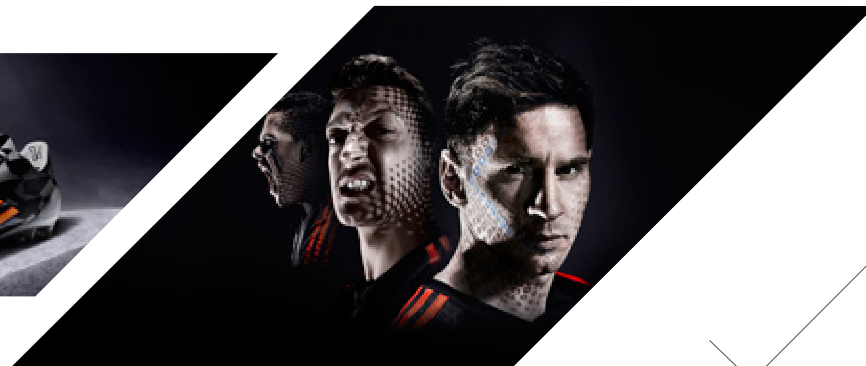
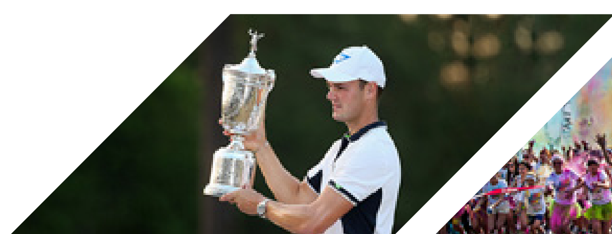
adidas GROUP



FOR THE LOVE OF SPORT



Q2

First Half Year Report
January – June
2014

01 / First Half Year Results at a Glance (€ in millions)

	First half year 2014	First half year 2013	Change	Second quarter 2014	Second quarter 2013	Change
Group						
Net sales	6,998	7,134	(1.9%)	3,465	3,383	2.4%
Gross profit	3,440	3,575	(3.8%)	1,704	1,694	0.6%
Gross margin	49.2%	50.1%	(1.0pp)	49.2%	50.1%	(0.9pp)
Operating profit	523	693	(24.6%)	220	252	(12.7%)
Operating margin	7.5%	9.7%	(2.2pp)	6.3%	7.4%	(1.1pp)
Wholesale						
Net sales	4,442	4,495	(1.2%)	2,085	2,014	3.5%
Gross profit	1,894	1,928	(1.8%)	861	828	3.9%
Gross margin	42.6%	42.9%	(0.2pp)	41.3%	41.1%	0.2pp
Segmental operating profit	1,508	1,525	(1.1%)	670	632	6.0%
Segmental operating margin	34.0%	33.9%	0.0pp	32.1%	31.4%	0.8pp
Retail						
Net sales	1,752	1,589	10.3%	958	867	10.5%
Gross profit	1,056	1,005	5.0%	580	567	2.3%
Gross margin	60.2%	63.2%	(3.0pp)	60.5%	65.4%	(4.9pp)
Segmental operating profit	285	316	(10.0%)	180	216	(16.5%)
Segmental operating margin	16.2%	19.9%	(3.7pp)	18.8%	24.9%	(6.1pp)
Other Businesses						
Net sales	804	1,050	(23.4%)	422	502	(16.0%)
Gross profit	312	462	(32.5%)	163	218	(25.4%)
Gross margin	38.8%	44.0%	(5.2pp)	38.5%	43.4%	(4.9pp)
Segmental operating profit	163	311	(47.5%)	89	140	(36.4%)
Segmental operating margin	20.3%	29.6%	(9.3pp)	21.0%	27.8%	(6.8pp)
Sales by Brand						
adidas	5,540	5,404	2.5%	2,713	2,546	6.5%
Reebok	712	733	(2.9%)	354	355	(0.3%)
TaylorMade-adidas Golf	535	771	(30.6%)	272	348	(21.9%)
Rockport	118	130	(8.8%)	65	69	(5.9%)
Reebok-CCM Hockey	93	96	(2.2%)	61	65	(5.7%)

Rounding differences may arise in percentages and totals.

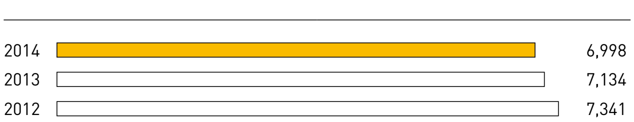
02 / Financial Highlights (IFRS)

	First half year 2014	First half year 2013	Change	Second quarter 2014	Second quarter 2013	Change
Operating Highlights (€ in millions)						
Net sales	6,998	7,134	(1.9%)	3,465	3,383	2.4%
EBITDA	665	823	(19.3%)	292	315	(7.4%)
Operating profit	523	693	(24.6%)	220	252	(12.7%)
Net income attributable to shareholders	348	480	(27.4%)	144	172	(16.0%)
Key Ratios (%)						
Gross margin	49.2%	50.1%	(1.0pp)	49.2%	50.1%	(0.9pp)
Operating expenses in % of net sales	43.6%	41.8%	1.9pp	44.6%	44.3%	0.3pp
Operating margin	7.5%	9.7%	(2.2pp)	6.3%	7.4%	(1.1pp)
Effective tax rate	29.0%	27.5%	1.5pp	29.1%	27.5%	1.6pp
Net income attributable to shareholders in % of net sales	5.0%	6.7%	(1.7pp)	4.2%	5.1%	(0.9pp)
Average operating working capital in % of net sales [1]	21.6%	20.3%	1.2pp			
Equity ratio	46.4%	47.5%	(1.1pp)			
Net borrowings/EBITDA [2]	0.3	0.1				
Financial leverage	8.2%	1.7%	6.5pp			
Return on equity	6.3%	8.8%	(2.4pp)			
Balance Sheet and Cash Flow Data (€ in millions)						
Total assets	11,887	11,525	3.1%			
Inventories	2,896	2,611	10.9%			
Receivables and other current assets	2,831	2,871	(1.4%)			
Working capital	1,950	2,590	(24.7%)			
Net borrowings	454	94	380.9%			
Shareholders' equity	5,513	5,476	0.7%			
Capital expenditure	265	172	54.0%	107	123	(13.0%)
Net cash used in operating activities	(151)	(77)	95.7%			
Per Share of Common Stock (€)						
Basic earnings	1.67	2.29	(27.4%)	0.69	0.82	(16.0%)
Diluted earnings	1.67	2.29	(27.4%)	0.69	0.82	(16.0%)
Net cash used in operating activities	(0.72)	(0.37)	95.7%			
Share price at end of period	73.97	83.14	(11.0%)			
Other (at end of period)						
Number of employees	52,504	47,359	10.9%			
Number of shares outstanding	209,216,186	209,216,186	–	209,216,186	209,216,186	–
Average number of shares	209,216,186	209,216,186	–	209,216,186	209,216,186	–

1) Twelve-month trailing average.
2) EBITDA of last twelve month.

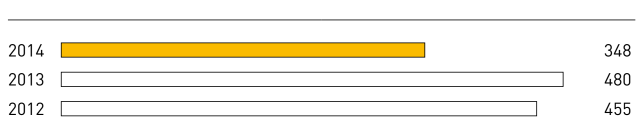
03 / First half year net sales

(€ in millions)



04 / First half year net income attributable to shareholders

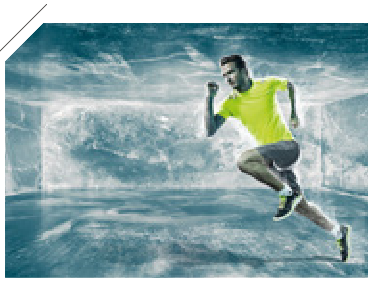
(€ in millions)



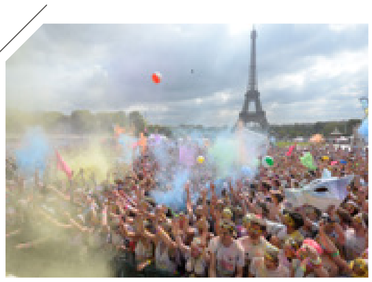
Operational and Sporting Highlights
Second Quarter 2014

APRIL

01.04.
adidas launches ClimaChill, a revolutionary cooling technology. It provides an instant "chill" effect, supporting athletes' performance in warm conditions by lowering their body temperature.



13.04.
Over 12,000 runners participate in Reebok's first Color Run in France starting at the Hôtel de Ville and finishing at Tour Eiffel in Paris.



14.04.
adidas and NBA All-Star point guard Damian Lillard of the Portland Trail Blazers announce the extension of their partnership.

17.04.
The adidas Group appoints Mark King as President of adidas Group North America and Ben Sharpe as CEO of TaylorMade-adidas Golf.

17.04.
adidas Basketball announces its partnership with 18-year-old Australian Danté Exum, number five pick in the 2014 NBA Draft.

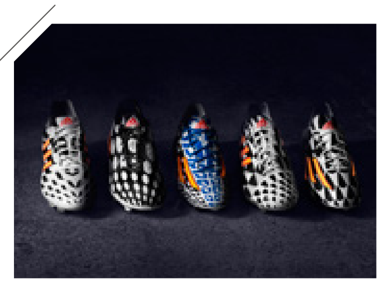
21.04.
adidas Golf releases two all-new footwear models featuring proprietary gripmore technology, an innovation in golf footwear cleat design that combines the performance benefits of spiked and spikeless footwear in one technology.

22.04.
Design pioneer Mary Katrantzou teams up with adidas to present adidas Originals by Mary Katrantzou. The joint collection will be in stores as of November 2014.

28.04.
As part of its ZSeries, Reebok launches ZWalk, offering maximum ground contact and support for the entire foot as walkers move through their stride.

MAY

12.05.
adidas presents Battle Pack, the official footwear collection for the 2014 FIFA World Cup in Brazil. Players such as Mesut Özil, James Rodriguez and Lionel Messi wear and showcase the boots during the event.



16.05.
adidas Originals announces its latest app, which enables customers to create their own personal ZX Flux by printing preferred photos straight onto the sneaker.

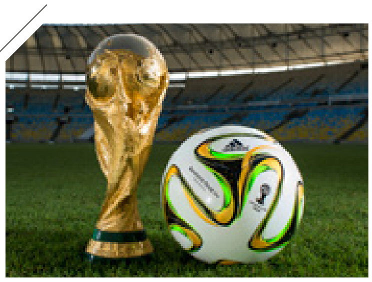
24.05.
adidas launches the 2014 FIFA World Cup Brazil commercial "The Dream" featuring football players such as Lionel Messi, Dani Alves and Bastian Schweinsteiger. The video reaches more than 30 million views on YouTube within the first days after its launch.

27.05.
adidas launches miCoach Smart Ball, a ball technology with integrated sensors which capture data on how the ball is kicked. It also provides coaching tips and guidance to help players improve their game.

27.05.
CCM introduces its new Resistance helmet that was developed with the Neurotrauma Impact Science Laboratory at the University of Ottawa. The helmet's technology helps better manage the rotational aspect of hockey hits to the head.

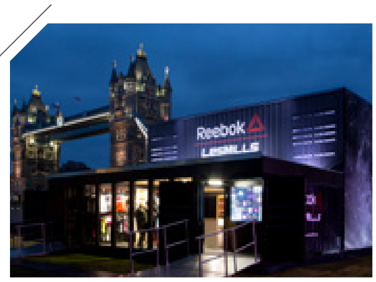
28.05.
The adidas AG Supervisory Board extends the mandates of Executive Board members Glenn Bennett and Robin J. Stalker until March 2018.

29.05.
adidas unveils the Official Match Ball for the Final of the 2014 FIFA World Cup Brazil – Brazuca Final Rio.



JUNE

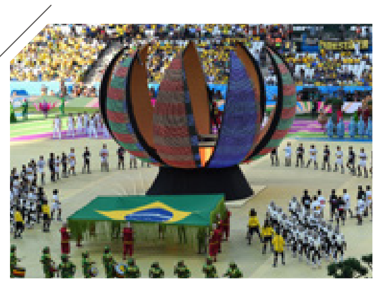
02.06.
Reebok and Les Mills present "The Project: Immersive Fitness" that takes studio workouts to the next level with an innovative and futuristic concept.



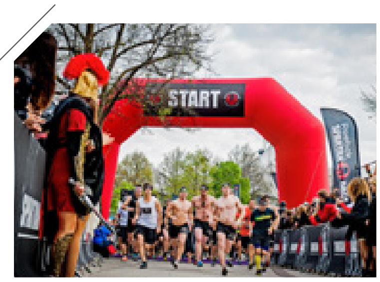
09.06.
The collaboration between adidas and Porsche Design Sport by adidas receives double honours from Plus X Award and Red Dot Award for three designs from the upcoming fall/winter 2014 collection.

11.06.
adidas announces a strategic partnership with bluesign technologies, the leading Swiss provider of assessment tools in the textile industry. The common goal is to identify harmful chemical substances before the manufacturing process starts.

12.06.
The World Cup kicks off in São Paulo. As Official Sponsor, Supplier and Licensee of the 2014 FIFA World Cup, adidas again supplies the Official Match Ball of the tournament and equips officials, referees, volunteers and ball kids. In addition, nine teams and around 300 players compete for the World Cup title in Brazil in adidas products.

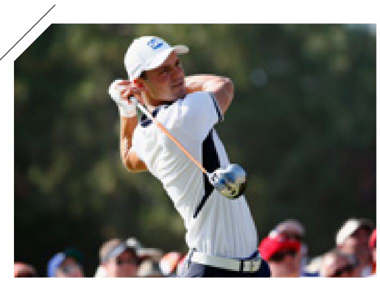


12.06.
8,000 fitness enthusiasts join Reebok's Spartan Race in Madrid.



12.06.
Y-3 integrates the adidas Boost technology in its new Y-3 Yohji Boost trainer, an exclusive collection that is limited to 500 pairs.

16.06.
TaylorMade sponsored asset Martin Kaymer captures the 2014 US Open, becoming the first German to win this tournament.



24.06.
At a media event in Herzogenaurach, adidas reports strong results so far after the first twelve days of the 2014 FIFA World Cup. The brand confirms its target to achieve football sales of € 2 billion in 2014, with more than 14 million balls sold in the Brazuca design and record World Cup jersey sales of over 8 million units.

adidas GROUP

Letter from the CEO

HERBERT HAINER
adidas Group CEO

Dear Shareholders,

It is with disappointment that, after such a great summer of sport, I have to report that our Group has not been able to meet your and our high expectations as laid out in our Route 2015 agenda. While there is no doubt that our Group has endured external pressures over the past 18 months, missing our goals is something we take very seriously as a management team and we definitely reflect critically on our own failures. We clearly recognise that part of this underperformance is due to our executional mistakes and, as announced on July 31, we take full responsibility to rectify these swiftly and to return the Group to strong earnings growth. On this note, I am convinced the fundamentals of our business model remain fully intact and, as I take you through our second quarter results, this will become more apparent.

There is no doubt that the 2014 FIFA World Cup will go down as one of the most captivating and memorable sporting events in history. The visibility of adidas and the commercial success we captured for the brand during the summer is a timely reminder of just how effective we can be when we are focused and committed. Therefore, while I am obviously not happy we had to reduce our guidance for 2014 and 2015 a few days ago, I remain steadfast in my belief in the potential of our Group.

But first let me briefly recap on the past quarter. Overall, we had a good quarter, with increasing momentum across most of our business units and markets as expected. Sales increased 10% on a currency-neutral basis in Q2. Of particular note, sales increased in all regions during the period. The emerging markets continued to be a strong source of market share gains, with sales in Latin America, European Emerging Markets and Greater China increasing 33%, 14% and 11%, respectively. In addition, we also saw further improvements in our business in the developed markets. Western Europe is back to winning ways, with sales growing 13% in the quarter, driven by double-digit growth in several key categories. In North America, Group sales also increased, as solid growth of 8% at adidas offset modest declines at Reebok and a 10% decline at TaylorMade-adidas Golf.

By brand, adidas delivered a powerful performance, with sales increasing 14% currency-neutral. It goes without saying that adidas dominated the summer of football on and off the field. Sales in the football category climbed 41%, confirming we will reach our aspiration of € 2 billion, extending our lead over our major competitor. We sold more than 8 million World Cup jerseys, celebrating record sales for the jerseys of the winning German national team with fans buying more than 2 million units. Further bestsellers were runner-up Argentina, Mexico and Colombia, with more than one million units sold each. With Brazuca, we delivered one of the most successful and best-selling Official World Cup Match Balls ever, with more than 14 million balls sold. Having its own twitter account with over 2.4 million followers, Brazuca was one of the most engaging twitter accounts of the World Cup, bringing amazing attention to the brand and showing just how innovative and effective we are in new forms of digital marketing. And to round off our success, our counter-attack in football footwear shows just how agile we can be when we go all in. Our "Battle Pack" World Cup footwear collection, which was part of many of the finest moments in the competition, inspired the next generation of footballers back to the original football boot brand. The eye-catching designs made sure our shoes were the most recognisable on the playing field. Our adizero f50 boot ranked as the number one top-scoring boot of the tournament, with Lionel Messi, James Rodriguez and Thomas Müller, three of the top scorers, all wearing it.

While football was clearly a highlight, we also had several other notable successes during the quarter which provide plenty of reasons to be optimistic about our future potential.

- Momentum in adidas Running accelerated significantly thanks to the further roll-out and evolution of our breakthrough innovation Boost to new silhouettes and price points. Sales in the category increased 16% in the quarter, with all of our regions growing at double-digit rates. Our sell-in in the US and our performance in own retail were particularly strong, with product launches such as our Pureboost running shoe resonating extremely well with the American consumer.

- Our adidas Originals & Sport Style business, which missed some trends over the past year, also markedly improved, with Originals returning to growth, up 8% in the quarter. The Originals ZX Flux is taking the market by storm, currently being the number one selling shoe at Foot Locker Europe, and I am fully convinced this will evolve into a big commercial opportunity for us. In addition, Sport Style maintained its strong growth trajectory, increasing 21% in the quarter, driven again by the adidas NEO label.

- At Reebok, we recorded our fifth consecutive quarter of growth, with currency-neutral sales increasing 9% and double-digit growth in most regions. The quarter was again all about strengthening Reebok's credibility in fitness. The brand continued to roll out its new brand mark, the Reebok Delta, and deepen its connection to the fitness community, hosting spectacular fitness events and grassroots activities around the globe. This drove Reebok's training business up 26%, propelled by the ZSeries and CrossFit Nano, where sell-through rates across all channels exceeded our internal expectations. In addition, Classics continued to build on last year's solid momentum, with strong growth of 24% in the quarter.

- Finally, our Retail business enjoyed another outstanding quarter, increasing 22% currency-neutral, driven by strong 10% comparable store sales growth. Also, eCommerce continued to grow robustly, with an increase of 59% in the second quarter.

While this all highlights our solid and improving competitive position, we nonetheless faced some material challenges in the first six months, which had a particular impact on our profitability levels.

- The first is currency, which negatively impacted our top-line result by around € 250 million in Q2 and over € 450 million year-to-date. Our gross margin was impacted by 60 basis points due to less favourable hedging rates compared to the prior year. In addition, our gross margin suffered a further 50 basis point negative in Q2 and 30 basis points in the first six months from the devaluation of the Russian rouble. In total, currency impacted our operating profit by over € 100 million in the first six months.

- Secondly, the golf industry is weathering an extremely difficult year and, as a market leader, this impacts us severely. TaylorMade-adidas Golf sales were down 18% currency-neutral in Q2 and 27% year-to-date. This amounts to a € 236 million sales decline in the first six months compared to a year ago. The significant sales decline and lower gross margins resulted in a € 120 million negative operating profit hit compared to a year ago.

- Thirdly, our Retail segmental profitability, particularly in the second quarter, was heavily influenced by our performance in Russia/CIS. Gross margins in the Retail segment declined 4.9 percentage points, almost 4 percentage points of which relate to that market. This was mainly related to an extended period of promotional activity through the summer months as well as the impact from the year-over-year devaluation of the Russian rouble.

Taking these challenges into consideration and the improving momentum that we are seeing from adidas and Reebok, we undertook a review of the various scenarios and strategic choices for the remainder of 2014 and for 2015. We know driving higher levels of profitability is absolutely critical to our long-term success, and we will get there. But we will not get there if we are not constantly winning in the marketplace. With this in mind, my Board colleagues and I were unanimous in our view that we need to be more decisive and faster in dealing with our challenges and we must act fast to strengthen brand leadership, be more impactful in the marketplace and bring more diversity to our earnings streams.

This starts with completing our initiative to strengthen brand leadership. Since taking over their new responsibilities, our new Board members Eric Liedtke and Roland Auschel have been looking to the future and the organisational requirements needed to take our brands and consumer experience to the next level. With this initiative, we are transforming our current marketing organisation to be more consumer-focused, brand-driven and agile, with clear empowerment and accountability. The new set-up empowers our category business units to take responsibility for all marketing processes, end-to-end. In addition, we have added key expertise in areas such as concept-to-consumer, innovation and strategy, to ensure we drive our brand agenda more professionally in the marketplace and stay ahead of the game. All organisational changes are effective from August onwards. We believe the new set-up will help us bring our concepts to the consumer in a more efficient and effective way.

Secondly, we have made a new commitment to invest in our brands, to drive more balanced growth across our entire portfolio of categories and markets. On this front, this has been one of the shortcomings of our Route 2015 agenda. We won many of our key battles where we had a well-resourced offensive focus. Greater China and NEO are good examples. However, we left our brands exposed to attack in some markets, which has cost us market share, Western Europe being an example.

Given the rebound in brand momentum for the adidas and Reebok brands that we saw in the first half of 2014, now is the right time to increase investment. You saw the first indication of this with the World Cup, where we clearly won by all indicators. We know consumers love our brands when they hear our stories. Therefore, we will be bringing even more of these to life on the streets, screens and stores in the future, to ensure consumers constantly hear what we have to say. Our recent partnership announcement with Manchester United, our active participation in signing the best from this year's NBA draft as well as the new collaborations we will start in the next months in Originals confirm our intent. In 2015, we will launch our most ambitious brand campaign yet, which will once and for all tell the world why adidas is the best sports brand in the world. In total, we will increase our marketing spend target range by 1 percentage point to between 13% and 14% of sales from our Route 2015 corridor of 12% to 13% of sales. And I expect, within our next strategic planning period, we will compensate for this through more consistent global growth and tighter overhead leverage. We will share much more on this and our five-year strategic plan to 2020 in the first quarter of 2015.

For the remainder of 2014, our priority is to sustain the momentum we have in key categories and markets, and take corrective steps to reduce volatility of future earnings. In terms of growth, there are several initiatives to look forward to:

- In basketball, we have high hopes to accelerate growth as we build into the 2014/2015 season. Together with our expanded portfolio of high-calibre partnership assets, we are also bringing our game-changing Boost technology to the category with the Crazylight Boost and the D Rose 5 Boost.
- We will also further push the cross-category roll-out of Boost, bringing the technology to the baseball, training, snowboarding and kids business.
- With our new editions and colourways in key running franchises, we will also further propel the great momentum we have in adidas Running during the second half of the year.
- For adidas Training, the introduction of ClimaHeat, a ground-breaking warming technology, will continue to reinvigorate the Clima franchise following the success of ClimaChill this spring. The concept will launch in the fourth quarter and will impact our business across categories.
- adidas Originals will launch new colourways and models for ZX Flux in Q3, supported by a back-to-school campaign, especially in the US. The introduction of a photo-based product customisation app, which allows consumers to print their own photos on their ZX Flux, will ensure this franchise remains the talk of the town. Furthermore, our collaboration with Rita Ora, which already created great hype amongst consumers globally, will hit the market in September, followed by our highly anticipated adidas Originals Pharrell Williams and Kanye West collections.
- And finally, we are confident that the progress we have seen at Reebok in the past months is set to continue. Our key CrossFit and Spartan Race partnerships continue to show tremendous growth opportunities. This is confirmed by all the positive media attention we received around the Reebok CrossFit Games that took place at the end of July and the strong demand we are seeing for the latest CrossFit Nano 4.0 training shoe.

While this will ensure we again deliver good growth from adidas and Reebok in the second half, we also have decided to take strategic measures to tackle our profitability challenges at TaylorMade-adidas Golf and in Russia/CIS.

- At TaylorMade-adidas Golf, given the inventory that is still in the market, we will carefully look at new launch and introduction timings. In addition, we will begin a restructuring programme at TaylorMade-adidas Golf to align the organisation's overhead to match lower expectations for the golf industry's development. In total, I expect this will impact second half operating profit by € 50 million to € 60 million. As the dominant market leader, we take this initiative now to secure our lead, and to be the first mover in reinvigorating the market. Our innovation pipeline is full and we are set to go, whenever we feel the market is ready.

- In Russia/CIS, given the downward pressure visible in retail trends in the market over recent months, as well as the increasing risks to consumer sentiment and consumer spending in the region, we have decided to reduce our net store opening plan in the market for 2014 and 2015. In total, we will now add only 80 stores in the market this year, compared to 150, and are planning with a similar figure for 2015. These steps, which are short-term in nature, are aimed to reduce risk and protect profit as well as to drive a faster implementation of new inventory management principles for that market. This, as well as the current more promotional environment, means that we will have an operating profit shortfall of around € 50 million compared to our plan in the second half. While uncertainty in the market is high right now, we believe this is the right decision for the short term. Nevertheless, we remain fully committed to the market. Right now, we are very encouraged by increasing brand momentum for both adidas and Reebok as a result of local marketing investments as well as improving store operations.

In summary, while we have delivered notable achievements with our Route 2015 plan, we also accept that we need to lift our game to drive more consistency and dependability in our financial performance. With momentum returning in key markets, we are taking consequent and necessary decisions now to put the Group on a firmer footing to build for the future. By cleaning up markets, investing with more conviction in our growth opportunities and driving more agility through our new organisational set-up, we will return the Group to a higher and more consistent level of earnings growth in the mid to long term.

Yours sincerely,

HERBERT HAINER
adidas Group CEO

Our Share

In the second quarter of 2014, most international stock markets gained momentum and rose to new all-time highs. Key drivers were the ongoing expansionary measures from the ECB, the recovery of the US economy as well as accelerating M&A activities. Geopolitical risk factors due to the persistent crisis in Ukraine, weakening economic data in the euro area as well as the further reduction of the Fed's monthly asset purchases only temporarily put pressure on equity markets. As a result, the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index grew moderately, increasing 2.9% and 1.6%, respectively, compared to March 31, 2014. The adidas AG share performed weaker than the overall equity markets and declined 5.8% in the second quarter of 2014.

Most international stock markets rise to new all-time highs

Supported by the ongoing accommodative monetary policy of major central banks, global equity markets gained during the second quarter. In particular, the announcement of a more expansionary ECB policy was a key positive to stock market performance. In June, the ECB cut its refinancing rate to a historic low of 0.15% and its deposit rate into negative territories. This, as well as the ECB's proposal of a € 400 billion targeted long-term refinancing operation to stimulate lending was positively perceived by market participants. The recovery of leading US economic indicators, among them the unemployment rate, reaching a five-year low in May, provided further support to equity markets. This drove the DAX-30 above the 10,000 threshold for the first time, reaching an all-time high of 10,029 on June 10. However, geopolitical risk factors, especially the ongoing political developments in Ukraine as well as lacklustre economic data in China were temporary headwinds for equity markets. As a result, the World Bank cut its 2014 global GDP forecast to 2.8% from 3.2%. Moreover, although the Fed committed to maintain an accommodative policy stance, further reductions of the Fed's monthly bond purchases in April and June put further pressure on equity markets. In light of these developments, the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index increased moderately, gaining 2.9% and 1.6%, respectively, compared to the end of March 2014.

adidas AG share decreases in the second quarter

At the beginning of the second quarter, the adidas AG share suffered losses, thus continuing the negative trend from the previous quarter, mainly as a result of the overall equity market weakness. In particular, the political developments in Ukraine were a key headwind for equity markets and put pressure on the adidas AG share, given the adidas Group's strong presence in Eastern Europe. In addition, the continued depreciation of several emerging market currencies versus the euro negatively impacted the adidas AG share price development. This resulted in negative analyst commentary in the run-up to the adidas Group's first quarter results. Following the publication of the first quarter results on May 6, the adidas AG share remained stable, thereby outperforming the DAX-30, which lost 0.7% on the same day. While first quarter 2014 results were slightly below market expectations, management's confirmation of the Group's full year 2014 guidance was well received by market participants. During the remainder of May, the adidas AG share was able to reverse its previous weakness, thereby returning into positive territory, mainly due to an overall improvement in equity market sentiment. In June, however, while the overall equity market declined slightly, negative statements with regard to the golf market as well as unfavourable point-of-sale data in North America increased negative sentiment towards the adidas AG share during the month. As a consequence, the adidas AG share finished the second quarter at € 73.97, representing a decrease of 5.8% compared to the end of March 2014.

05 ⁄ **Historical performance of the adidas AG share and important indices at June 30, 2014** (in %)

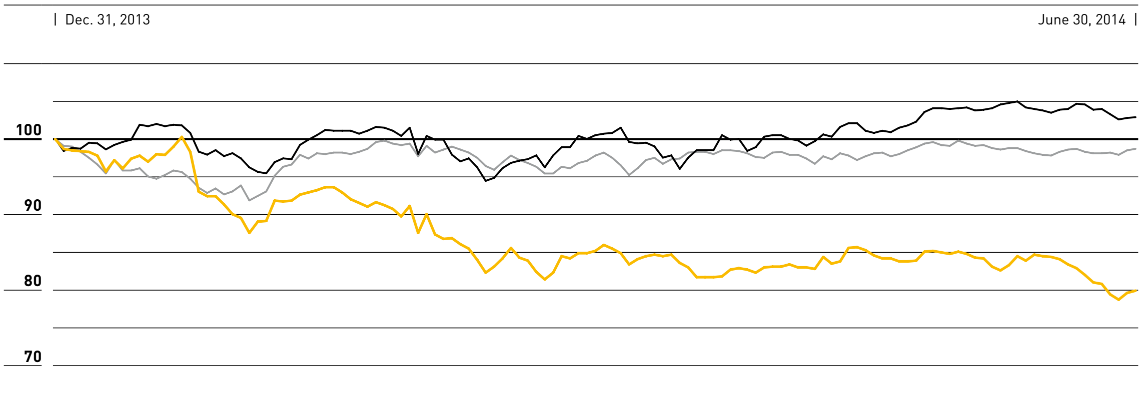
	YTD	1 year	3 years	5 years	Since IPO
adidas AG	(20)	(11)	35	173	665
DAX-30	3	24	33	104	348
MSCI World Textiles, Apparel & Luxury Goods	(1)	13	33	192	408

Source: Bloomberg.

adidas GROUP

adidas AG share at a glance

06 / Share price development in 2014[1]



1) Index: December 31, 2013 = 100.

adidas AG / DAX-30 / MSCI World Textiles, Apparel & Luxury Goods Index

07 / The adidas AG share

Number of shares outstanding First half average	209,216,186
Number of shares outstanding At June 30[1]	209,216,186
Type of share	Registered no-par-value share
Free float	100%
Initial Public Offering	November 17, 1995
Share split	June 6, 2006 (in a ratio of 1:4)
Stock exchange	All German stock exchanges
Stock registration number (ISIN)	DE000A1EWWW0
Stock symbol	ADS, ADSGn.DE

1) All shares carry full dividend rights.

Important indices

- DAX-30
- MSCI World Textiles, Apparel & Luxury Goods
- Deutsche Börse Prime Consumer
- Dow Jones Sustainability Index World
- Dow Jones Sustainability Index Europe
- FTSE4Good Europe
- Euronext Vigeo Eurozone 120
- Euronext Vigeo Europe 120
- Euronext Vigeo World 120
- Ethibel Sustainability Index Excellence Europe
- ECPI Euro Ethical Index
- ECPI EMU Ethical Index
- STOXX Global ESG Leaders

Number of ADRs decreases moderately

The number of Level 1 ADRs (American Depository Receipts) decreased moderately during the three-month period compared to the end of the first quarter of 2014. At June 30, 2014, 9.9 million ADRs were outstanding (March 31, 2014: 10.3 million). This development represents a decrease versus June 28, 2013, when 12.6 million ADRs were outstanding. The Level 1 ADR closed the quarter at US $ 50.67, reflecting a decrease of 6.7% compared to the end of March 2014. The more pronounced decrease of the Level 1 ADR price compared to the ordinary share price was due to the appreciation of the US dollar versus the euro at the end of the second quarter of 2014 compared to the end of March 2014.

Dividend of € 1.50 per share paid

At the Annual General Meeting (AGM) on May 8, 2014, shareholders approved the adidas AG Executive and Supervisory Boards' recommendation to pay a dividend of € 1.50 per share for the 2013 financial year (2012: € 1.35). The dividend was paid on May 9, 2014. Based on the number of shares outstanding at the time of our AGM, this represents a dividend payout of € 314 million (2012: € 282 million) and a payout ratio of 37.4% of net income attributable to shareholders, excluding goodwill impairment losses, compared to 35.7% in the prior year. This is in line with our dividend policy, where we intend to pay out between 20% and 40% of net income attributable to shareholders annually.

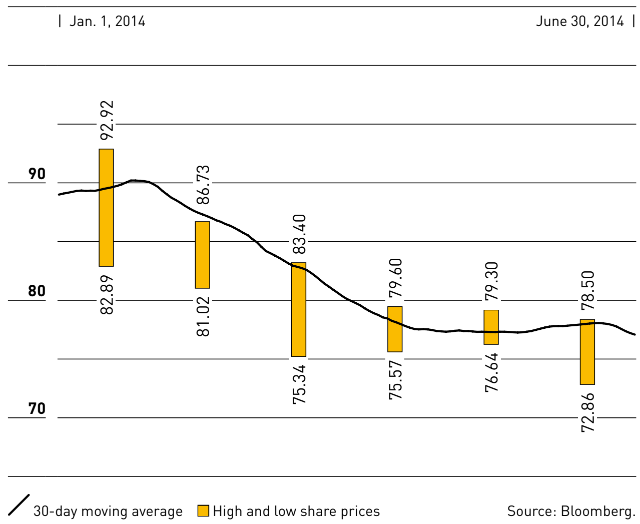
Changes in shareholder base

In the second quarter of 2014, adidas AG received 28 voting rights notifications according to §§ 21 section 1, 25 section 1 or 25a section 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). All voting rights notifications received can be viewed on our corporate website :⁄⁄ **WWW.ADIDAS-GROUP.COM/VOTING_RIGHTS_NOTIFICATIONS**.

Directors' dealings reported on corporate website

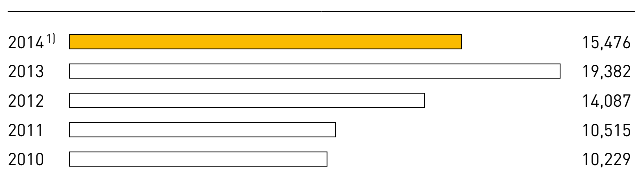
The purchase or sale of adidas AG shares (ISIN DE000A1EWWW0) or related financial instruments, as defined by § 15a WpHG, conducted by members of our Executive or Supervisory Boards, by key executives or by any person in close relationship with these persons, is reported on our website :⁄⁄ **WWW.ADIDAS-GROUP.COM/DIRECTORS_DEALINGS**. In the second quarter of 2014, adidas AG did not receive any notifications pursuant to § 15a WpHG.

08 ⁄ **adidas AG high and low share prices per month**[1] (in €)



1) Based on daily Xetra closing prices.

09 ⁄ **adidas AG market capitalisation at year-end** (€ in millions)



1) At June 30.

Group Business Performance

In the first half of 2014, adidas Group results were significantly impacted by negative currency effects as well as a challenging golf market. Currency-neutral Group sales increased 5% as a result of growth in Wholesale and Retail. In euro terms, adidas Group revenues decreased 2% to € 6.998 billion from € 7.134 billion in 2013. The Group's gross margin decreased 1.0 percentage points to 49.2% (2013: 50.1%), mainly due to the negative effects resulting from less favourable hedging rates, lower margins at TaylorMade-adidas Golf and currency devaluation. The Group's gross profit decreased 4% to € 3.440 billion in the first half of 2014 versus € 3.575 billion in 2013. The Group's operating profit declined 25% to € 523 million compared to € 693 million in the first half of 2013, representing an operating margin of 7.5%, down 2.2 percentage points compared to the prior year (2013: 9.7%). This development was primarily due to the negative effects from the lower gross margin as well as higher other operating expenses as a percentage of sales. The Group's net income attributable to shareholders was down 27% to € 348 million from € 480 million in 2013. Diluted earnings per share decreased 27% to € 1.67 in the first half of 2014 versus € 2.29 in 2013.

Economic and Sector Development

Global economy grows in the second quarter

In the second quarter of 2014, the global economy strengthened modestly. Emerging markets again outperformed most developed economies, albeit at slightly lower rates than in recent quarters. The advanced economies' performance was supported by modest GDP expansion in the euro area and low inflationary pressures. Nevertheless, despite improvements in economic activity and sentiment, many developed markets continued to face significant negative challenges, such as high unemployment and indebtedness.

In Western Europe, the region's economies recorded modest growth, buoyed by low inflationary pressures, less austerity and relatively robust export activity during the period, with Germany and the UK in particular recording healthy GDP growth. However, low real income expansion and high unemployment levels in certain major markets inhibited investment, spending and consumer confidence and ensured GDP increases remained lacklustre in many of these countries.

Most European emerging markets recorded positive GDP growth, with relatively healthy investment, domestic demand and low inflation driving growth. However, the political unrest in Ukraine led to its continued economic contraction and the crisis also negatively affected Russia's already slowing economy, denting investment and export demand. Additionally, the weak rouble also pushed up Russia's inflation rate in the second quarter.

The US economy, with its improving labour market and low inflation and interest rates, grew modestly in the second quarter. It also saw a slight rebound effect resulting from the negative effects of the cold weather and disruptive snowstorms in the first quarter, which added to the growth. However, continued weak confidence around personal debt and limited government spending ensured lacklustre consumption and economic activity.

10 ⁄ **Quarterly consumer confidence development** [1]
(by region)

	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
USA [2]	82.1	80.2	77.5	83.9	85.2
Euro area [3]	(18.7)	(14.8)	(13.5)	(9.3)	(7.5)
Japan [4]	44.3	45.1	40.0	36.9	40.5
China [5]	97.0	99.8	102.3	107.9	102.3
Russia [6]	(6.0)	(7.0)	(11.0)	(11.0)	(6.0)
Brazil [7]	110.1	110.1	111.2	108.8	106.3

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: National Confederation of Industry Brazil.

11 ⁄ **Exchange rate development** [1] (€ 1 equals)

	Average rate 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average rate 2014 [2]
USD	1.3283	1.3505	1.3791	1.3788	1.3658	1.3710
GBP	0.8492	0.8361	0.8337	0.8282	0.8015	0.8216
JPY	129.58	131.78	144.72	142.42	138.44	140.50
RUB	42.298	43.682	45.137	49.205	45.933	47.995
CNY	8.1674	8.3029	8.4082	8.4825	8.4035	8.4524

1) Spot rates at quarter-end.
2) Average rate for the first half of 2014.

In Asia, wage increases and easing inflationary pressures in most of the region's markets helped to drive domestic demand and GDP expansion. In China, growth remained relatively robust, with strong consumer and government spending coupled with healthy manufacturing levels supporting economic development. Japan grew during the period but at a slower rate than in the first quarter due to the negative effect of a sales tax increase in April. However, despite this constraint, the economy improved sequentially through the quarter with exports and government investment fuelling modest expansion.

In Latin America, GDP development varied across the region, with Argentina's economy contracting due to high inflation rates, capital constraints and low central bank reserves which are depressing confidence and output. Activities relating to the 2014 FIFA World Cup, together with a relatively healthy labour market, positively supported GDP growth in Brazil. However, drought-related energy shortages as well as weak consumer confidence and spending were headwinds to further economic improvement. Other regional economies such as Mexico, Colombia and Chile posted healthy GDP increases in the second quarter, with robust domestic demand and exports fuelling growth.

Positive momentum in the global sporting goods sector in the second quarter

In the second quarter of 2014, the global sporting goods industry recorded modest growth, primarily driven by rising consumer spending in the emerging markets. The industry benefited particularly from sales and activities related to the world's largest sporting event, the FIFA World Cup, hosted by Brazil. The e-commerce channel continued to see rapid expansion across the industry, as retailers leveraged a wide variety of commercial opportunities across digital and social media and, particularly, mobile technologies. From a category perspective, basketball remained strong. Running was weaker than in recent quarters, however high-performance running products continued to record healthy growth. Activities relating to the 2014 FIFA World Cup supported the football category. The outdoor category, in both footwear and apparel, continued to face some headwinds at retail. Retro silhouettes across multiple categories saw positive growth trends during the quarter.

In Western Europe, sequential increases in consumer spending supported the sector's growth and, owing to the importance of football and the large number of teams from this region that qualified for the 2014 FIFA World Cup, provided additional industry momentum. Similarly, in many European emerging markets the significance of football and particularly Russia's participation in Brazil supported the sector's expansion.

In North America, the sporting goods industry grew modestly, with more favourable weather conditions adding momentum as the quarter progressed. Furthermore, the US team's qualification for the FIFA World Cup helped fuel strong football sales. Basketball products as well as high-performance technical footwear and apparel continued to be in strong demand, whereas casual footwear and outdoor remained weak. Additionally, the golf market remained challenging, following higher inventories in retail and with participation continuing to decline versus the prior year period.

In Asia, rising disposable incomes and consumer spending promoted expansion of the sporting goods industry. In China, this trend was particularly evident, supporting healthy industry sales growth, especially in the lower-tier cities. In other Asian markets, the sector posted robust growth, albeit with regional differences. Sporting goods sales in Japan were challenging due to a sales tax increase in April, however the industry saw consecutive improvements as the quarter developed.

The sporting goods industry in Latin America benefited from low unemployment levels and higher wages, which supported retail and sporting goods sales. Furthermore, given the significance of football in this region, the industry's momentum was greatly accelerated by sales relating to the 2014 FIFA World Cup in Brazil.

Income Statement

adidas Group currency-neutral sales increase 10% in the second quarter of 2014

In the second quarter of 2014, Group revenues increased 10% on a currency-neutral basis, driven by double-digit sales increases in Wholesale and Retail. Currency translation effects had a negative impact on sales in euro terms. Group revenues increased 2% to € 3.465 billion in the second quarter of 2014 from € 3.383 billion in 2013.

Second quarter Group sales growth driven by double-digit sales growth in Wholesale and Retail

In the second quarter of 2014, currency-neutral Wholesale revenues increased 10% due to sales growth at both adidas and Reebok. Currency-neutral Retail sales rose 22% versus the prior year, driven by double-digit comparable store sales growth. Revenues in Other Businesses were down 11% on a currency-neutral basis, mainly due to sales declines at TaylorMade-adidas Golf. Currency translation effects had a negative impact on segmental sales in euro terms. Wholesale revenues increased 3% to € 2.085 billion in the second quarter of 2014 from € 2.014 billion in 2013. Retail sales grew 11% to € 958 million versus € 867 million in the prior year. Sales in Other Businesses declined 16% to € 422 million (2013: € 502 million).

adidas Group currency-neutral sales increase 5% in the first half of 2014

In the first half of 2014, Group revenues increased 5% on a currency-neutral basis, driven by sales increases in Wholesale and Retail. Currency translation effects had a negative impact on sales in euro terms. Group revenues decreased 2% to € 6.998 billion in the first half of 2014 from € 7.134 billion in 2013 ⁄ **DIAGRAM 12**.

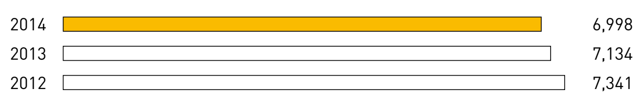
First half Group sales increase driven by growth in Wholesale and Retail

In the first half of 2014, currency-neutral Wholesale revenues increased 5%, driven by sales growth at both adidas and Reebok. Currency-neutral Retail sales were up 22% versus the prior year as a result of double-digit sales increases at adidas and Reebok. Revenues in Other Businesses were down 19% on a currency-neutral basis, due to double-digit sales declines at TaylorMade-adidas Golf. Currency translation effects had a negative impact on segmental sales in euro terms. Wholesale revenues decreased 1% to € 4.442 billion in the first half of 2014 from € 4.495 billion in 2013. Retail sales rose 10% to € 1.752 billion versus € 1.589 billion in the prior year. Sales in Other Businesses declined 23% to € 804 million (2013: € 1.050 billion).

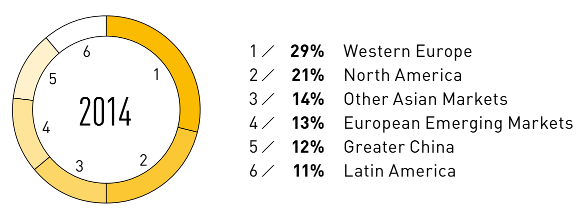
Currency-neutral sales grow in nearly all regions

In the first half of 2014, currency-neutral adidas Group sales grew in all regions except North America. Revenues in Western Europe increased 6% on a currency-neutral basis, driven by sales increases in Germany, Spain, France, Poland and the UK. In European Emerging Markets, Group sales were up 21% on a currency-neutral basis, with double-digit sales increases in all of the region's major markets. Currency-neutral sales for the adidas Group in North America decreased 10%, mainly due to double-digit sales declines in the USA. Sales in Greater China increased 8% on a currency-neutral basis. Currency-neutral revenues in Other Asian Markets remained stable, as sales increases in South Korea and India were offset by declines in Japan. In Latin America, sales grew 25% on a currency-neutral basis, with double-digit increases in most markets, in particular Argentina, Brazil, Mexico and Colombia. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 16**.

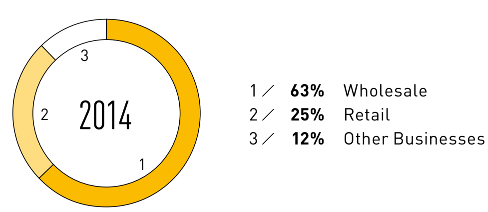
12 ⁄ **First half year net sales** (€ in millions)



13 ⁄ **First half year net sales by region**



14 ⁄ **First half year net sales by segment**



Currency-neutral Group sales up in footwear and apparel

In the first half of 2014, currency-neutral footwear sales increased 1%, mainly due to sales growth at adidas NEO and in the running category. Apparel revenues grew 15% on a currency-neutral basis. This development was driven by strong growth in the football, running and training categories as well as at adidas Originals and adidas NEO. Currency-neutral hardware sales were down 8% compared to the prior year. This was primarily due to significant declines at TaylorMade-adidas Golf, which more than offset double-digit sales increases in the football category. Currency translation effects had a negative impact on sales in euro terms ⁄ **TABLE 17**.

In the second quarter of 2014, the adidas Group introduced a number of exciting new products. An overview of major product launches is provided in the product launch table ⁄ **TABLE 15**.

15 ⁄ **Major product launches in Q2 2014**

Product	Brand
Football World Cup Battle Pack	adidas
Brazuca Final Rio – Official Match Ball for the World Cup Final	adidas
miCoach Smart Ball football	adidas
Supernova Sequence Boost running shoe	adidas
Pure Boost running shoe	adidas
ClimaCool Rocket Boost running shoe	adidas
Crazyquick 2 basketball shoe	adidas
ClimaChill training apparel	adidas
CrossFit Nano 4.0 training shoe	Reebok
CrossFit apparel	Reebok
SLDR irons & mini drivers	TaylorMade
Tour Preferred wedges	TaylorMade
adicross gripmore shoe	adidas Golf
Pro Series hybrids	Adams Golf
Ashworth Majors collection	Ashworth
RocSportsLite women's ballet shoe collection	Rockport
RocSportsLite 3 men's shoe collection	Rockport
Goalie XLT equipment	Reebok Hockey
Goalie RBZ skate	CCM
Retro Flex goalie equipment	CCM
RBZ protective and gloves	CCM

16 ⁄ **Net sales by region** (€ in millions)

	First half year 2014	First half year 2013	Change	Change (currency-neutral)
Western Europe	2,017	1,907	6%	6%
European Emerging Markets	938	901	4%	21%
North America	1,471	1,716	(14%)	(10%)
Greater China	806	781	3%	8%
Other Asian Markets	986	1,064	(7%)	0%
Latin America	781	765	2%	25%
Total [1]	**6,998**	**7,134**	**(2%)**	**5%**

1) Rounding differences may arise in totals.

17 ⁄ **Net sales by product category** (€ in millions)

	First half year 2014	First half year 2013	Change	Change (currency-neutral)
Footwear	3,293	3,503	(6%)	1%
Apparel	2,860	2,652	8%	15%
Hardware	845	979	(14%)	(8%)
Total [1]	**6,998**	**7,134**	**(2%)**	**5%**

1) Rounding differences may arise in totals.

Group gross margin declines 1.0 percentage points

The gross margin of the adidas Group decreased 1.0 percentage points to 49.2% in the first half of 2014 (2013: 50.1%) ⁄ **DIAGRAM 19**. This development was mainly due to less favourable hedging rates, lower margins at TaylorMade-adidas Golf, negative effects resulting from currency devaluation as well as higher input costs. Currency devaluation effects were mainly related to Russia/CIS, where sales were negatively impacted by the significant devaluation of the Russian rouble against the euro and the US dollar. Gross profit for the adidas Group decreased 4% in the first half of 2014 to € 3.440 billion versus € 3.575 billion in the prior year ⁄ **DIAGRAM 18**.

Royalty and commission income decreases

Royalty and commission income for the adidas Group declined 1% to € 50 million in the first half of 2014 from € 51 million in the prior year. On a currency-neutral basis, royalty and commission income was down 1%, mainly as a result of lower licensee sales at adidas.

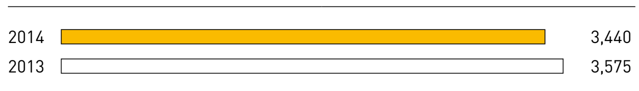
Other operating income increases

Other operating income includes items such as gains from the disposal of fixed assets and releases of accruals and provisions as well as insurance compensation. In the first half of 2014, other operating income increased to € 85 million (2013: € 47 million). This was mainly due to the release of other operational provisions.

Other operating expenses as a percentage of sales up 1.9 percentage points

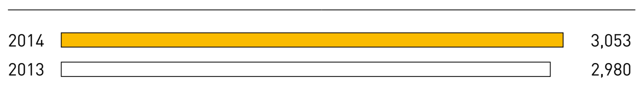
Other operating expenses, including depreciation and amortisation, consist of items such as sales working budget, marketing working budget and operating overhead costs. In the first half of 2014, other operating expenses as a percentage of sales increased 1.9 percentage points to 43.6% from 41.8% in 2013. In euro terms, other operating expenses increased 2% to € 3.053 billion (2013: € 2.980 billion) ⁄ **DIAGRAM 20**, as a result of higher expenditure related to the expansion of the Group's own-retail activities as well as an increase in sales and marketing working budget expenditure. Sales and marketing working budget expenditure increased 7% to € 947 million (2013: € 882 million). The increase was due to higher expenditure at both adidas and Reebok. By brand, adidas sales and marketing working budget increased 8% to € 733 million in the first half of 2014 compared to € 676 million in the prior year. Sales and marketing working budget for Reebok increased 26%, amounting to € 104 million (2013: € 82 million). As a percentage of sales, the Group's sales and marketing working budget grew 1.2 percentage points to 13.5% (2013: 12.4%).

18 ⁄ **First half year gross profit** (€ in millions)

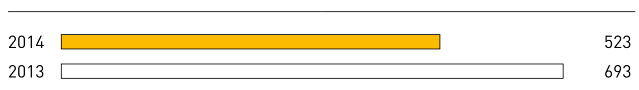


19 ⁄ **First half year gross margin** (in %)

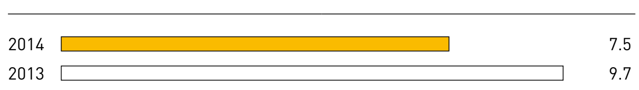
20 ⁄ **First half year other operating expenses** (€ in millions)



21 ⁄ **First half year operating profit** (€ in millions)



22 ⁄ **First half year operating margin** (in %)



Number of Group employees up 11%

At the end of the first half of 2014, the Group employed 52,504 people. This represents an increase of 11% versus the prior year level of 47,359. New hirings related to the expansion of the Group's own-retail store base were the main driver of this development. On a full-time equivalent basis, the number of employees increased 10% to 45,294 at the end of the first half of 2014 (2013: 41,036).

Operating margin decreases to 7.5%

Group operating profit declined 25% to € 523 million in the first half of 2014 versus € 693 million in 2013 ⁄ **DIAGRAM 21**. The operating margin of the adidas Group decreased 2.2 percentage points to 7.5% (2013: 9.7%) ⁄ **DIAGRAM 22**. This development was primarily due to the negative effects from the lower gross margin as well as higher other operating expenses as a percentage of sales.

Financial income up 16%

Financial income rose 16% to € 12 million in the first half of 2014 from € 10 million in the prior year, mainly due to an increase in interest income.

Financial expenses down slightly

Financial expenses decreased 1% to € 40 million in the first half of 2014 (2013: € 40 million) ⁄ **DIAGRAM 23**. Negative exchange rate variances of € 5 million contributed to the overall financial expenses.

Income before taxes declines 25%

In the first half of 2014, income before taxes (IBT) for the adidas Group decreased 25% to € 495 million from € 663 million in 2013 ⁄ **DIAGRAM 24**. IBT as a percentage of sales declined 2.2 percentage points to 7.1% in the first half of 2014 (2013: 9.3%), as a result of the Group's lower operating margin.

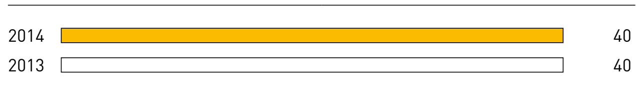
Net income attributable to shareholders down 27%

The Group's net income attributable to shareholders decreased to € 348 million in the first half of 2014 from € 480 million in 2013 ⁄ **DIAGRAM 25**. This represents a decline of 27% versus the prior year level. The Group's tax rate increased 1.5 percentage points to 29.0% in the first half of 2014 (2013: 27.5%), mainly due to a less favourable earnings mix.

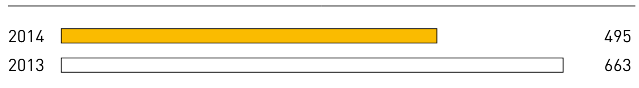
Basic and diluted earnings per share decrease to € 1.67

In the first half of 2014, basic and diluted earnings per share decreased 27% to € 1.67 versus € 2.29 in the prior year ⁄ **DIAGRAM 26**. The weighted average number of shares used in the calculation of both basic and diluted earnings per share was 209,216,186 (2013 average: 209,216,186) as there were no potential dilutive shares at the end of the first half year.

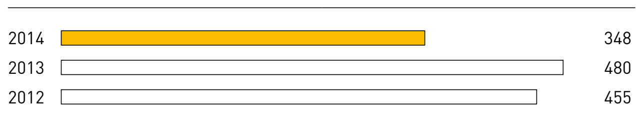
23 ⁄ **First half year financial expenses** (€ in millions)



24 ⁄ **First half year income before taxes** (€ in millions)



25 ⁄ **First half year net income attributable to shareholders** (€ in millions)



26 ⁄ **First half year diluted earnings per share** (in €)

Statement of Financial Position and Statement of Cash Flows

Assets

At the end of June 2014, total assets increased 3% to € 11.887 billion versus € 11.525 billion in the prior year ⁄ **DIAGRAM 27**. This was the result of an increase in current assets as well as non-current assets. Compared to December 31, 2013, total assets grew 2%. The share of current assets and non-current assets within total assets remained unchanged at 58% and 42%, respectively, at the end of June 2014 (2013: 58% and 42%).

27 ⁄ **Structure of statement of financial position[1)]** (in % of total assets)

	June 30, 2014	June 30, 2013
Assets (€ in millions)	**11,887**	11,525
Cash and cash equivalents	**10.0%**	10.4%
Accounts receivable	**17.4%**	17.6%
Inventories	**24.4%**	22.7%
Fixed assets	**36.0%**	36.3%
Other assets	**12.2%**	13.0%

■ June 30, 2014 □ June 30, 2013

1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 36.

28 ⁄ **Structure of statement of financial position[1)]** (in % of total liabilities and equity)

	June 30, 2014	June 30, 2013
Liabilities and equity (€ in millions)	**11,887**	11,525
Short-term borrowings	**8.3%**	1.4%
Accounts payable	**14.7%**	15.1%
Long-term borrowings	**5.6%**	10.1%
Other liabilities	**25.1%**	26.0%
Total equity	**46.3%**	47.4%

■ June 30, 2014 □ June 30, 2013

1) For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 36.

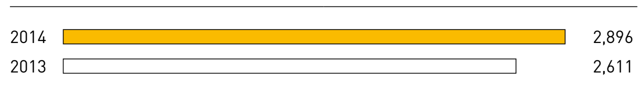
Total current assets increased 3% to € 6.934 billion at the end of June 2014 compared to € 6.720 billion in 2013. Cash and cash equivalents decreased 1% to € 1.191 billion at the end of June 2014 from € 1.197 billion in the prior year. Group inventories increased 11% to € 2.896 billion at the end of June 2014 versus € 2.611 billion in 2013 ⁄ **DIAGRAM 29**. On a currency-neutral basis, inventories were up 16%, as a result of the Group's expectations for growth in the coming quarters as well as higher inventories in Russia/CIS. Group receivables increased 2% to € 2.070 billion at the end of June 2014 (2013: € 2.029 billion) ⁄ **DIAGRAM 30**. On a currency-neutral basis, receivables were up 6%. Other current financial assets declined 38% to € 148 million at the end of June 2014 from € 239 million in 2013. This development was mainly due to a decrease in the fair value of financial instruments.

Total non-current assets grew 3% to € 4.953 billion at the end of June 2014 from € 4.805 billion in 2013. Fixed assets increased 3% to € 4.285 billion at the end of June 2014 versus € 4.179 billion in 2013. Fixed assets include property, plant and equipment, goodwill, trademarks and other intangible assets as well as long-term financial assets. Additions of € 586 million were primarily related to the continued expansion of our own-retail activities, investments into the Group's logistics infrastructure and IT systems as well as the further development of the Group's headquarters in Herzogenaurach. In addition, the Group acquired its North American Distribution Centre in Spartanburg, South Carolina (USA), which was previously leased. Additions were partly offset by depreciation and amortisation of € 302 million, negative currency effects of € 114 million, goodwill impairment of € 52 million and disposals of € 12 million. Compared to December 31, 2013, fixed assets increased 3%. Other non-current financial assets grew 7% to € 25 million at the end of June 2014 from € 23 million in 2013.

Liabilities and equity

Total current liabilities increased 21% to € 4.984 billion at the end of June 2014 from € 4.130 billion at the end of June 2013. Accounts payable remained stable at € 1.752 billion at the end of June 2014 versus € 1.746 billion in 2013 ⁄ **DIAGRAM 31**. On a currency-neutral basis, accounts payable increased 2%, reflecting the purchase of inventories during the second quarter. At the end of June 2014, other current financial liabilities were up 85% to € 112 million from € 61 million in 2013, primarily as a result of an increase in the negative fair value of financial instruments. Short-term borrowings increased € 827 million to € 990 million at the end of June 2014 (2013: € 163 million). This increase was mainly due to a reclassification of long-term borrowings to short-term borrowings, as a result of the Group's Eurobond of € 500 million, which matured in July 2014. Other current provisions were down 11% to € 412 million at the end of June 2014 versus € 462 million in 2013. This primarily relates to a decrease in other operational provisions. Current accrued liabilities grew 2% to € 1.145 billion at the end of June 2014 from € 1.123 billion in 2013, mainly due to an increase in accruals for customer discounts, partly offset by a decrease in accruals for marketing. Total non-current liabilities decreased 28% to € 1.400 billion at the end of June 2014 from € 1.932 billion in the prior year. Long-term borrowings declined 43% to € 660 million at the end of June 2014 from € 1.158 billion in the prior year. This development was primarily due to a reclassification of long-term borrowings to short-term borrowings, as a result of the Group's Eurobond. Shareholders' equity increased 1% to € 5.513 billion at the end of June 2014 versus 5.476 billion in 2013 ⁄ **DIAGRAM 32**. The net income generated during the last twelve months was partly offset by negative currency translation effects of € 227 million, the dividend paid to shareholders of € 314 million for the 2013 financial year as well as a decrease in hedging reserves of € 80 million. Compared to December 31, 2013, shareholders' equity remained stable. The Group's equity ratio at the end of June 2014 declined to 46.4% compared to 47.5% in the prior year.

29 ⁄ **Inventories** [1] (€ in millions)

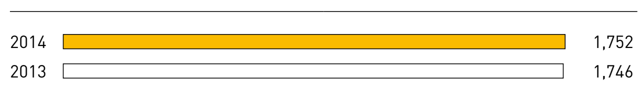


1) At June 30.

30 ⁄ **Accounts receivable** [1] (€ in millions)

1) At June 30.

31 ⁄ **Accounts payable** [1] (€ in millions)



1) At June 30.

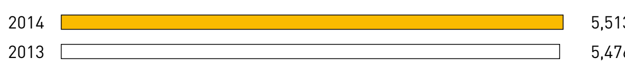
Operating working capital

Operating working capital increased 11% to € 3.213 billion at the end of June 2014 compared to € 2.895 billion in 2013. This development was mainly due to the increase in inventories. Average operating working capital as a percentage of sales increased 1.2 percentage points to 21.6% (2013: 20.3%).

Liquidity analysis

In the first half of 2014, net cash used in operating activities increased 96% to € 151 million (2013: € 77 million), primarily as a result of the lower income before taxes generated during the first half of 2014. Net cash used in investing activities totalled € 233 million (2013: net cash generated from investing activities of € 61 million). The majority of investing activities in the first half of 2014 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of stores in our Retail segment as well as investments in the Group's logistics infrastructure and IT systems. Net cash used in financing activities totalled € 10 million (2013: € 457 million). The dividend paid to shareholders of € 314 million as well as repayments of short-term borrowings of € 56 million were partly offset by proceeds from short-term borrowings of € 364 million. Exchange rate effects negatively impacted the Group's cash position by € 2 million in the first half of 2014 (2013: negative impact of € 0 million). As a result of all these developments, cash and cash equivalents decreased € 396 million to € 1.191 billion at the end of June 2014 compared to € 1.587 billion at the end of December 2013. Net borrowings at June 30, 2014 amounted to € 454 million, compared to net borrowings of € 94 million in 2013, representing an increase of € 360 million ⁄ **DIAGRAM 33**. This increase is mainly a result of higher capital expenditure during the first half of 2014. In addition, currency translation had a negative effect of € 3 million. The Group's ratio of net borrowings over EBITDA amounted to 0.3 at the end of June 2014 (2013: 0.1).

32 ⁄ **Shareholders' equity** [1] (€ in millions)



1) At June 30, excluding non-controlling interests.

33 ⁄ **Net borrowings** [1] (€ in millions)

1) At June 30.

Business Performance by Segment

The adidas Group has divided its operating activities into Wholesale, Retail and Other Businesses. The Wholesale segment comprises the adidas and Reebok business activities with retailers. The Retail segment comprises the own-retail and e-commerce activities of the adidas and Reebok brands. The financial results of TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands, which comprise brands such as Y-3 and Five Ten, are aggregated under Other Businesses.

Wholesale Business Performance

Wholesale second quarter sales development

In the second quarter of 2014, revenues for the Wholesale segment increased 10% on a currency-neutral basis. This development was mainly due to double-digit sales increases at adidas Sport Performance. adidas Originals & Sport Style grew at a mid-single-digit rate. Sales at Reebok were up at a high-single-digit rate. Currency translation effects negatively impacted segmental revenues in euro terms. Sales in the Wholesale segment were up 3% to € 2.085 billion in the second quarter of 2014 from € 2.014 billion in 2013.

Wholesale first half results

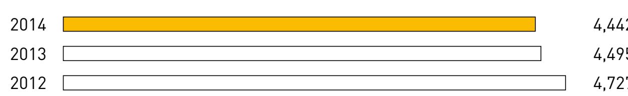
In the first half of 2014, sales in the Wholesale segment increased 5% on a currency-neutral basis. This development was mainly due to high-single-digit growth at adidas Sport Performance. Currency translation effects negatively impacted segmental revenues in euro terms. Sales in the Wholesale segment decreased 1% to € 4.442 billion from € 4.495 billion in the first half of 2013 ⁄ **TABLE 34**.

Wholesale gross margin decreased 0.2 percentage points to 42.6% in the first half of 2014 from 42.9% in 2013. The positive effect from a more favourable product and pricing mix was more than offset by negative currency effects following the devaluation of currencies such as the Argentine peso and Brazilian real. By brand, the adidas wholesale gross margin declined 0.4 percentage points to 43.9% (2013: 44.4%). The wholesale gross margin of the Reebok brand increased 0.5 percentage points to 31.0% (2013: 30.5%). Wholesale gross profit decreased 2% to € 1.894 billion from € 1.928 billion in 2013 ⁄ **TABLE 34**.

34 ⁄ **Wholesale at a glance** (€ in millions)

	First half year 2014	First half year 2013	Change
Net sales	4,442	4,495	(1%)
Gross profit	1,894	1,928	(2%)
Gross margin	42.6%	42.9%	(0.2pp)
Segmental operating profit	1,508	1,525	(1%)
Segmental operating margin	34.0%	33.9%	0.0pp

35 ⁄ **Wholesale first half year net sales** (€ in millions)



36 ⁄ **Wholesale net sales by region** (€ in millions)

	First half year 2014	First half year 2013	Change	Change (currency-neutral)
Western Europe	1,561	1,494	4%	5%
European Emerging Markets	299	262	14%	28%
North America	677	804	(16%)	(11%)
Greater China	671	658	2%	6%
Other Asian Markets	645	669	(4%)	4%
Latin America	588	608	(3%)	20%
Total [1]	**4,442**	**4,495**	**(1%)**	**5%**

1) Rounding differences may arise in totals.

Segmental operating expenses decreased 4% to € 386 million versus € 404 million in the first half of 2013. As a percentage of sales, segmental operating expenses declined 0.3 percentage points to 8.7% (2013: 9.0%). This was primarily due to lower expenditure for sales administration and logistics as a percentage of sales. Segmental operating expenses in Wholesale primarily relate to sales working budget expenses as well as expenditure for sales force, administration and logistics.

Segmental operating profit decreased 1% to € 1.508 billion versus € 1.525 billion in the prior year. Segmental operating margin remained stable at 34.0% (2013: 33.9%) ⁄ **TABLE 34**, as the positive effect of lower segmental operating expenses as a percentage of sales was offset by the gross margin decline.

Wholesale development by region

In the first half of 2014, currency-neutral sales for the Wholesale segment increased in all regions except North America. Currency-neutral revenues in Western Europe were up 5%, mainly due to sales increases in Germany, Poland, the UK and Spain. Currency-neutral sales in European Emerging Markets rose 28%, as a result of double-digit growth in all of the region's major markets. Currency-neutral Wholesale sales in North America were down 11% due to declines in the USA. Revenues in Greater China increased 6% on a currency-neutral basis. Sales in Other Asian Markets grew 4% on a currency-neutral basis, driven by increases in South Korea and India. In Latin America, currency-neutral sales were up 20%, supported by double-digit sales growth in most markets. Currency translation effects had a negative impact on regional sales in euro terms ⁄ **TABLE 36**.

Wholesale development by brand

In the first half of 2014, adidas Sport Performance wholesale revenues grew 7% on a currency-neutral basis. This development was mainly due to sales increases in the football, running and training categories. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance sales remained stable at € 2.968 billion (2013: € 2.959 billion).

Currency-neutral adidas Originals & Sport Style wholesale revenues decreased 1% in the first half of 2014. Double-digit sales increases at the adidas NEO label were more than offset by declines at adidas Originals. Currency translation effects had a negative impact on revenues in euro terms. adidas Originals & Sport Style sales decreased 5% to € 1.044 billion (2013: € 1.096 billion).

In the first half of 2014, Reebok wholesale revenues increased 1% on a currency-neutral basis, mainly as a result of sales growth in the fitness training and walking categories as well as in Classics. Currency translation effects had a negative impact on revenues in euro terms. Reebok sales were down 7% to € 445 million from € 478 million in the prior year.

37 ⁄ **Wholesale net sales by quarter** (€ in millions)

38 ⁄ **Wholesale segmental operating profit by quarter** (€ in millions)

Retail Business Performance

Retail second quarter sales development

In the second quarter of 2014, Retail revenues increased 22% on a currency-neutral basis as a result of double-digit sales growth at both adidas and Reebok. eCommerce grew 59% on a currency-neutral basis. Currency-neutral comparable store sales increased 10%. Currency translation effects had a negative impact on sales in euro terms. Retail revenues grew 11% to € 958 million in the second quarter of 2014 from € 867 million in 2013.

Retail first half results

In the first half of 2014, Retail revenues increased 22% on a currency-neutral basis as a result of double-digit sales growth at both adidas and Reebok. Concept stores, factory outlets and concession corners were all up at double-digit rates versus the prior year. eCommerce grew 65% on a currency-neutral basis. Currency translation effects negatively impacted segmental revenues in euro terms. Sales grew 10% to € 1.752 billion from € 1.589 billion in the prior year ⁄ **TABLE 39**. Currency-neutral comparable store sales increased 9% versus the prior year, driven by sales growth across all store formats as well as all regions.

Gross margin in the Retail segment decreased 3.0 percentage points to 60.2% from 63.2% in the first half of 2013. The positive effect from a more favourable product mix was more than offset by a less favourable pricing and regional sales mix. In particular, the devaluation of the Russian rouble versus the euro and the US dollar was a major headwind in the first half of 2014. By brand, the adidas retail gross margin was down 3.1 percentage points to 61.3% (2013: 64.4%), while Reebok's retail gross margin decreased 2.7 percentage points to 54.3% (2013: 57.0%). Retail gross profit rose 5% to € 1.056 billion from € 1.005 billion in 2013 ⁄ **TABLE 39**.

Segmental operating expenses increased 12% to € 771 million from € 688 million in the first half of 2013. This was mainly a result of higher expenses related to the expansion of the Group's store base, particularly in European Emerging Markets. Higher sales working budget expenses also contributed to this development. Segmental operating expenses as a percentage of sales increased 0.7 percentage points to 44.0% (2013: 43.3%). Segmental operating expenses in Retail primarily relate to personnel and rent expenses as well as the sales working budget.

Segmental operating profit decreased 10% to € 285 million in the first half of 2014 versus € 316 million in the prior year. Segmental operating margin declined 3.7 percentage points to 16.2% (2013: 19.9%), mainly as a result of the lower gross margin as well as the negative effects of higher segmental operating expenses as a percentage of sales ⁄ **TABLE 39**.

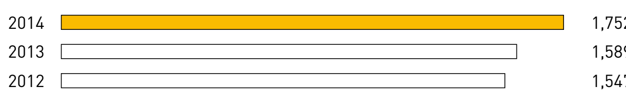
Retail development by region

Currency-neutral Retail sales increased in all regions at a double-digit rate. Retail revenues in Western Europe grew 20% on a currency-neutral basis, mainly due to double-digit sales increases in the UK, France, Spain and Germany. Sales in European Emerging Markets rose 18% on a currency-neutral basis, as a result of double-digit growth in all of the region's major markets. Currency-neutral Retail sales in North America grew 19% due to double-digit growth in both the USA and Canada. Retail revenues in Greater China increased 24% on a currency-neutral basis. Sales in Other Asian Markets grew 17% on a currency-neutral

39 ⁄ **Retail at a glance** (€ in millions)

	First half year 2014	First half year 2013	Change
Net sales	1,752	1,589	10%
Gross profit	1,056	1,005	5%
Gross margin	60.2%	63.2%	(3.0pp)
Segmental operating profit	285	316	(10%)
Segmental operating margin	16.2%	19.9%	(3.7pp)

40 ⁄ **Retail first half year net sales** (€ in millions)



41 ⁄ **Retail net sales by region** (€ in millions)

	First half year 2014	First half year 2013	Change	Change (currency-neutral)
Western Europe	300	249	20%	20%
European Emerging Markets	619	616	0%	18%
North America	313	276	13%	19%
Greater China	123	103	19%	24%
Other Asian Markets	212	196	8%	17%
Latin America	186	149	26%	52%
Total [1]	**1,752**	**1,589**	**10%**	**22%**

1) Rounding differences may arise in totals.

basis, driven by double-digit growth in Japan and South Korea. In Latin America, currency-neutral Retail sales grew 52%, with double-digit sales increases in all markets, in particular in Colombia, Brazil and Argentina. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 41**.

Retail development by brand

In the first half of 2014, adidas Group Retail sales increased at a double-digit rate at both adidas and Reebok. Currency-neutral adidas Sport Performance revenues grew 23% in the period, mainly due to double-digit growth in the football, training and running categories. adidas Originals & Sport Style sales rose 24% on a currency-neutral basis, driven by double-digit sales increases at both adidas Originals and the adidas NEO label. Currency-neutral Reebok sales were 15% higher compared to the prior year, driven by double-digit growth in the fitness training and Classics categories. Comparable store sales for the adidas brand increased 10% on a currency-neutral basis, while Reebok comparable store sales were up 2% on a currency-neutral basis. Currency translation effects had a negative impact on revenues in euro terms. adidas Sport Performance own-retail sales increased 11% to € 959 million in the first half of 2014 from € 865 million in 2013. adidas Originals & Sport Style own-retail sales were up 13% to € 527 million from € 467 million in 2013. Own-retail sales of Reebok branded products grew 5% to € 267 million (2013: € 255 million).

Retail store development

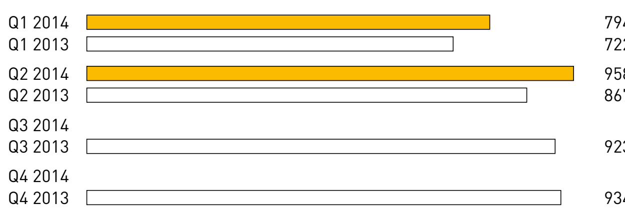
At June 30, 2014, the adidas Group Retail segment operated 2,825 stores compared to the prior year-end level of 2,740. This represents a net increase of 85 stores. Of the total number of stores, 1,590 were adidas and 427 were Reebok branded (December 31, 2013: 1,557 adidas stores, 404 Reebok stores). In addition, the adidas Group Retail segment operated 808 factory outlets (December 31, 2013: 779). During the first half of 2014, the Group opened 199 new stores, 114 stores were closed and 64 stores were remodelled ⁄ **TABLE 44**.

Retail development by store format

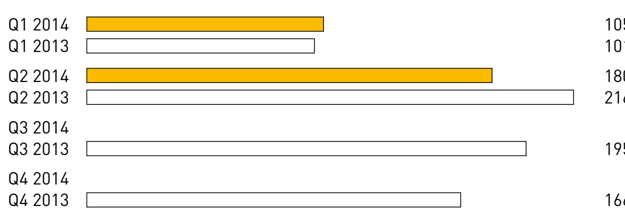
Concept store revenues include sales from adidas and Reebok concept stores. In the first half of 2014, concept store revenues grew 22% on a currency-neutral basis. Sales increased at double-digit rates at both adidas and Reebok. Currency-neutral comparable concept store sales were up 11%. Currency translation effects had a negative impact on sales in euro terms. Concept store sales increased 7% to € 788 million in the first half of 2014 from € 736 million in 2013.

Factory outlet revenues include sales from adidas and Reebok factory outlets. In the first half of 2014, factory outlet revenues grew 16% on a currency-neutral basis. Sales increased at a double-digit rate at adidas. Reebok sales grew at a mid-single-digit rate. Comparable factory outlet sales increased 7% on a currency-neutral basis. Currency translation effects had a negative impact on sales in euro terms. Factory outlet sales increased 6% to € 734 million in the first half of 2014 from € 691 million in 2013.

42 ⁄ **Retail net sales by quarter** (€ in millions)



43 ⁄ **Retail segmental operating profit by quarter** (€ in millions)



44 ⁄ **Retail first half year number of stores development**

	Total	Concept stores	Factory outlets	Concession corners
December 31, 2013	**2,740**	1,661	779	300
Opened	**199**	114	62	23
Closed	**114**	71	33	10
Opened (net)	**85**	43	29	13
June 30, 2014	**2,825**	1,704	808	313

Concession corner revenues include adidas and Reebok concession corners. In the first half of 2014, sales from concession corners increased 22% on a currency-neutral basis. Sales grew at a double-digit rate at adidas. Reebok sales grew at a high-single-digit rate. Currency-neutral comparable sales from concession corners grew 12%. Currency translation effects had a negative impact on sales in euro terms. Concession corner sales increased 15% to € 64 million in the first half (2013: € 56 million).

eCommerce revenues include e-commerce operations of the adidas and Reebok brands. In the first half of 2014, sales from adidas and Reebok e-commerce platforms were up 65% on a currency-neutral basis. Sales increased at strong double-digit rates at both adidas and Reebok. Currency translation effects had a negative impact on sales in euro terms. eCommerce revenues grew 57% to € 167 million from € 106 million in 2013.

Other Businesses Performance

Other Businesses second quarter sales development

In the second quarter of 2014, revenues of Other Businesses decreased 11% on a currency-neutral basis, mainly as a result of double-digit sales declines at TaylorMade-adidas Golf. Currency translation effects negatively impacted revenues in euro terms. Sales of Other Businesses decreased 16% to € 422 million in the second quarter of 2014 (2013: € 502 million).

Other Businesses first half results

In the first half of 2014, revenues of Other Businesses decreased 19% on a currency-neutral basis, mainly due to double-digit sales declines at TaylorMade-adidas Golf. While sales at Reebok-CCM Hockey increased at a mid-single-digit rate, revenues at Rockport were down at a mid-single-digit rate. Sales at Other Centrally Managed Brands grew at a high-single-digit rate. Currency translation effects negatively impacted revenues in euro terms. Sales of Other Businesses declined 23% to € 804 million (2013: € 1.050 billion) ⁄ **TABLE 45**.

Gross margin decreased 5.2 percentage points to 38.8% (2013: 44.0%). This development was mainly due to significantly lower product margins at TaylorMade-adidas Golf. Other Businesses gross profit was down 32% to € 312 million in the first half of 2014 versus € 462 million in 2013 ⁄ **TABLE 45**.

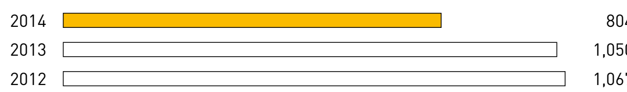
Segmental operating expenses decreased 2% to € 148 million in the first half of 2014 from € 151 million in 2013. This was driven in particular by lower expenditure for sales force and administration at TaylorMade-adidas Golf. As a percentage of sales, segmental operating expenses increased 4.1 percentage points to 18.5% (2013: 14.4%), as a result of deleverage effects related to the lower revenues. Segmental operating expenses in Other Businesses primarily relate to expenditure for sales force and administration as well as sales working budget expenses for TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands.

Other Businesses segmental operating profit decreased 47% to € 163 million in the first half of 2014 versus € 311 million in the prior year. Segmental operating margin was down 9.3 percentage points to 20.3% from 29.6% in 2013 ⁄ **TABLE 45**. This was a result of the gross margin decrease as well as the negative impact from higher segmental operating expenses as a percentage of sales.

45 ⁄ **Other Businesses at a glance** (€ in millions)

	First half year 2014	First half year 2013	Change
Net sales	804	1,050	(23%)
Gross profit	312	462	(32%)
Gross margin	38.8 %	44.0%	(5.2pp)
Segmental operating profit	163	311	(47%)
Segmental operating margin	20.3%	29.6%	(9.3pp)

46 ⁄ **Other Businesses first half year net sales** (€ in millions)



47 ⁄ **Other Businesses net sales by region** (€ in millions)

	First half year 2014	First half year 2013	Change	Change (currency-neutral)
Western Europe	156	164	(5%)	(7%)
European Emerging Markets	20	22	(8%)	5%
North America	481	636	(24%)	(20%)
Greater China	12	19	(38%)	(35%)
Other Asian Markets	129	199	(35%)	(29%)
Latin America	6	10	(38%)	(27%)
Total [1]	**804**	**1,050**	**(23%)**	**(19%)**

1) Rounding differences may arise in totals.

Other Businesses development by segment

In the first half of 2014, TaylorMade-adidas Golf revenues decreased 27% on a currency-neutral basis. The pronounced decrease is due to a continued weakness in the golf market, where retail inventories remain high. This resulted in double-digit sales declines in metalwoods and irons in the first half of 2014. Currency translation effects negatively impacted TaylorMade-adidas Golf sales in euro terms. Revenues decreased 31% to € 535 million from € 771 million in the prior year.

Rockport revenues decreased 4% on a currency-neutral basis, as a result of lacklustre retail conditions in North America as well as the timing of product shipments. Currency translation effects negatively impacted sales in euro terms. Revenues in the Rockport segment were down 9% to € 118 million in the first half of 2014 (2013: € 130 million).

Currency-neutral Reebok-CCM Hockey sales were up 5%. This increase is mainly due to growth in key categories such as skates and protective equipment. Currency translation effects negatively impacted sales in euro terms. Reebok-CCM Hockey revenues decreased 2% to € 93 million in the first half of 2014 from € 96 million in 2013.

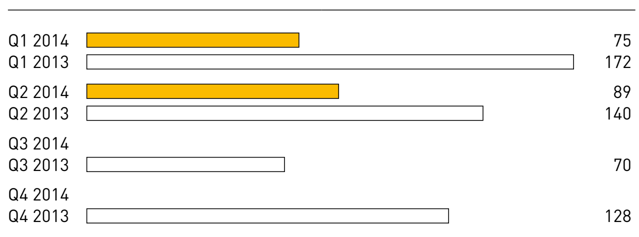
Other Centrally Managed Brands revenues increased 7% on a currency-neutral basis, as growth at Y-3, Five Ten and Porsche Design Sport by adidas was partly offset by sales declines in other areas. Currency translation effects negatively impacted sales in euro terms. Revenues in Other Centrally Managed Brands increased 6% to € 57 million in the first half of 2014 (2013: € 54 million).

Other Businesses development by region

In the first half of 2014, currency-neutral sales of Other Businesses decreased in most regions. Revenues in Western Europe were down 7% on a currency-neutral basis due to double-digit sales declines at TaylorMade-adidas Golf, which more than offset sales increases at Reebok-CCM Hockey, Rockport and Other Centrally Managed Brands. Sales in European Emerging Markets increased 5% on a currency-neutral basis. Strong double-digit sales growth at Reebok-CCM Hockey was partly offset by sales declines at TaylorMade-adidas Golf. Revenues at Rockport grew at a mid-single-digit rate. Currency-neutral sales in North America were down 20%, mainly due to double-digit decreases at TaylorMade-adidas Golf. While revenues at Reebok-CCM Hockey and Other Centrally Managed Brands increased, sales at Rockport were down at a mid-single-digit rate. Revenues in China decreased 35% on a currency-neutral basis as a result of double-digit sales declines at TaylorMade-adidas Golf. Sales in Other Asian Markets declined 29% on a currency-neutral basis, mainly due to double-digit sales decreases at TaylorMade-adidas Golf. Sales at Rockport also decreased. In Latin America, currency-neutral sales were down 27%, as a result of double-digit sales declines at both TaylorMade-adidas Golf and Rockport. Currency translation effects had a mixed impact on regional sales in euro terms ⁄ **TABLE 47**.

48 ⁄ **Other Businesses net sales by quarter** (€ in millions)

49 ⁄ **Other Businesses segmental operating profit by quarter** (€ in millions)



Subsequent Events and Outlook

In 2014, despite a high degree of economic and political uncertainty particularly in the emerging markets, we expect the global economy and consumer spending to increase, providing a positive backdrop for the continued growth and expansion of the sporting goods industry. Through the extensive pipeline of new and innovative products and the positive effects from major sporting events including the 2014 FIFA World Cup, we project top-line improvements in our Group's financial results in 2014. We forecast adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis, with growth expected in most regions and most segments. Currency translation is expected to have a negative impact on our top-line development in reported terms. Group gross margin is forecasted to decrease to a level between 48.5% and 49.0% compared to 49.3% in 2013, due to lower margins at TaylorMade-adidas Golf and in the Retail segment, less favourable hedging rates and adverse currency movements in emerging markets compared to the prior year, as well as increasing labour costs. Group operating margin is forecasted to be at a level between 6.5% and 7.0%. As a result, we project net income attributable to shareholders to be at a level of around € 650 million.

Subsequent Events

Subsequent changes to the financial outlook for the full year 2014

On July 31, the Executive Board of adidas AG announced important strategic decisions that have been taken to secure and drive growth and profitability as well as addressing recent developments. As these decisions will impact the Group's financial results, Management has updated its financial outlook for the full year 2014 and postponed the delivery of its Route 2015 targets.

The following strategic decisions have been taken, which will impact the Group's financial development in the second half of 2014 and in 2015:

- The poor retail sentiment and the slow liquidation of old inventory in the golf category across the globe will lead to a significantly more challenging top-line and margin development for TaylorMade-adidas Golf in the second half of 2014 than originally expected. The Group will therefore take further measures to reduce inventory in the marketplace in the second half of 2014. In addition, Management will also begin a restructuring programme at TaylorMade-adidas Golf.

- The recent trend change in the Russian rouble as well as increasing risks to consumer sentiment and consumer spending from current tensions in the region point to higher risks to the short-term profitability contribution from Russia/CIS. As a result, Management has decided to significantly reduce its store opening plan in the market for 2014 and 2015, and to further increase the number of store closures.

- Following the strong performance at the 2014 FIFA World Cup and improving momentum at the adidas and Reebok brands, Management has decided to step up marketing and point-of-sale investments over the next 18 months to secure and drive faster growth rates and market share gains. In this regard, Management announced a long-term promotion contract with Manchester United F.C. earlier in July / **SEE NOTE 08, P. 44**.

- Management also announced the implementation of a new Global Brands and Global Sales structure, taking effect on August 1, 2014, to drive faster decision making and more effective and efficient consumer-focused strategies and execution in the marketplace.

No other subsequent changes

Since the end of the second quarter of 2014, there have been no other significant organisational, management, economic, socio-political, legal or financial changes which we expect to influence our business materially going forward.

Outlook

Forward-looking statements

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of the adidas Group. The outlook is based on estimates that we have made on the basis of all the information available to us at this point in time. In addition, such forward-looking statements are subject to uncertainties as described in the Risk and Opportunity Report of the adidas Group 2013 Annual Report (pp. 158–179), which are beyond the control of the adidas Group. 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. The adidas Group does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

Global economy to grow in 2014

According to the World Bank, global GDP is now projected to increase 2.8% in 2014 (2013: 2.4%), with a slightly weaker than forecasted start to the year resulting in a lowering of expectations. While several major high-income economies are expected to return to growth in 2014 and inflationary pressures are forecasted to remain low in many markets, the development of the global economy nonetheless remains subject to a high degree of uncertainty. The strengthening of many mature economies marks a significant shift from recent years when developing countries were the major drivers of global GDP expansion. Their recovery is also anticipated to boost prospects for developing markets' export activity.

High-income, developed markets are expected to expand 1.9% in 2014, with the euro area's GDP forecasted to return to modest growth. The USA is also expected to continue to reduce its bond buying programme (quantitative easing), which could lead to an increase in long-term interest rates in some developed and developing countries. Nonetheless, the strongest economic progress in the world will continue to be derived from the emerging markets, which are forecasted to increase 4.8% in 2014. In many of these developing economies, this growth is projected to continue to support a rapid rise in wages and disposable income. These positive economic expectations and the outlook for consumer spending, particularly in the emerging markets, are forecasted to be supportive of our growth aspirations in 2014.

In Western Europe, with less severe austerity programmes in many countries and low inflationary pressures supporting recovery and modest GDP expansion, GDP is now projected to increase around 1.3% in 2014. In the euro area, Germany, the union's largest economy, will remain the main engine of growth, fuelled by healthy export activity and increasing domestic demand and consumer and investment spending. However, the recovery in Western Europe will be fragile and continue to be constrained by high unemployment rates and ongoing concerns regarding the over-indebtedness of many of the region's governments and banks.

European emerging markets are expected to continue to improve, with GDP estimated to grow 2.4% in 2014. The region's economic growth is projected to come from exports as many markets are expected to benefit from a stronger euro area. Increasing domestic consumption is also expected to support economic activity. However, in Russia, the trend of wage moderation and slowing income growth, the rise in unemployment levels and the negative effect on sentiment and economic activity from the political developments in Ukraine could lead to a less robust consumption growth rate in 2014.

In the USA, according to the Federal Reserve, GDP is forecasted to grow 2.2% in 2014, driven by domestic consumption as well as industrial and export activities. The consensus is that inflation will remain moderate, while the labour and housing markets will improve, supporting consumer spending and economic expansion. The Federal Reserve is anticipated to continue with its accommodative policy stance, reducing its quantitative easing programme as the year progresses. Headwinds are expected from further public spending cuts, although at a lower rate than in 2013.

In Asia, GDP is projected to increase 4.2% in 2014. With the exception of Japan, growth is expected to remain relatively high during the year, with healthy industrial activity, manageable inflationary pressures and strong wage increases contributing to the region's economic expansion. Improving growth prospects in developed markets should also support Asia's export activities. China will remain the fastest-growing economy and is forecasted to expand 7.4%. In Japan, GDP is predicted to increase 1.4% in 2014, and is expected to continue to be driven by the government's substantial stimulus programme. However, Japan's real wage growth is forecasted to remain low, which is anticipated to impede more robust consumer spending.

In Latin America, GDP is expected to increase 1.6% in 2014, with relatively low unemployment rates and healthy domestic demand in many markets supporting growth. Nonetheless, elevated inflation rates, particularly in Argentina, and tight capital constraints in some major regional economies are forecasted to negatively impact confidence and economic growth. Concerns remain regarding global liquidity conditions and the potential risk regarding any further weakening of several Latin American currencies.

Sporting goods industry expansion to continue in 2014

In the absence of any major economic shocks, we expect the global sporting goods industry to grow in 2014. In particular, the industry should benefit from major sporting events, such as the world's largest, the FIFA World Cup, hosted by Brazil, as well as from the 2014 Winter Olympic Games which were held in Sochi, Russia. Many sporting goods retailers will continue to move to a more omni-retail business model, and e-commerce and investment in digital are anticipated to remain growth areas. Following macroeconomic trends, consumer spending on sporting goods in the emerging economies is expected to grow faster than in the more developed markets. Private consumption in many developed economies is forecasted to improve moderately in 2014, supporting modest industry expansion in those markets. While inflationary pressures are projected to remain relatively contained in most markets, currency devaluations in several emerging market countries are likely to lead to significant price increases over time in the affected countries. In addition, wage growth in the faster-growing economies is forecasted to continue to add significant costs to the industry, especially where the industry sources and manufactures sporting goods.

In Europe, improvements in consumer confidence and domestic demand should positively impact the sporting goods industry in 2014. The region's industry will also gain momentum due to the large number of European teams which participated in the 2014 FIFA World Cup in Brazil and the importance of football for those markets. This benefit will also positively impact many European emerging markets, including Russia, who also qualified. Nonetheless, trends of lower growth rates in disposable income are expected to continue to negatively impact consumer sentiment and spending, and lessen the sporting goods sector's expansion in some European emerging markets, especially in Russia. The Ukraine crisis provides additional potential risk by depressing sentiment and economic activity, which might negatively impact consumption and sporting goods industry growth in Russia and Ukraine.

In the USA, industry growth rates are expected to be ahead of the economy's overall growth. E-commerce channels are forecasted to remain strong, particularly via mobile. From a category perspective, the trend towards high-performance technical footwear and apparel looks set to continue. Retro silhouettes are projected to remain strong across a variety of categories, including basketball and tennis. The US golf market is forecasted to continue to be very challenging.

In Greater China, strong wage growth and domestic consumption is predicted to propel sporting goods sales in 2014. The trend and market share shift towards international brands is expected to continue. In other Asian markets, the sporting goods industry is also forecasted to grow in 2014, albeit with regional differences. Japan's sporting goods industry is expected to grow modestly, with the weaker yen and the substantial government stimulus programmes helping to drive improvements in consumer sentiment and domestic spending. Most of the other major Asian emerging markets are expected to see robust sporting goods sales growth in 2014, as domestic demand increases and rising wages continue to drive purchases of discretionary items.

The sporting goods industry in Latin America is projected to record healthy growth in 2014, with some regional variation. Given the importance of football in this region, the industry is expected to gain significant momentum from sales relating to the 2014 FIFA World Cup in Brazil, offsetting headwinds from high inflation and tight consumer debt in some markets.

adidas Group currency-neutral sales to increase at a mid- to high-single-digit rate in 2014

We expect adidas Group sales to increase at a mid- to high-single-digit rate on a currency-neutral basis in 2014. In particular the adidas brand will benefit from the 2014 FIFA World Cup, where we expect record sales of € 2 billion in the football category. Group sales development will also be favourably impacted by our high exposure to fast-growing emerging markets as well as the further expansion of Retail. However, poor retail sentiment and a slow liquidation of old inventory in the golf market will have a significant negative impact on revenues in the TaylorMade-adidas Golf segment and weigh on the overall Group sales development. In addition, currency translation is expected to negatively impact our top-line development in reported terms.

50 ⁄ **adidas Group 2014 outlook**

Currency-neutral sales development (in %):		Previous guidance [1]
adidas Group	mid- to high-single-digit rate increase	high-single-digit rate increase
Wholesale	mid-single-digit rate increase	
Retail	low-double-digit rate increase	
Comparable store sales	mid-single-digit rate increase	
Other Businesses	double-digit rate decrease	around prior year level
TaylorMade-adidas Golf	double-digit rate decrease	moderately below prior year level
Rockport	mid-single-digit rate increase	
Reebok-CCM Hockey	mid-single-digit rate increase	
Gross margin	48.5% to 49.0%	49.5% to 49.8%
Operating margin	between 6.5% and 7.0%	between 8.5% and 9.0%
Net income attributable to shareholders	around € 650 million	€ 830 million to € 930 million
Average operating working capital in % of net sales	increase	moderate decrease
Capital expenditure	around € 600 million	€ 500 million to € 550 million
Store base	net increase by around 180 stores	net increase by around 250 stores

1) As published on May 6, 2014.

Currency-neutral Wholesale revenues to increase at a mid-single-digit rate

We project currency-neutral Wholesale segment revenues to increase at a mid-single-digit rate compared to the prior year. Our growth expectations are supported by our positive order backlog development as well as positive retailer and trade show feedback. Currency-neutral adidas Sport Performance sales are forecasted to increase at a mid- to high-single-digit rate, driven by growth in key categories such as football and running. adidas Originals & Sport Style revenues are projected to increase at a low-single-digit rate on a currency-neutral basis, driven by the further expansion of the adidas NEO label. Currency-neutral Reebok sales are expected to increase at a mid-single-digit rate, mainly due to growth in fitness training and Classics as well as the further expansion of new categories such as studio.

Retail sales to increase at a low-double-digit rate on a currency-neutral basis

adidas Group currency-neutral Retail segment sales are projected to grow at a low-double-digit rate in 2014. Given the increasing risks to consumer sentiment and consumer spending in Russia/CIS, the Group's Retail segment will reduce its store opening plan and increase the number of store closures in 2014 compared to original plans. As a result, the Group expects a net increase of its store base of around 180 adidas and Reebok stores in 2014. We plan to open around 420 new stores, depending on the availability of desired locations. New stores will primarily be located in emerging markets. Approximately 240 stores will be closed over the course of the year. Around 170 stores will be remodelled. Comparable store sales are expected to increase at a mid-single-digit rate compared to the prior year.

Currency-neutral sales of Other Businesses to decrease at a double-digit rate

In 2014, revenues of Other Businesses are expected to decrease at a double-digit rate on a currency-neutral basis. TaylorMade-adidas Golf sales are projected to decrease at a double-digit rate on a currency-neutral basis. This is mainly a result of the poor retail sentiment and the slow liquidation of old inventory in the golf market. Currency-neutral revenues at Rockport are forecasted to increase at a mid-single-digit rate, driven by growth in core strategic product concepts such as Total Motion and truWalkZero. Currency-neutral sales at Reebok-CCM Hockey are expected to grow at a mid-single-digit rate, supported by new product introductions in its key categories skates and sticks.

adidas Group sales expected to increase in nearly all regions

In 2014, we expect the Group's currency-neutral revenues to increase in all of our regions except North America. In Western Europe, the gradual improvement in the macroeconomic environment as well as the 2014 FIFA World Cup will positively impact sales development in this region. In European Emerging Markets, the expansion of our own-retail activities is forecasted to have a positive influence on Group sales. In North America, the continued weakness in the golf market will weigh on the overall Group sales development in the region. In Greater China, we expect growth to continue at similar levels compared to the prior year. This development will be primarily driven by expanding and solidifying our distribution footprint. In Other Asian Markets, growth will be driven by markets such as South Korea and India. Finally, in Latin America, Group sales development is projected to be positively impacted by the 2014 FIFA World Cup.

Group gross margin to decline in 2014

In 2014, the adidas Group gross margin is forecasted to decrease to a level between 48.5% and 49.0% compared to 49.3% in 2013. Group gross margin will benefit from a more favourable product mix. In addition, the Reebok brand is expected to positively influence Group gross margin development. However, these positive effects will be more than offset by lower margins at TaylorMade-adidas Golf and in the Retail segment, less favourable hedging rates and adverse currency movements in emerging markets compared to the prior year, as well as increasing labour costs, which are expected to negatively impact the Group's cost of sales.

Group other operating expenses to increase as a percentage of sales

In 2014, the Group's other operating expenses as a percentage of sales are expected to increase compared to the prior year level of 42.3%. Sales and marketing working budget expenses as a percentage of sales are projected to increase compared to the prior year. Marketing investments will be centred on major sporting events such as the 2014 FIFA World Cup and highly innovative product launches, particularly in the running category. Further, we will support Reebok's growth strategy in key fitness categories, leveraging partnership assets such as CrossFit, Spartan Race and Les Mills. Operating overhead expenditure as a percentage of sales is forecasted to increase moderately in 2014 as a result of higher administrative and personnel expenses in the Retail segment due to the planned expansion of the Group's store base. We expect the number of employees within the adidas Group to increase versus the prior year level. Additional hires will be mainly related to own-retail expansion. The adidas Group will continue to spend around 1% of Group sales on research and development in 2014. Areas of particular focus include advanced cushioning solutions, lightweight and digital sports technologies as well as sustainable product innovation. Additionally, investments and research emphasis will also include areas such as new manufacturing processes and advanced materials.

Operating margin to be at a level between 6.5% and 7.0%

In 2014, we expect the operating margin for the adidas Group to be at a level between 6.5% and 7.0% compared to 8.7% in 2013 excluding goodwill impairment losses. The decrease in the Group's gross margin as well as higher other operating expenses as a percentage of sales are expected to be the primary driver of this development.

51 / **Upcoming product launches in the remainder of 2014**

Product	Brand
Predator Instinct football boot	adidas
Messi icon football boot range	adidas
adizero Boston Boost running shoe	adidas
ClimaHeat Rocket Boost running shoe	adidas
miCoach mobile apps for iOS and Android	adidas
Crazy Light Boost basketball shoe	adidas
RGIII Energy Boost basketball shoe	adidas
D Rose 5 basketball shoe	adidas
John Wall basketball shoe	adidas
ClimaHeat training apparel collection	adidas
Terrex ClimaHeat outdoor apparel	adidas
Terrex Fastshell Mid ClimaHeat outdoor footwear	adidas
Baseball Boost II baseball shoe	adidas
Pharrell Williams x adidas Originals collection	adidas
Rita Ora & adidas Originals collection	adidas
adidas Originals miFlux – ZX Flux photo app	adidas
adidas Originals miStan and miSuperstar	adidas
Kanye West x adidas Originals collection	adidas
Nigo x adidas Originals collection	adidas
Z-Jet running shoe	Reebok
Les Mills studio collection	Reebok
Dance and yoga collection	Reebok
Skyscape slip-on walking shoe	Reebok
Ultimate driving iron UDI	TaylorMade
Resistance helmet	CCM
Tacks skate	CCM
Total Motion mid-wedge women's shoe collection	Rockport
ActiveFlex RocSportsLite men's shoe collection	Rockport
City Smart men's shoe collection	Rockport

Net income attributable to shareholders to be at a level of around € 650 million

Net income attributable to shareholders is expected to be at a level of around € 650 million compared to the 2013 net income attributable to shareholders, excluding goodwill impairment losses, of € 839 million. This represents basic earnings per share of around € 3.10. Interest rate expenses in 2014 are forecasted to remain at the prior year level, as lower interest expenses from euro-denominated borrowings will be offset by higher interest expenses from bank borrowings in emerging markets. Net foreign exchange losses in the financial result are also expected to be at a similar level compared to the prior year. The Group tax rate is expected to be at a level between 29.5% and 30.0% and thus less favourable compared to the 2013 tax rate excluding goodwill impairment losses of 29.0%.

Average operating working capital as a percentage of sales to increase

In 2014, average operating working capital as a percentage of sales is expected to increase compared to the prior year level (2013: 20.9%). This is mainly due to working capital increases to support the growth of our business. In addition, higher inventories in Russia/CIS and at TaylorMade-adidas Golf will negatively impact working capital in 2014.

Capital expenditure to increase to a level of around € 600 million

In 2014, capital expenditure is expected to increase to a level of around € 600 million (2013: € 479 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in the emerging markets. These investments will account for around 50% of total investments in 2014. Other areas of investment include the Group's logistics infrastructure, the further development of the adidas Group headquarters in Herzogenaurach, Germany, and the increased deployment of SAP and other IT systems in major subsidiaries within the Group. Investments within the adidas Group in 2014 are expected to be largely financed through cash generated from operating activities.

Excess cash to be used to support investment activities

In 2014, we expect continued positive cash flow from operating activities. Cash will be mainly used to finance working capital needs as well as investment activities.

Management Assessment of Overall Risks and Opportunities

Management aggregates all risks reported by different business units and functions. Taking into account the occurrence likelihood and the potential financial impact of the risks explained in the 2013 Annual Report, as well as the current business outlook, adidas Group Management does not foresee any material jeopardy to the viability of the Group as a going concern. Management remains confident that the Group's earnings strength forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group. However, the Group's risk and opportunity profile worsened compared to the assessment in the 2013 Annual Report (pp. 158–179), mainly as a result of an increase in the Group's macroeconomic, socio-political and regulatory risks, as well as the ongoing unfavourable market conditions in the golf category.

Responsibility Statement

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

Herzogenaurach, August 4, 2014

HERBERT HAINER
CEO

ROLAND AUSCHEL
Global Sales

GLENN BENNETT
Global Operations

ERIC LIEDTKE
Global Brands

ROBIN J. STALKER
CFO

Consolidated Statement of Financial Position

.. **adidas AG Consolidated Statement of Financial Position (IFRS)** (€ in millions)

	June 30, 2014	June 30, 2013	Change in %	Dec. 31, 2013
ASSETS				
Cash and cash equivalents	1,191	1,197	(0.5)	1,587
Short-term financial assets	5	29	(83.4)	41
Accounts receivable	2,070	2,029	2.0	1,809
Other current financial assets	148	239	(38.2)	183
Inventories	2,896	2,611	10.9	2,634
Income tax receivables	96	66	45.5	86
Other current assets	517	538	(3.7)	506
Assets classified as held for sale	11	11	1.2	11
Total current assets	**6,934**	**6,720**	**3.2**	**6,857**
Property, plant and equipment	1,364	1,123	21.5	1,238
Goodwill	1,209	1,288	(6.1)	1,204
Trademarks	1,433	1,496	(4.2)	1,419
Other intangible assets	154	157	(1.8)	164
Long-term financial assets	126	116	8.6	120
Other non-current financial assets	25	23	7.4	30
Deferred tax assets	543	504	7.6	486
Other non-current assets	100	98	3.0	81
Total non-current assets	**4,953**	**4,805**	**3.1**	**4,742**
Total assets	**11,887**	**11,525**	**3.1**	**11,599**

Rounding differences may arise in percentages and totals.

.. ⁄ **adidas AG Consolidated Statement of Financial Position (IFRS)** (€ in millions)

	June 30, 2014	June 30, 2013	Change in %	Dec. 31, 2013
LIABILITIES AND EQUITY				
Short-term borrowings	990	163	507.4	681
Accounts payable	1,752	1,746	0.4	1,825
Other current financial liabilities	112	61	84.8	113
Income taxes	276	252	9.4	240
Other current provisions	412	462	(10.8)	450
Current accrued liabilities	1,145	1,123	1.9	1,147
Other current liabilities	297	323	(8.4)	276
Total current liabilities	**4,984**	**4,130**	**20.7**	**4,732**
Long-term borrowings	660	1,158	(43.0)	653
Other non-current financial liabilities	11	13	(15.3)	22
Pensions and similar obligations	262	258	1.6	255
Deferred tax liabilities	363	383	(5.3)	338
Other non-current provisions	17	50	(66.6)	25
Non-current accrued liabilities	58	42	38.3	64
Other non-current liabilities	29	28	10.3	29
Total non-current liabilities	**1,400**	**1,932**	**(27.5)**	**1,386**
Share capital	209	209	–	209
Reserves	311	615	(49.4)	321
Retained earnings	4,993	4,652	7.3	4,959
Shareholders' equity	**5,513**	**5,476**	**0.7**	**5,489**
Non-controlling interests	(9)	(13)	23.6	(8)
Total equity	**5,503**	**5,463**	**0.7**	**5,481**
Total liabilities and equity	**11,887**	**11,525**	**3.1**	**11,599**

Rounding differences may arise in percentages and totals.

Consolidated Income Statement

.. **adidas AG Consolidated Income Statement (IFRS)** (€ in millions)

	First half year 2014	First half year 2013	Change	Second quarter 2014	Second quarter 2013	Change
Net sales	6,998	7,134	(1.9%)	3,465	3,383	2.4%
Cost of sales	3,558	3,559	(0.0%)	1,761	1,689	4.3%
Gross profit	**3,440**	**3,575**	**(3.8%)**	**1,704**	**1,694**	**0.6%**
(% of net sales)	49.2%	50.1%	(1.0pp)	49.2%	50.1%	(0.9pp)
Royalty and commission income	50	51	(1.3%)	26	26	(0.9%)
Other operating income	85	47	80.9%	36	29	21.8%
Other operating expenses	3,053	2,980	2.4%	1,546	1,497	3.2%
(% of net sales)	43.6%	41.8%	1.9pp	44.6%	44.3%	0.3pp
Operating profit	**523**	**693**	**(24.6%)**	**220**	**252**	**(12.7%)**
(% of net sales)	7.5%	9.7%	(2.2pp)	6.3%	7.4%	(1.1pp)
Financial income	12	10	15.8%	5	6	(9.3%)
Financial expenses	40	40	(0.5%)	20	22	(4.9%)
Income before taxes	**495**	**663**	**(25.4%)**	**205**	**236**	**(13.3%)**
(% of net sales)	7.1%	9.3%	(2.2pp)	5.9%	7.0%	(1.1pp)
Income taxes	143	182	(21.3%)	60	65	(8.2%)
(% of income before taxes)	29.0%	27.5%	1.5pp	29.1%	27.5%	1.6pp
Net income	**351**	**481**	**(27.0%)**	**145**	**171**	**(15.2%)**
(% of net sales)	5.0%	6.7%	(1.7pp)	4.2%	5.1%	(0.9pp)
Net income attributable to shareholders	**348**	**480**	**(27.4%)**	**144**	**172**	**(16.0%)**
(% of net sales)	5.0%	6.7%	(1.7pp)	4.2%	5.1%	(0.9pp)
Net income attributable to non-controlling interests	**3**	**1**	**215.7%**	**1**	**(1)**	**–**
Basic earnings per share (in €)	1.67	2.29	(27.4%)	0.69	0.82	(16.0%)
Diluted earnings per share (in €)	1.67	2.29	(27.4%)	0.69	0.82	(16.0%)

Rounding differences may arise in percentages and totals.

Consolidated Statement of Comprehensive Income

.. **adidas AG Consolidated Statement of Comprehensive Income (IFRS)** (€ in millions)

	First half year 2014	First half year 2013
Net income after taxes	**351**	**481**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans (IAS 19), net of tax [1]	(0)	0
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**(0)**	**0**
Items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met		
Net loss/(gain) on cash flow hedges, net of tax	(3)	64
Currency translation differences	(8)	(90)
Subtotal of items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditons are met	**(11)**	**(26)**
Other comprehensive income	**(11)**	**(26)**
Total comprehensive income	**340**	**455**
Attributable to shareholders of adidas AG	338	454
Attributable to non-controlling interests	2	1

1) Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.
Rounding differences may arise in percentages and totals.

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 reserves	Other reserves [1]	Retained earnings	Total share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2012	**209**	**777**	**(51)**	**(21)**	**(64)**	**4,454**	**5,304**	**(13)**	**5,291**
Net income recognised directly in equity			(90)	64	0		(26)	0	(26)
Net income						480	480	1	481
Total comprehensive income			**(90)**	**64**	**0**	**480**	**454**	**1**	**455**
Dividend payment						(282)	(282)	(1)	(283)
Balance at June 30, 2013	**209**	**777**	**(141)**	**43**	**(64)**	**4,652**	**5,476**	**(13)**	**5,463**
Balance at December 31, 2013	**209**	**777**	**(363)**	**(34)**	**(59)**	**4,959**	**5,489**	**(8)**	**5,481**
Net income recognised directly in equity			(7)	(3)	(0)		(11)	(0)	(11)
Net income						348	348	3	351
Total comprehensive income			**(7)**	**(3)**	**(0)**	**348**	**338**	**2**	**340**
Dividend payment						(314)	(314)	(4)	(318)
Balance at June 30, 2014	**209**	**777**	**(370)**	**(38)**	**(60)**	**4,993**	**5,513**	**(9)**	**5,503**

1) Reserves for remeasurements of defined benefit plans (IAS 19), option plans and acquisition of shares from non-controlling interest shareholders.
Rounding differences may arise in percentages and totals.

Consolidated Statement of Cash Flows

.. adidas AG Consolidated Statement of Cash Flows (IFRS) (€ in millions)

	First half year 2014	First half year 2013
Operating activities:		
Income before taxes	495	663
Adjustments for:		
Depreciation, amortisation and impairment losses	147	135
Reversals of impairment losses	(1)	(0)
Unrealised foreign exchange losses/(gains), net	7	(6)
Interest income	(11)	(10)
Interest expense	34	34
Losses on sale of property, plant and equipment, net	2	3
Operating profit before working capital changes	**673**	**819**
Increase in receivables and other assets	(248)	(465)
Increase in inventories	(284)	(182)
Decrease in accounts payable and other liabilities	(123)	(42)
Cash generated from operations before interest and taxes	**18**	**130**
Interest paid	(19)	(25)
Income taxes paid	(150)	(182)
Net cash used in operating activities	**(151)**	**(77)**
Investing activities:		
Purchase of trademarks and other intangible assets	(18)	(15)
Proceeds from sale of trademarks and other intangible assets	1	1
Purchase of property, plant and equipment	(246)	(156)
Proceeds from sale of property, plant and equipment	3	2
Proceeds from sale of short-term financial assets	36	241
Purchase of investments and other long-term assets	(19)	(22)
Interest received	11	10
Net cash (used in)/generated from investing activities	**(233)**	**61**
Financing activities:		
Repayments of finance lease obligations	(1)	(1)
Dividend paid to shareholders of adidas AG	(314)	(282)
Dividend paid to non-controlling interest shareholders	(4)	(1)
Proceeds from short-term borrowings	364	48
Repayments of short-term borrowings	(56)	(221)
Net cash used in financing activities	**(10)**	**(457)**
Effect of exchange rates on cash	**(2)**	**(0)**
Decrease of cash and cash equivalents	(396)	(473)
Cash and cash equivalents at beginning of the year	1,587	1,670
Cash and cash equivalents at end of the period	**1,191**	**1,197**

Rounding differences may arise in percentages and totals.

Selected Explanatory Notes to the Interim Consolidated Financial Statements (IFRS) as at June 30, 2014

01 General

The interim consolidated financial statements of adidas AG and its direct and indirect subsidiaries (collectively the "Group") for the first half year ending June 30, 2014 are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The Group applied all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee effective as at June 30, 2014.

These interim consolidated financial statements have been prepared in compliance with International Accounting Standard IAS 34 "Interim Financial Reporting" and with German Accounting Standard GAS 16 "Interim Financial Reporting". Accordingly, these interim consolidated financial statements do not include all of the information and notes required for consolidated financial statements at financial year-ends. Therefore, these interim consolidated financial statements should be read in conjunction with the 2013 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, 2013 also apply to the interim consolidated financial statements for the first half year ending June 30, 2014.

An exemption to this principle is the application of new/revised standards and interpretations which are effective for financial years starting from January 1, 2014. The application of new/revised standards does not have any material impact on the Group's financial position, results of operations and cash flows.

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

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

The results of operations for the first half year ending June 30, 2014 are not necessarily indicative of results to be expected for the entire year.

The interim consolidated financial statements are presented in euros (€). Due to rounding principles, numbers presented may not sum up exactly to totals provided.

02 Seasonality

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

03 Assets/liabilities classified as held for sale

The composition of assets/liabilities classified as held for sale is unchanged compared to March 31, 2014.

04 Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the respective period.

Compared to March 31, 2014, it is not necessary to include dilutive potential shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share for the first half year ending June 30, 2014 as the conversion right has no value at the balance sheet date. The average share price reached € 80.75 per share during the first half of 2014 and has thus not exceeded the conversion price of € 82.56 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 83.10 to € 82.56 per share. This adjustment became effective on May 9, 2014.

05 Shareholders' equity

In the period from January 1, 2014 to June 30, 2014, the nominal capital of adidas AG did not change. Consequently, on June 30, 2014, the nominal capital of adidas AG amounted to € 209,216,186, divided into 209,216,186 registered no-par-value shares ("registered shares").

06 Other operating income and other operating expenses

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

Other operating expenses include expenses for marketing, sales and research and development, as well as for logistics and central administration. In addition, they include impairment losses as well as depreciation on tangible assets and amortisation on intangible assets (except goodwill impairment losses), with the exception of depreciation and amortisation which is included in the cost of sales. In the first half of 2014, depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) and impairment losses amounted to € 145 million (2013: € 134 million).

07 Segmental information

Following the Group's internal management reporting and in accordance with the definition of IFRS 8 "Operating Segments", six operating segments have been identified: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other Centrally Managed Brands. According to the criteria of IFRS 8 for reportable segments, the business segments Wholesale and Retail are reported separately, while the remaining are aggregated under Other Businesses due to their only subordinate materiality.

The Wholesale segment comprises all business activities relating to the distribution of adidas and Reebok products to retail customers.

The Retail segment comprises all business activities relating to the sale of adidas and Reebok products directly to end consumers through own retail and own e-commerce platforms.

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

The Other Centrally Managed Brands segment 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 the German own-retail activities of the adidas NEO label.

Certain centralised Group functions do not meet the definition of IFRS 8 for a reportable operating segment. This includes functions such as central treasury, global sourcing as well as other headquarter departments. Income and expenses relating to these corporate functions are presented together with other non-allocable items and intersegment eliminations in the reconciliation of segmental operating profit. The results of the operating segments are reported in the line item "Segmental operating profit". This is defined as gross profit minus costs directly attributable to the segment or the group of segments (primarily sales and logistics costs) before marketing working budget expenditures and operating overhead costs not directly attributable.

Segmental assets include accounts receivable as well as inventories.

Segments (€ in millions)

	Wholesale		Retail		Other Businesses		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Net sales (non-Group) 1)	4,442	4,495	1,752	1,589	804	1,050	6,998	7,134
Segmental operating profit 1)	1,508	1,525	285	316	163	311	1,956	2,152
Segmental assets 2)	3,121	2,916	981	845	834	827	4,936	4,588

1) First half year.
2) At June 30.

Operating profit (€ in millions)

	First half year 2014	First half year 2013
Operating profit for reportable segments	1,793	1,841
Operating profit for Other Businesses	163	311
Segmental operating profit	**1,956**	**2,152**
HQ/Consolidation	164	173
Marketing working budget	(766)	(726)
Other operating expenses	(882)	(957)
Royalty and commission income	50	51
Operating profit	**523**	**693**
Financial income	12	10
Financial expenses	(40)	(40)
Income before taxes	**495**	**663**

08 Events after the balance sheet date

On July 14, the Group announced a long-term promotion contract with Manchester United F.C. The minimum financial commitments in connection with the respective contract amount to € 936 million over a period of ten years.

In addition, on July 31, the adidas Group Management communicated its intention to take internal measures to improve profitability, e.g. a restructuring programme at TaylorMade-adidas Golf. Detailed formal plans will be defined during the second half of 2014 and costs will occur accordingly.

Between the end of the first half of 2014 and the finalisation of these interim consolidated financial statements on August 4, 2014, there were no other major Group-specific matters which we expect to influence our business materially going forward.

Herzogenaurach, August 4, 2014
The Executive Board of adidas AG

Executive and Supervisory Boards

Executive Board

ROLAND AUSCHEL
Global Sales

HERBERT HAINER
Chief Executive Officer

GLENN BENNETT
Global Operations

ERIC LIEDTKE [1]
Global Brands

ROBIN J. STALKER
Chief Financial Officer

1) Since March 6, 2014.

Biographical information on our Executive Board members as well as on mandates of the members of the Executive Board is available at **WWW.ADIDAS-GROUP.COM/EXECUTIVE-BOARD**.

Supervisory Board

Supervisory Board Members since the end of the Annual General Meeting held on May 8, 2014

IGOR LANDAU
Chairman

SABINE BAUER [1)]
Deputy Chairwoman

WILLI SCHWERDTLE
Deputy Chairman

DIETER HAUENSTEIN [1)]

DR. WOLFGANG JÄGER [1)]

DR. STEFAN JENTZSCH

HERBERT KAUFFMANN

KATJA KRAUS

KATHRIN MENGES

ROLAND NOSKO [1)]

HANS RUPRECHT [1)]

HEIDI THALER-VEH [1)]

1) Employee representative.

Biographical information on our Supervisory Board members as well as on mandates of the members of the Supervisory Board is available at :// **WWW.ADIDAS-GROUP.COM/SUPERVISORY-BOARD**.

Supervisory Board

Supervisory Board Members incumbent until the end of the Annual General Meeting held on May 8, 2014

IGOR LANDAU
Chairman

SABINE BAUER [1]
Deputy Chairwoman

WILLI SCHWERDTLE
Deputy Chairman

DIETER HAUENSTEIN [1]
DR. WOLFGANG JÄGER [1]
DR. STEFAN JENTZSCH
HERBERT KAUFFMANN
ROLAND NOSKO [1]
ALEXANDER POPOV
HANS RUPRECHT [1]
HEIDI THALER-VEH [1]
CHRISTIAN TOURRES

1) Employee representative.

Financial Calendar
2014/2015

November 6, 2014

Nine Months 2014 Results
Press release, conference call and webcast
Publication of Nine Months 2014 Report

March 5, 2015

Full Year 2014 Results
Analyst and press conferences in Herzogenaurach, Germany
Press release, conference call and webcast
Publication of 2014 Annual Report

May 5, 2015

First Quarter 2015 Results
Press release, conference call and webcast
Publication of First Quarter 2015 Report

May 7, 2015

Annual General Meeting
Fuerth (Bavaria), Germany
Webcast

May 8, 2015

Dividend payment
(Subject to Annual General Meeting approval)

August 6, 2015

First Half 2015 Results
Press release, conference call and webcast
Publication of First Half 2015 Report

November 5, 2015

Nine Months 2015 Results
Press release, conference call and webcast
Publication of Nine Months 2015 Report

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For further adidas Group publications,
please see our corporate website.

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