Reebok brand revenues grew 8% on a currency-neutral basis, due to double-digit growth in the training and running categories, which more than offset declines in Classics. From a country perspective, the main contributors to the increase were double-digit improvements in Australia, Thailand, South Africa, Indonesia, Turkey and India as well as mid-single-digit sales growth in South Korea. see Table 15

Gross margin in MEAA increased 1.5 percentage points to 51.5%, driven by an improved pricing and product mix, partly offset by negative currency effects as well as a less favourable channel mix and higher input costs. Operating expenses were up 6% to € 481 million, driven by an increase in sales expenditure as well as higher expenditure for marketing investments. As a percentage of sales, operating expenses declined 0.9 percentage points to 21.0%. The operating margin was up 2.3 percentage points to 30.6%, reflecting the increase in gross margin as well as the positive effect of lower operating expenses as a percentage of sales. see Table 15

15 **MEAA AT A GLANCE** (€ IN MILLIONS)

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	2,291	2,067	11%	11%
adidas brand	2,050	1,845	11%	11%
Reebok brand	241	222	9%	8%
Gross profit	1,181	1,035	14%	–
Gross margin	51.5%	50.1%	1.5pp	–
Segmental operating profit	701	584	20%	–
Segmental operating margin	30.6%	28.3%	2.3pp	–

OTHER BUSINESSES

Other Businesses comprises adidas Golf, Runtastic and Other centrally managed businesses, which primarily includes the business activities of Y-3. see Note 13, p. 29

Revenues in Other Businesses grew 14% on a currency-neutral basis. In euro terms, revenues increased 13% to € 587 million, driven by double-digit growth in all operating segments. see Table 16

Gross margin was down 2.1 percentage points to 39.0%, reflecting gross margin declines at adidas Golf as well as in Other centrally managed businesses and Runtastic. Operating expenses declined 10% to € 156 million, primarily as a result of lower sales expenditure. As a percentage of sales, operating expenses declined 7.0 percentage points to 26.6%. The operating margin was up 4.8 percentage points to 13.0%, reflecting the positive effect of lower operating expenses as a percentage of sales, which more than offset the decrease in gross margin. see Table 16

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

	Nine months 2017	Nine months 2016	Change	Change (currency-neutral)
Net sales	587	519	13%	14%
adidas Golf	302	277	9%	10%
Other centrally managed businesses	264	224	18%	18%
Gross profit	229	213	7%	–
Gross margin	39.0%	41.1%	(2.1pp)	–
Segmental operating profit	76	42	80%	–
Segmental operating margin	13.0%	8.1%	4.8pp	–

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

SUBSEQUENT EVENTS AND OUTLOOK

SUBSEQUENT EVENTS

EVENTS AFTER QUARTER-END

On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). The transaction was completed on October 2, 2017.

Between the end of the first nine months of 2017 and the finalisation of the interim consolidated financial statements on October 26, 2017, there were no other major company-specific matters 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 3.6% in 2017. This development will be supported by improvements in global trade, an uptick in consumer confidence and manufacturing activity as well as accommodative fiscal and monetary policies. Nevertheless, policy uncertainties and weak productivity growth are expected to weigh on economic activity. Developing economies are forecasted to remain a major contributor to the global economic expansion in 2017. At 4.6%, their growth rate is projected to accelerate compared to 2016. In developed economies, GDP is expected to grow at a level of 2.2% 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 are projected to continue to boost sportswear demand. At the same time, challenges in the US retail market are expected to continue to weigh on the sporting goods industry's overall growth trajectory.

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

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

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

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

RISKS AND OPPORTUNITIES

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

At the end of September, an employee of the company's US subsidiary was charged with criminal violations relating to alleged unlawful payments to certain high school basketball players or their families. The company's US subsidiary, with the full support of the company, is cooperating with the prosecutors and actively working to understand the allegations, which includes an internal investigation with the assistance of outside counsel. While Management currently believes that the effects will not have any material influence on the assets, liabilities, financial position and profit or loss of the company, the risks related to this case cannot be assessed conclusively at this point in time.

17 2017 OUTLOOK

	Current guidance	Previous guidance [1]
Net sales [2]	to increase at a rate between 17% and 19%	
Gross margin	to increase up to 0.8pp to a level of up to 50.0%	
Other operating expenses (in % of net sales)	below prior year level	
Operating profit	to increase at a rate between 24% and 26%	
Operating margin	to increase up to 0.6pp to a level of up to 9.2%	
Net income from continuing operations	to increase at a rate between 26% and 28% to a level between € 1.360 billion and € 1.390 billion	
Basic earnings per share from continuing operations	to increase at a rate between 25% and 27%	
Average operating working capital (in % of net sales)	modest decline	modest increase
Capital expenditure [3]	up to € 1.0 billion	

1 Unless specified, previous guidance remains unchanged (as published on August 3, 2017).
2 Currency-neutral.
3 Excluding acquisitions and finance leases.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	September 30, 2017	September 30, 2016	Change in %	December 31, 2016
Assets				
Cash and cash equivalents	1,343	1,264	6.2	1,510
Short-term financial assets	5	5	(3.3)	5
Accounts receivable	2,808	2,715	3.4	2,200
Other current financial assets	414	481	(13.9)	729
Inventories	3,441	3,203	7.4	3,763
Income tax receivables	108	102	6.2	98
Other current assets	562	547	2.7	580
Assets classified as held for sale	376	0	n. a.	–
Total current assets	**9,057**	**8,317**	**8.9**	**8,886**
Property, plant and equipment	1,883	1,715	9.8	1,915
Goodwill	1,228	1,376	(10.7)	1,412
Trademarks	1,350	1,589	(15.0)	1,680
Other intangible assets	132	173	(23.7)	167
Long-term financial assets	220	187	17.3	194
Other non-current financial assets	160	88	82.2	96
Deferred tax assets	719	695	3.5	732
Other non-current assets	122	116	5.3	94
Total non-current assets	**5,815**	**5,938**	**(2.1)**	**6,290**
Total assets	**14,871**	**14,255**	**4.3**	**15,176**

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

	September 30, 2017	September 30, 2016	Change in %	December 31, 2016
Liabilities and equity				
Short-term borrowings	711	1,057	(32.8)	636
Accounts payable	1,747	1,689	3.4	2,496
Other current financial liabilities	345	199	73.7	201
Income taxes	529	465	13.6	402
Other current provisions	593	531	11.7	573
Current accrued liabilities	2,030	1,942	4.5	2,023
Other current liabilities	445	386	15.2	434
Liabilities classified as held for sale	152	0	n. a.	–
Total current liabilities	**6,552**	**6,269**	**4.5**	**6,765**
Long-term borrowings	983	982	0.1	982
Other non-current financial liabilities	19	30	(35.5)	22
Pensions and similar obligations	333	334	(0.5)	355
Deferred tax liabilities	329	341	(3.5)	387
Other non-current provisions	46	44	4.2	44
Non-current accrued liabilities	109	101	8.4	120
Other non-current liabilities	46	45	2.7	46
Total non-current liabilities	**1,865**	**1,877**	**(0.6)**	**1,957**
Share capital	203	200	1.3	201
Reserves	(28)	336	n. a.	749
Retained earnings	6,295	5,590	12.6	5,521
Shareholders' equity	**6,470**	**6,126**	**5.6**	**6,472**
Non-controlling interests	(15)	(17)	9.2	(17)
Total equity	**6,454**	**6,109**	**5.6**	**6,455**
Total liabilities and equity	**14,871**	**14,255**	**4.3**	**15,176**

CONSOLIDATED INCOME STATEMENT

ADIDAS AG CONSOLIDATED INCOME STATEMENT (IFRS) € IN MILLIONS

	Nine months 2017	Nine months 2016	Change	Third quarter 2017	Third quarter 2016	Change
Net sales	16,162	13,983	15.6%	5,677	5,222	8.7%
Cost of sales	8,071	7,110	13.5%	2,814	2,712	3.7%
Gross profit	**8,090**	**6,874**	**17.7%**	**2,864**	**2,510**	**14.1%**
(% of net sales)	50.1%	49.2%	0.9pp	50.4%	48.1%	2.4pp
Royalty and commission income	86	82	4.6%	29	29	(0.7%)
Other operating income	85	206	(58.7%)	33	16	110.5%
Other operating expenses	6,323	5,620	12.5%	2,129	1,963	8.5%
(% of net sales)	39.1%	40.2%	(1.1pp)	37.5%	37.6%	(0.1pp)
Operating profit	**1,938**	**1,541**	**25.8%**	**795**	**591**	**34.6%**
(% of net sales)	12.0%	11.0%	1.0pp	14.0%	11.3%	2.7pp
Financial income	35	35	1.0%	7	6	6.2%
Financial expenses	75	51	46.7%	35	24	45.7%
Income before taxes	**1,899**	**1,525**	**24.5%**	**767**	**573**	**33.9%**
(% of net sales)	11.7%	10.9%	0.8pp	13.5%	11.0%	2.5pp
Income taxes	541	448	20.9%	219	166	31.7%
(% of income before taxes)	28.5%	29.3%	(0.8pp)	28.5%	29.0%	(0.5pp)
Net income from continuing operations	**1,358**	**1,078**	**26.0%**	**549**	**407**	**34.8%**
(% of net sales)	8.4%	7.7%	0.7pp	9.7%	7.8%	1.9pp
Losses from discontinued operations, net of tax	217	48	348.0%	22	20	9.7%
Net income	**1,141**	**1,029**	**10.8%**	**527**	**387**	**36.1%**
(% of net sales)	7.1%	7.4%	(0.3pp)	9.3%	7.4%	1.9pp
Net income attributable to shareholders	**1,139**	**1,027**	**10.8%**	**526**	**386**	**36.2%**
(% of net sales)	7.0%	7.3%	(0.3pp)	9.3%	7.4%	1.9pp
Net income attributable to non-controlling interests	**2**	**2**	**8.0%**	**1**	**1**	**0.7%**
Basic earnings per share from continuing operations (in €)	6.71	5.37	24.8%	2.70	2.03	33.2%
Diluted earnings per share from continuing operations (in €)	6.65	5.25	26.6%	2.68	1.98	35.4%
Basic earnings per share from continuing and discontinued operations (in €)	5.63	5.13	9.8%	2.59	1.93	34.5%
Diluted earnings per share from continuing and discontinued operations (in €)	5.58	5.01	11.4%	2.57	1.88	36.7%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Nine months 2017	Nine months 2016	Third quarter 2017	Third quarter 2016
Net income after taxes	**1,141**	**1,029**	**527**	**387**
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]	2	(39)	0	(41)
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**2**	**(39)**	**0**	**(41)**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met				
Net (loss)/gain on cash flow hedges, net of tax	(337)	(100)	(86)	13
Reclassification of foreign currency differences on loss of significant influence	(4)	0	(4)	0
Currency translation differences	(473)	(116)	(122)	(34)
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	**(813)**	**(216)**	**(212)**	**(21)**
Other comprehensive income	**(812)**	**(255)**	**(212)**	**(61)**
Total comprehensive income	**329**	**775**	**315**	**326**
Attributable to shareholders of adidas AG	326	772	313	325
Attributable to non-controlling interests	3	3	2	0

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Other reserves[1]	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2015	**200**	**777**	**(123)**	**59**	**(122)**	**4,874**	**5,666**	**(18)**	**5,648**
Net income recognised directly in equity			(116)	(100)	(39)		(255)	1	(255)
Net income						1,027	1,027	2	1,029
Total comprehensive income			**(116)**	**(100)**	**(39)**	**1,027**	**772**	**3**	**775**
Reissuance of treasury shares due to the conversion of convertible bonds	0					9	9		9
Dividend payment						(320)	(320)	(2)	(322)
Balance at September 30, 2016	**200**	**777**	**(239)**	**(41)**	**(161)**	**5,590**	**6,126**	**(17)**	**6,109**
Balance at December 31, 2016	**201**	**838**	**(52)**	**146**	**(182)**	**5,521**	**6,472**	**(17)**	**6,455**
Net income recognised directly in equity			(478)	(337)	2		(813)	1	(812)
Net income						1,139	1,139	2	1,141
Total comprehensive income			**(478)**	**(337)**	**2**	**1,139**	**326**	**3**	**329**
Reissuance of treasury shares due to the conversion of convertible bonds	2	36				108	146		146
Repurchase of treasury shares	(0)					(73)	(73)		(73)
Repurchase of treasury shares due to equity-settled share-based payment	(0)					(11)	(11)		(11)
Reissuance of treasury shares due to equity-settled share-based payment	0					15	16		16
Dividend payment						(405)	(405)	(1)	(406)
Equity-settled share-based payment						0	0		0
Balance at September 30, 2017	**203**	**874**	**(530)**	**(191)**	**(181)**	**6,295**	**6,470**	**(15)**	**6,454**

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

	Nine months 2017	Nine months 2016
Operating activities:		
Income before taxes	1,899	1,525
Adjustments for:		
Depreciation, amortisation and impairment losses	326	262
Reversals of impairment losses	(1)	(1)
Unrealised foreign exchange (gains)/losses, net	(36)	11
Interest income	(21)	(15)
Interest expense	53	46
Losses/(gains) on sale of property, plant and equipment and intangible assets, net	9	(34)
Other non-cash expense	6	0
Payment for external funding of pension obligations (CTA)	(16)	–
Proceeds from early termination of promotion and advertising contracts	76	–
Operating profit before working capital changes	**2,296**	**1,795**
Increase in receivables and other assets	(927)	(920)
Decrease/(increase) in inventories	45	(161)
(Decrease)/increase in accounts payable and other liabilities	(227)	75
Cash generated from operations before interest and taxes	**1,187**	**789**
Interest paid	(46)	(23)
Income taxes paid	(380)	(347)
Net cash generated from operating activities – continuing operations	**760**	**419**
Net cash used in operating activities – discontinued operations	(18)	(43)
Net cash generated from operating activities	**742**	**376**
Investing activities:		
Purchase of trademarks and other intangible assets	(30)	(41)
Proceeds from sale of trademarks and other intangible assets	1	0
Purchase of property, plant and equipment	(430)	(314)
Proceeds from sale of property, plant and equipment	2	4
Proceeds from sale of assets held for sale	–	14
Proceeds from sale of a disposal group	6	28
Proceeds from disposal of discontinued operations net of cash disposed	55	–
Proceeds from sale/(purchase of) short-term financial assets	0	(0)
Purchase of investments and other long-term assets	(153)	(32)
Interest received	21	15
Net cash used in investing activities – continuing operations	**(529)**	**(326)**
Net cash used in investing activities – discontinued operations	(5)	(6)
Net cash used in investing activities	**(533)**	**(332)**
Financing activities:		
Repayments of finance lease obligations	(2)	(2)
Dividend paid to shareholders of adidas AG	(405)	(320)
Dividend paid to non-controlling interest shareholders	(1)	(2)
Repurchase of treasury shares	(85)	–
Repurchase of treasury shares due to share-based payments	(11)	–
Proceeds from reissuance of treasury shares due to share-based payments	10	–
Proceeds from short-term borrowings	218	341
Repayments of short-term borrowings	–	(138)
Net cash used in financing activities – continuing operations	**(277)**	**(120)**
Net cash (used in)/generated from financing activities – discontinued operations	(0)	4
Net cash used in financing activities	**(277)**	**(116)**
Effect of exchange rates on cash	**(99)**	**(29)**
Decrease of cash and cash equivalents	(167)	(101)
Cash and cash equivalents at beginning of year	1,510	1,365
Cash and cash equivalents at end of period	**1,343**	**1,264**

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

01 — GENERAL

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

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

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

— **IFRS 9 'Financial Instruments' (EU effective date: January 1, 2018):** The new standard prescribes rules for the accounting of financial instruments, replacing the current guidelines in IAS 39 'Financial Instruments: Recognition and Measurement'. adidas has identified all financial instruments that require classification according to IFRS 9. As a result of the changes in IFRS 9 categorisation, the company has determined that most financial assets previously classified as available-for-sale will be classified as at fair value through profit or loss.

The company has decided to adopt IFRS 9 for hedge accounting at the EU effective date. With the application of IFRS 9, the company has decided to designate forward exchange contracts solely by the spot value, with the forward element posted in Other Comprehensive Income (OCI) under the cost of hedging. In addition, the company has decided to designate foreign currency options with their intrinsic value, with resulting changes in time value first recognised as cost of hedging in OCI. The option regarding the treatment of existing hedging relationships during transition to IFRS 9 is still being evaluated. Furthermore, adidas has analysed and determined the future calculation model for the impairment of accounts receivable held by the company, which will affect the accumulated allowance for doubtful accounts on accounts receivable. This calculation model is based on portfolios of accounts receivable bearing similar features, such as the Credit Default Spread (CDS) and Days Sales Outstanding (DSO). Additionally, adidas has identified the need for IT changes including: adding new accounts, e.g. for separating hedge components as well as adding ageing buckets for impairment purposes.

adidas has identified the disclosures relevant to the company which are either new or have been changed due to the implementation of IFRS 9. The company is ensuring that the new disclosures resulting from IFRS 15 will be included in the notes to the interim consolidated financial statements as at March 31, 2018, in particular by defining new IT accounts necessary for capturing additional information. Retrospective restatement in the consolidated financial statements is either not permitted or not required for most disclosures, with the exception of certain disclosures related to hedge accounting. The company does not plan to retrospectively restate information except where required by the standard.

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

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

In 2015, adidas performed an initial IFRS 15 evaluation on market and brand level in order to identify material topics that needed further examination. After further central analysis, adidas has performed a second, more detailed evaluation with all markets and brands in order to gain further assurance about the effects of IFRS 15 on the company. Thus far, various topics analysed in the second evaluation have not yielded additional material changes for the company. These topics include, for example: customer loyalty programmes, warranties, significant financing components, breakage, changes in the transaction price, IFRS 15 scope and the cost of obtaining a contract. The respective analysis of the remaining responses is close to being finalised.

adidas has determined that the accounting for certain major IFRS 15 topics such as the revenue recognition at the transfer of control and the licensing-out of trademarks is expected to be comparable to the current practice in accordance with IAS 18. It has also been determined that any obligation of adidas to deliver goods to the customer should be included in the same performance obligation as the sale of the goods. In addition, the company will conduct a the calculation of the return provision as of September 30, 2017 according to the IFRS 15 method in order to pre-estimate the effect of the change in the return provision calculation at the time of transition to IFRS 15.

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 IFRS 15 'Amendment – Clarifications to IFRS 15' This would allow the company to reflect the aggregate effect of all contract modifications that occur before the beginning of the earliest period presented or before the date of initial application. The company is ensuring that the new disclosures resulting from IFRS 15 will be included in the notes to the interim consolidated financial statements as at March 31, 2018, in particular by defining new IT accounts necessary for capturing additional information.

Additionally, the company has held further IFRS 15 information sessions, training and workshops with relevant internal stakeholders. Further analysis of the expected impact on the consolidated financial statements of adidas AG is in progress.

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

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

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

  The company has continued to collect real estate lease contracts in the global lease management system, which captures relevant information from lease contracts and uses this information to create accounting reports. adidas plans to use this system for IFRS 16 'accounting purposes', and is in the process of working with the supplier to ensure system functionality and compliance according to IFRS 16 logic. Additional system analysis with regard to the IFRS 16 requirements is ongoing. 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 were not 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 nine months ending September 30, 2017 are not necessarily indicative of results to be expected for the entire year.

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

02 — SEASONALITY

The sales of the company in certain product categories are seasonal and therefore revenues and attributable earnings may vary within the financial year. Sales and earnings tend to be strongest in the first and third quarters of the financial year because these coincide with the launch of the spring/summer and fall/winter collections, respectively. However, shifts in the share of sales and attributable earnings of particular product categories or the regional composition may occur throughout the year.

03 — DISCONTINUED OPERATIONS

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

On July 27, 2017, adidas announced that it had entered into a definitive agreement to sell the CCM Hockey business. The transaction was completed on September 1, 2017. As a result, the CCM Hockey business is reported as discontinued operations as at September 30, 2017. The fair value of the consideration was determined based on the signed agreement. The consideration was paid in cash and in the form of a secured note. The fair value of the secured note was estimated by applying the discounted cash flow method. see Note 04

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

TaylorMade and CCM Hockey were classified as assets held for sale and as discontinued operations for the first time as of June 30, 2017. The prior year figures of the consolidated income statement and the consolidated statement of cash flows have been restated to show the discontinued operations separately from continuing operations.

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

DISCONTINUED OPERATIONS € IN MILLIONS

	Nine months 2017	Nine months 2016
Net sales	658	621
Expenses	(651)	(691)
Gain/(loss) from operating activities	**8**	**(71)**
Income taxes	(4)	23
Gain/(loss) from operating activities, net of tax	**4**	**(48)**
Loss recognised on the measurement to fair value less costs to sell	(253)	(1)
Income taxes	33	1
Loss recognised on the measurement to fair value less costs to sell, net of tax	**(221)**	**(0)**
Loss from discontinued operations, net of tax	**(217)**	**(48)**
Basic earnings per share from discontinued operations (€)	(1.07)	(0.24)
Diluted earnings per share from discontinued operations (€)	(1.07)	(0.24)

Losses from discontinued operations for the first nine months ending September 30, 2017 in an amount of € 217 million (2016: losses of € 48 million) are entirely attributable to the shareholders of adidas AG.

04 — DISPOSAL OF ASSETS AND LIABILITIES

The divestiture of the CCM Hockey business was completed on September 1, 2017 for a preliminary cash consideration of US $ 76 million plus a seller note amounting to US $ 40 million. The following assets and liabilities which were reported as assets/liabilities held for sale since June 30, 2017 due to concrete plans to sell the business are consequently derecognised from the consolidated statement of financial position as of September 30, 2017. The CCM Hockey business is part of Other Businesses (discontinued operations).

CLASSES OF ASSETS AND LIABILITIES € IN MILLIONS

	September 1, 2017
Cash and cash equivalents	(10)
Current assets	(145)
Current liabilities	56
Net assets	**(99)**
Consideration received in cash	65
Less: cash and cash equivalents disposed of	(10)
Net cash inflow	**55**

05 — ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

At September 30, 2017, assets/liabilities held for sale comprise the disposal group TaylorMade and a building of Reebok International Ltd. Due to business decisions at the end of 2016, the Reebok headquarters was moved from Canton to Boston in September 2017. From this moment on, the land and building were readily sellable and therefore reported as 'Assets classified as held for sale'.

The disposal group TaylorMade which was stated at fair value consists of the following major classes of assets and liabilities:

CLASSES OF ASSETS AND LIABILITIES € IN MILLIONS

	September 30, 2017
Accounts receivable	72
Other current financial assets	9
Inventories	89
Other current assets	6
Total current assets	**176**
Property, plant and equipment	29
Trademarks	41
Other intangible assets	6
Long-term financial assets	14
Deferred tax assets	49
Total non-current assets	**139**
Total assets	**316**
Accounts payable	53
Other current provisions	17
Other current accrued liabilities	42
Other current liabilities	12
Total current liabilities	**124**
Long-term borrowings	0
Pensions and similar obligations	14
Deferred tax liabilities	13
Total non-current liabilities	**28**
Total liabilities	**152**

Impairment losses of € 116 million (before transaction costs) for write-downs of the disposal group held for sale to the lower of their carrying amount and their fair value less costs to sell have been included in 'Losses/gains from discontinued operations, net of tax'. At September 30, 2017, the fair value less costs to sell amounts to € 118 million. The impairment losses have reduced the carrying amount of goodwill, other intangible assets and property, plant and equipment.

06 — GOODWILL

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

On May 10, 2017, adidas signed a definitive agreement to sell its golf equipment business which includes the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). As a result, the goodwill allocated to the group of cash-generating units TaylorMade-adidas Golf in the amount of € 292 million was split and re-allocated to the new cash-generating units TaylorMade amounting to € 113 million and adidas Golf amounting to € 179 million based on relative values (value in use) of the operation disposed of and the cash-generating unit retained, respectively. At September 30, 2017, the cash-generating unit TaylorMade is classified as a disposal group and shown in 'Assets/liabilities classified as held for sale'.

On July 26, 2017, adidas signed a definitive agreement to sell its CCM Hockey business. The divestiture was formally completed on September 1, 2017.

At September 30, 2017, the number of cash-generating units decreased to a total of twelve affected by the completed divestiture of the CCM Hockey business and the contractually agreed divestiture of the TaylorMade business, respectively.

07 — TRADEMARKS

In May 2017, the trademarks Ashworth and Adams Golf amounting to € 41 million were initially measured according to IAS 36 'Impairment of Assets' and subsequently transferred to 'Assets classified as held for sale' due to the signing of a definitive agreement to sell the TaylorMade operations. At September 30, 2017, these trademarks continue to be reported as 'Assets classified as held for sale'.

On July 26, 2017, adidas signed a definitive agreement to sell its CCM Hockey business. For this reason, the CCM Hockey trademarks amounting to € 109 million were initially measured according to IAS 36 'Impairment of Assets' and subsequently transferred to 'Assets classified as held for sale' at June 30, 2017. The divestiture of the CCM Hockey business was formally completed on September 1, 2017.

08 — SHAREHOLDERS' EQUITY

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

As a result of conversion rights exercised, a total of 1,791,380 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period from January 1, 2017 to September 30, 2017.

Moreover, based on the contractual obligations, 30,420 treasury shares were used as consideration, inter alia for the transfer or licensing of intellectual property rights and intangible property rights.

In addition, a further 56,701 treasury shares of adidas AG were delivered to the bondholders of adidas AG's convertible bond in the period between October 1, 2017 and October 17, 2017 due to conversion rights exercised.

In the 2016 financial year, adidas AG introduced an employee stock purchase plan in favour of employees of adidas AG and its affiliated companies. On January 6, 2017, in connection with the employee stock purchase plan, 25,699 shares of adidas AG were repurchased for an average price of € 144.41. This corresponded to a total price of € 3,711,236 (excluding incidental purchasing costs) with a notional amount of € 25,699 in the nominal capital and consequently 0.01% of the nominal capital. All shares which were repurchased for this purpose on January 6, 2017 were issued to the eligible employees on January 9, 2017 and January 10, 2017, respectively. On April 7, 2017, in connection with the employee stock purchase plan, a further 20,086 shares of adidas AG were repurchased for an average price of € 176.16. This corresponded to a total price of € 3,538,364 (excluding incidental purchasing costs) with a notional amount of € 20,086 or 0.009% of the nominal capital. All shares which were repurchased for this purpose on April 7, 2017 were issued to the eligible employees on April 11, 2017. On July 7, 2017, in connection with the employee stock purchase plan, a further 22,563 shares of adidas AG were repurchased for an average price of € 175.61. This corresponded to a total price of € 3,962,498 (excluding incidental purchasing costs) with a notional amount of € 22,563 or 0.01% of the nominal capital. All shares which were repurchased for this purpose on July 7, 2017 were issued to the eligible employees on July 11, 2017.

On September 30, 2017, adidas AG thus held a total of 6,378,042 treasury shares, corresponding to a notional amount of € 6,378,042 in the nominal capital and consequently 3.05% 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.

09 — SHARE-BASED PAYMENT

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

10 — FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT SEPTEMBER 30, 2017, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES € IN MILLIONS

			Measurement according to IAS 39				
	Category according to IAS 39	Carrying amount Sep. 30, 2017	Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	Fair value Sep. 30, 2017
Financial assets							
Cash and cash equivalents	n. a.	1,343	1,343				1,343
Short-term financial assets	FAHfT	5			5		5
Accounts receivable	LaR	2,808	2,808				2,808
Other current financial assets							
Derivatives being part of a hedge	n. a.	120		120			120
Derivatives not being part of a hedge	FAHfT	18			18		18
Promissory notes	AfS	8			8		8
Other financial assets	LaR	268	268				268
Long-term financial assets							
Other equity investments	FAHfT	81			81		81
Available-for-sale financial assets	AfS	121	33	88			121
Loans	LaR	17	17				17
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	28			28		28
Seller note	AfS	31			31		31
Other financial assets	LaR	81	81				81
Assets classified as held for sale	LaR	96	96				96
Financial liabilities							
Short-term borrowings							
Bank borrowings	FLAC	597	597				597
Private placements	FLAC	–	–				–
Eurobond	FLAC	–	–				–
Convertible bond	FLAC	114	114				268
Accounts payable	FLAC	1,747	1,747				1,747
Current accrued liabilities	FLAC	738	738				738
Other current financial liabilities							
Derivatives being part of a hedge	n. a.	272		272			272
Derivatives not being part of a hedge	FLHfT	21			21		21
Earn-out components	n. a.	10			10		10
Other financial liabilities	FLAC	40	40				40
Finance lease obligations	n. a.	3				3	3
Long-term borrowings							
Bank borrowings	FLAC	–	–				–
Private placements	FLAC	–	–				–
Eurobond	FLAC	983	983				1,040
Convertible bond	FLAC	–	–				–
Non-current accrued liabilities	FLAC	0	0				0
Other non-current financial liabilities							
Derivatives being part of a hedge	n. a.	5		5			5
Derivatives not being part of a hedge	FLHfT	0			0		0
Earn-out components	n. a.	11			11		11
Other financial liabilities	FLAC	0	0				0
Finance lease obligations	n. a.	3				3	3
Liabilities classified as held for sale	FLAC	54	54				54
Thereof: aggregated by category according to IAS 39							
Financial assets at fair value through profit or loss		118					
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					
Thereof: Held for Trading (FAHfT)		118					
Loans and Receivables (LaR)		3,270					
Available-for-Sale Financial Assets (AfS)		188					
Financial Liabilities Measured at Amortised Cost (FLAC)		4,272					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		21					

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2016, 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, 2016	Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2016
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 SEPTEMBER 30, 2017 € IN MILLIONS

	Fair value Sep. 30, 2017	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	128		128	
Derivatives not being part of a hedge	31		31	
Long-term financial assets	202		88	114
Promissory notes	36			36
Seller note	31			31
Financial assets	**433**		**253**	**181**
Short-term borrowings	865		865	
Derivative financial instruments				
Derivatives being part of a hedge	276		276	
Derivatives not being part of a hedge	21		21	
Long-term borrowings	1,040	1,040		
Earn-out components	20			20
Financial liabilities	**2,223**	**1,040**	**1,163**	**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 2017 € IN MILLIONS

		Fair value Jan. 1, 2017	Additions	Disposals	Gains	Losses	Currency translation	Fair value Sep. 30, 2017
Long-term financial assets	This category relates to an 8.33% investment in FC Bayern München AG of € 81 million. Dividends are distributed by FC Bayern München AG instead of regular interest payments. These dividends are recognised in other financial income.	81	–	–	–	–	–	81
Promissory notes	On January 23, 2015, adidas 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	–	–	–	(5)	(5)	36
Seller note	On July 27, 2017, adidas signed a definitive agreement to sell the CCM Hockey operating segment which was divested on September 1, 2017. The transaction included a seller note. The discounted cash flow method is applied. The fair value adjustment is recognised in discontinued operations.	–	31	–	–	–	–	31
Investments in other equity instruments	The change in fair value refers to recognised impairment losses resulting from one or more events where objective evidence of an impairment was identified, considering expectations regarding future business development. The impairment is recognised in other financial result.	64	3	(14)	–	(21)	–	32
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 2016 € 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, adidas 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.

11 — 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 nine months of 2017, depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses amounted to € 305 million (2016: € 255 million).

12 — 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 nine months ending September 30, 2017 as the conversion right has a value at the balance sheet date. The average share price reached € 183.57 per share during the first nine months of 2017 and thus exceeded the conversion price of € 81.13 per share.

EARNINGS PER SHARE

	Continuing operations		Discontinued operations		Total	
	Nine months 2017	Nine months 2016	Nine months 2017	Nine months 2016	Nine months 2017	Nine months 2016
Net income from continuing operations (€ in millions)	1,358	1,078	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	2	2	–	–	–	–
Net income attributable to shareholders (€ in millions)	**1,356**	**1,076**	**(217)**	**(48)**	**1,139**	**1,027**
Weighted average number of shares	202,111,204	200,207,215	202,111,204	200,207,215	202,111,204	200,207,215
Basic earnings per share (in €)	**6.71**	**5.37**	**(1.07)**	**(0.24)**	**5.63**	**5.13**
Net income attributable to shareholders (€ in millions)	1,356	1,076	(217)	(48)	1,139	1,027
Interest expense on convertible bond, net of taxes (€ in millions)	1	7	–	–	1	7
Net income used to determine diluted earnings per share (€ in millions)	**1,357**	**1,083**	**(217)**	**(48)**	**1,140**	**1,034**
Weighted average number of shares	202,111,204	200,207,215	202,111,728	200,207,215	202,111,204	200,207,215
Weighted assumed conversion of the convertible bond	2,126,524	6,104,250	–	–	2,126,524	6,104,250
Weighted average number of shares for diluted earnings per share	**204,237,728**	**206,311,466**	**202,111,204**	**200,207,215**	**204,237,728**	**206,311,466**
Diluted earnings per share (in €)	**6.65**	**5.25**	**(1.07)**	**(0.24)**	**5.58**	**5.01**

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

13 — SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

Certain centralised corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes functions such as Global Brands and Global Sales (central brand and distribution management for the brands adidas and Reebok), central treasury, global sourcing as well as other headquarters 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.

The TaylorMade and CCM Hockey operating segments are presented as discontinued operations in the segmental reporting. For further information on discontinued operations and assets/liabilities classified as held for sale see Note 04 and Note 05.

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	4,600	4,185	997	857	1,852	1,587	69	65
North America	3,100	2,443	352	165	1,475	1,201	61	71
Greater China	2,867	2,269	1,067	837	599	448	188	148
Russia/CIS	514	505	105	78	224	232	6	9
Latin America	1,397	1,260	164	167	783	746	52	80
Japan	805	736	209	157	245	253	30	34
MEAA	2,291	2,067	701	584	790	816	81	87
Other Businesses (continuing operations)	587	519	76	42	284	603	19	89
Other Businesses (discontinued operations)	658	621	27	(54)	302	–	67	–
Other Businesses (total)	1,245	1,139	103	(12)	586	603	86	89
Total	**16,820**	**14,604**	**3,698**	**2,833**	**6,554**	**5,885**	**573**	**584**

1 Nine months.
2 At September 30.

Reconciliation

OPERATING PROFIT € IN MILLIONS

	Nine months 2017	Nine months 2016
Operating profit for reportable segments	3,595	2,844
Operating profit for Other Businesses	103	(12)
Segmental operating profit	**3,698**	**2,833**
HQ/Consolidation	(1,149)	(817)
Central expenditure for point-of-sale and marketing investments	(584)	(528)
Reclassification to discontinued operations	(27)	54
Operating profit	**1,938**	**1,541**
Financial income	35	35
Financial expenses	(75)	(51)
Income before taxes	**1,899**	**1,525**

14 — EVENTS AFTER THE BALANCE SHEET DATE

On May 10, 2017, adidas signed a definitive agreement to sell its TaylorMade business including the brands TaylorMade, Adams Golf and Ashworth (together TaylorMade). The transaction was completed on October 2, 2017.

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

Herzogenaurach, October 26, 2017

The Executive Board of adidas AG

FINANCIAL CALENDAR

MARCH 2018

7

FULL YEAR 2017 RESULTS

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

MAY 2018

3

FIRST QUARTER 2018 RESULTS

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

MAY 2018

9

ANNUAL GENERAL MEETING

Fuerth (Bavaria), Germany/
Webcast

AUGUST 2018

9

FIRST HALF 2018 RESULTS

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

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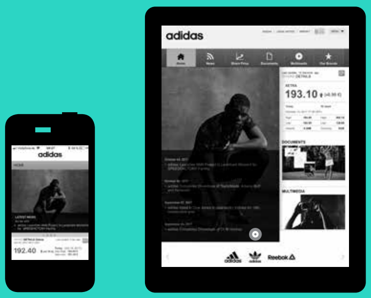

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