Report of the Executive Board on Agenda Item 8 pursuant to §§ 221 section 4 sentence 2, 186 section 4 sentence 2 AktG

Under Agenda Item 8, the Executive Board and Supervisory Board propose the revocation of the existing authorization to issue bonds resolved upon by the Annual General Meeting on May 8, 2014 under Agenda Item 7 as well as the cancelation of the Contingent Capital 2014, to resolve upon a new authorization to issue bonds with warrants and/or convertible bonds as well as upon a new Contingent Capital 2018 and to amend the Articles of Association accordingly.

Pursuant to §§ 221 section 4 sentence 2, 186, section 4 sentence 2 AktG, the Executive Board issues a written report on the authorization to exclude subscription rights in connection with the newly-proposed authorization, which is released in full hereafter.

General provisions

The existing authorization resolved upon by the Annual General Meeting on May 8, 2014 under Agenda Item 7 to issue bonds with warrants and/or convertible bonds, which has not been utilized so far, expires on May 7, 2019. Hence at the Annual General Meeting on May 8, 2018, a new authorization shall be created and the existing shall be revoked. The now proposed authorization to issue bonds with an aggregate nominal value of up to EUR 2,500,000,000 and the creation of the new Contingent Capital 2018 of up to EUR 12,500,000, replacing the authorization adopted in 2014 and expiring in 2019 and the related Contingent Capital 2014 the revocation and cancelation of which are proposed to the Annual General Meeting, shall maintain certain of the opportunities of the Company for financing its business activities and shall permit the Executive Board to utilize financing opportunities more flexibly and in a more timely manner in the best interest of the Company - particularly in the event that the conditions on capital markets are favorable.

Shareholders' subscription rights

In general, the shareholders have a statutory right to subscribe the bonds linked to option or conversion rights or obligations or a right of the Company to choose to deliver upon maturity no-par value shares of the Company for the total amount or partially instead of a payment of the amount due ("right to delivery of shares") (§ 221 section 4, § 186 section 1 AktG). To the extent that shareholders are not able to directly subscribe the bonds, the Executive Board may use the possibility to offer bonds to a credit institution or other a company of equal status as defined by law or in the resolution proposal or to a group or a syndicate of banks and/or such companies with the obligation to offer the bonds to the shareholders in accordance with their subscription rights (indirect subscription right within the meaning of § 221 section 4 sentence 2 in conjunction with § 186 section 5 AktG).

Exclusion of subscription rights for residual amounts and for bonds already issued

The exclusion of subscription rights for residual amounts will make it possible to utilize the requested authorization using round amounts. This will simplify the handling of the shareholder subscription rights and thus the technical implementation of the offering and the handling of the shareholder subscription rights. At the same time, the value of such residual amounts is usually low for the individual shareholder and the potential dilution effect is generally minor due to the limitation of the residual amounts. Furthermore, the resolution proposal comprises the authorization to exclude the subscription right in favor of the holders or creditors of option and/or conversion rights already issued or option or conversion obligations or of bonds which are linked to a right to delivery of shares on the part of the Company. The advantage is that the option and/or conversion price for the option and/or conversion obligations already issued does not have to be reduced and cash inflow is thus higher on the whole. Thus, both cases of subscription rights exclusion will be in the best interest of both, the Company and its shareholders.

Issue price for the new shares

The issue price for the new shares must be equal to at least 80% of the price quoted on the stock exchange close to the time the bonds are issued. In this way, it is possible for the conditions of the bonds to take into account the respective capital market situation at the time when they are issued. In the event of conversion obligations or a right to delivery of shares on the part of the Company, the option and/or conversion price can be oriented toward the average stock market price of the share of the Company prior to issuance of the shares, even if this price is lower than the abovementioned minimum price. This design enables the Company to successfully place the bonds, taking into account the market situation at the time of issuance, under conditions most advantageous for the Company.

Exclusion of subscription rights when issuing bonds against cash payment at market value

The Executive Board is further authorized, subject to Supervisory Board approval, to fully exclude the shareholders' subscription rights, if the bonds are issued against cash payment at a price which is not significantly below the market value of these bonds. This authorization will provide the Company with an opportunity to exploit favorable market conditions quickly and on short notice and to gain - through a more timely assessment of the conditions - better terms and conditions in setting the interest rate, the option or conversion price or the issue price for the bonds. The ability to set conditions in accordance with the current market environment and to implement a smooth placement would not be possible if the subscription rights were maintained. § 186 section 2 AktG permits the subscription price to be published (and thus, the terms and conditions of such bonds) up to the last but second day of the subscription period. Nevertheless, in view of the frequently observed volatility on the stock markets, a market risk will persist for several days, which leads to uncertainty discounts in setting the conditions of the bond and results in conditions which are not in tune with the market environment. Furthermore, when subscription rights exist, the successful placement with third parties is jeopardized or is associated with additional expenses due to uncertainty connected with the exercise of such subscription rights (subscription behavior). Finally, when granting subscription rights, the Company is not able to react on a short-term basis to favorable or unfavorable market situations due to the length of the subscription period, but is subjected to declining share prices during the subscription period which may require equity procurement which is unfavorable for the Company.

Pursuant to § 221 section 4 sentence 2 AktG, the provisions of § 186 section 3 sentence 4 AktG shall apply mutatis mutandis in the event that the subscription rights are completely excluded. The resolution must observe the parameters set forth in the aforementioned statutory provision, which limits the subscription rights exclusion to 10% of the nominal capital. The volume of the contingent capital, which, in this case, may only be provided to serve the purpose of backing up the option or conversion rights or obligations or the Company's rights to delivery of shares, may not exceed 10% of the nominal capital existing when the authorization to exclude subscription rights in accordance with § 186 section 3 sentence 4 AktG becomes effective. This is already guaranteed by the limitation of the contingent capital to 12,500,000 shares. By including an according specification in the authorization resolution, it is guaranteed that even in case of a capital reduction, the 10% limit will not be exceeded as the authorization to exclude the subscription rights may explicitly not exceed 10% of the nominal capital, neither at the point of becoming effective nor - in case this amount is lower - at the point of exercising the aforementioned authorization. Treasury shares, which are sold in accordance with § 186 section 3 sentence 4 AktG while excluding the subscription rights, as well as any new shares which are issued in the context of a cash capital increase in accordance with § 186 section 3 sentence 4 AktG or pursuant to § 203 in conjunction with § 186 section 3 sentence 4 AktG while excluding subscription rights, are attributed to and reduce this amount accordingly, if the sale or issuance is carried out during the term of this authorization prior to an issuance of bonds, while excluding the subscription rights pursuant to § 186 section 3 sentence 4 AktG. Furthermore, shares for which there are option or conversion rights, option or conversion obligations or a right to delivery of shares in favor of the Company due to bonds with warrants or convertible bonds issued by the Company or its subordinated group companies, subject to the exclusion of subscription rights, in accordance with § 221 section 4 sentence 2 in conjunction with § 186 section 3 sentence 4 AktG during the term of this authorization based on other authorizations are attributed to the above-mentioned limit of 10%.

§ 186 section 3 sentence 4 AktG further provides that the issue price may not be significantly below the stock exchange price of the shares. This statutory provision is intended to ensure that there is no appreciable economic dilution of the share value. Whether or not such a dilution effect occurs when issuing bonds, subject to exclusion of subscription rights, can be determined by calculating the hypothetical market value of the bonds using recognized, in particular financial calculation methods and comparing it with the issue price of the bonds. If, after a thorough examination, this issue price is not significantly below the hypothetical stock exchange price at the time that the bonds are issued, then - in accordance with the meaning and purpose of § 186 section 3 sentence 4 AktG - the subscription rights may be excluded since the discount will be deemed merely insignificant. The resolution therefore provides that the Executive Board, prior to the issuance of the bonds, must conclude, following an examination, that the stipulated issue price intended for the bonds will not lead to any appreciable dilution of the share price as the price of the bonds is not significantly below the hypothetical market value computed using, in particular, recognized financial calculation methods. Thus, the market value computed of a subscription right may sink to almost zero, so that the exclusion of subscription rights cannot lead to an appreciable economic disadvantage for the shareholders. All of this is intended to ensure that there is no appreciable dilution of the share value by the exclusion of subscription rights.

Moreover, the shareholders always have the possibility to maintain their share in the nominal capital of the Company even after exercising option and/or conversion rights or after maturity of option and/or conversion obligations by acquiring shares on the stock market. In contrast, the authorization to exclusion of subscription rights enables the Company to set conditions in accordance with the current market environment, maximum security with regard to placement with third parties and the short-term use of favorable market situations.

Herzogenaurach, dated March 1, 2018

adidas AG
The Executive Board