

**Annual General Meeting**  
**May 7th, 2015**  
**Herbert Hainer, CEO of adidas AG**

Trends come and go. But one trend is here to stay: sport! Sport is central to every culture and every society. Sport is a key prerequisite for health and fitness. More people than ever before do sports, watch sports and want to showcase a sporting lifestyle. This is good news for the adidas Group, because our core competence is clearly sport. Everything we do is rooted in sport. But the importance of sport goes far beyond that. Sport has the power to change lives.

Dear shareholders,  
ladies and gentlemen,  
dear friends of adidas AG,

On behalf of my colleagues on the Executive Board, I would like to warmly welcome you all to our 2015 Annual General Meeting at the City Hall in Fuerth. I also extend a very warm welcome to everyone following this AGM online via our live webcast. I am delighted that you are following the development of the adidas Group with interest.

In my report today, I would like to cover the following topics:

- The business development of the adidas Group in 2014.
- Our new strategy for the next five years up until 2020.
- And our outlook for the current year, 2015.

I am sure that most of you will have read, seen or heard a lot about the adidas Group last year. Therefore you will know that, for us, 2014 was a year that brought many successes but also some negative surprises. Allow me to get straight to the point: We did not achieve the financial goals that we had set ourselves at the beginning of 2014. I am as disappointed

about this as CEO as you are as shareholders. Nevertheless, last year was not nearly as bad as it was sometimes portrayed to the general public.

We again recorded numerous successes in 2014. And please allow me to begin my review of the year with these. Don't worry, I will then also go into detail on the things we could have done better and, more importantly, our lessons learned for the future. But first our successes. Please note that all figures reflect results from continuing operations excluding goodwill impairment.

#### **2014 successes**

- The adidas Group is and will remain a growth company. We are one of only two truly global sporting goods companies. With revenues of € 14.5 billion, we are more than € 10 billion ahead of the number three in the global sporting goods market. And we again further extended our lead in 2014.
- We are particularly strong in emerging markets across the globe. Since 2010, we have grown our sales in emerging markets by an impressive 70%.
- In 2014, we grew our currency-neutral sales 6%, supported by a strong fourth quarter in which we finished the year with double-digit growth rates in most markets.
- Our core brand adidas, the biggest and most profitable part of our business by far, grew at a double-digit rate in 2014, reaching record sales of € 11.8 billion.
- Reebok grew in every quarter in 2014. What is more, when I come to our results for the first quarter of 2015, you will see, ladies and gentlemen, that Reebok has been on a solid growth path for two years now.
- It wasn't only the German national football team that won the 2014 FIFA World Cup™. As a company, we were the clear winners at the world's biggest sporting event. And this achievement is also reflected in the figures: With sales of € 2.1 billion, our football business exceeded even our own ambitious expectations.
- Our eCommerce business was again our fastest-growing distribution channel, up more than 70%.

- Our company's balance sheet is very healthy indeed. Our equity ratio stands at 45.3%. And our financial leverage, at 3.3%, is very low.

But we weren't only successful in 2014 in terms of sales and financial metrics. We also excelled in many other key areas of our company:

- We are the most sustainable company in Europe and in our industry. In February, the latest ranking of the world's most sustainable corporations was published at the World Economic Forum in Davos. The adidas Group was listed in an outstanding third place, well ahead of all our competitors.
- We are a top employer. In 2014, we were ranked as the leading employer in our home market Germany, in our growth market China and in the UK.
- We created almost 5,000 new jobs, including approximately 250 in Germany, where we now have around 5,500 employees.

Ladies and gentlemen, these are successes the media rarely report about. These are results that appear in hardly any analyst's report. But for me they are of utmost importance. They demonstrate our commitment to manage this company for the benefit of all our stakeholders: for the benefit of our employees, for the benefit of society and, of course, for the benefit of you, our shareholders.

### **2014 share price development**

With regard to the latter, no question about it, we should have done better in the twelve months of 2014. Mid-way through last year, we recognised that we would not achieve our original goals for 2014. This piece of news, in particular, led to a 38% drop in our share price last year. So if you had invested € 10,000 into the adidas Group on January 1st, 2014, you would only have been left with € 6,200 at year-end. That is a disappointing development, not only for you but also for all of us on the Board.

### **Long-term share price development**

However, if you look at the share price development over a longer period of time, it's a totally different story: Disregarding dividend payments, the € 10,000 for which you purchased shares ten years ago, in what at the time was adidas-Salomon AG, has turned into around € 25,000 today. That, ladies and gentlemen, is what I call a sustainable, long-term positive development. And something else: The € 10,000 you invested at the beginning of 2015 has meanwhile grown to almost € 13,000.

The adidas Group is not a sprinter who runs out of steam after 100 metres. The adidas Group is a marathon runner who doesn't have to be the fastest over every kilometre but who has the strength and endurance to accelerate again after a slower stretch.

Staying with this imagery, I would describe our performance in 2014 as a short period of poor form. What were the reasons why we weren't able to keep up the pace you are accustomed to?

Basically, there are three main reasons why our net income was lower than originally expected, ultimately reaching our updated target of € 650 million.

- Firstly, the softness in the global golf market.
- Secondly, the unstable situation in Russia and its impact on consumer behaviour in this market.
- And thirdly, the devaluation of key currencies versus the euro.

Let us now take a look together at how each of these three factors impacted the adidas Group's balance sheet.

### **Golf market**

Let's start with golf. 2014 was a bad year for the golf industry. There was a decline in the number of active players, and in the most important golf market, the USA, a cold winter

delayed the start of the season. As the world's largest golf company, our TaylorMade-adidas Golf segment was particularly hard hit by these developments. But we also made mistakes ourselves. We put too much product into the market, thereby further intensifying the fiercely competitive situation at retail. So consequently, mid-way through the year, we had to take some painful measures in order to stabilise our golf business. We reduced the size of our organisation, cleaned up excess inventories and postponed the timing of key new product introductions by a year.

This negatively impacted our sales and profit in 2014. But the coming months, when the golf seasons begins in the key markets North America and England, will decide what direction the golf market is going to take this year. The golf hardware business is a lot more short-term than the footwear and apparel business.

### **Russia**

Now over to Russia. There is only one headline here: In Russia, we have become victims of our own success. As a Group, we have an enviable position in the Russian market, with adidas being the clear market leader and Reebok a strong number three. We have built this market systematically and successfully over the past few years. With more than 1,000 own stores, we are one of the leading retailers in Russia. This is why the political instability in Russia and Ukraine, the resulting rapid depreciation of the Russian rouble and the deteriorating consumer sentiment hit us particularly hard. Just imagine: In 2014, we grew our business by almost 20% in local currency, but we lost all of this growth in currency translation from roubles to euros for our income statement. It was completely eaten up by the devaluation of the Russian rouble.

But we also took quick action in Russia. By opening fewer stores than originally planned, carefully controlling inventories and optimising our cost base, we were able to secure profitability levels in Russia above the Group's average, even in such a challenging market environment. And thanks to our prudent approach, we will remain profitable in Russia this year as well. But let me make one point very clear today: I fully believe in the long-term

potential of the Russian market. Therefore we will continue to invest in Russia. In particular, the upcoming 2018 FIFA World Cup™ will be a great platform for the adidas brand, and our preparations for this event are already in full swing.

### **Exceptional factors**

The third and last factor: currency effects. Currency effects wiped € 550 million off our top line last year. In addition, less favourable hedging rates and the devaluation of major currencies such as the Russian rouble, the Argentine peso and the Brazilian real negatively impacted our profitability. In total, these currency effects reduced our operating profit alone by roughly € 170 million. TaylorMade-adidas Golf's operating profit was down by € 200 million compared to 2013. Together, these two exceptional factors resulted in a negative impact of € 370 million. In other words: The € 272 million decline in the adidas Group's operating profit in 2014 is significantly below the sum of both these exceptional effects.

Why am I presenting you with such detailed calculations, ladies and gentlemen? You have probably guessed already. These calculations show that the core of our business was healthy and profitable also in 2014.

In addition, over the past months, we have launched numerous initiatives in order to accelerate our pace again on the next stretch of our long-distance run.

- We have increased our spend for marketing and sales support activities. These measures will be supported by our full product pipeline, with successful models such as the adidas Boost, the ZX Flux and the Superstar or the Reebok Pump Fusion.
- We have entered into an agreement to sell our Rockport brown shoe business in order to focus more strongly on our core competence, sport.

- We have realigned our entire organisation to focus on the consumer, and we have made our leadership team stronger and more international.

#### **Share buyback programme**

- And last but not least, on October 1st, 2014, we resolved to initiate a share buyback programme of up to € 1.5 billion. This decision is based on the authorisation granted to us by the Annual General Meeting on May 8th, 2014, to repurchase adidas AG shares. In a first tranche, in the period from November 7th to December 12th, 2014, we bought back 4,889,142 shares, corresponding to an amount of € 4,889,142 in the nominal capital. This represents a good 2.3% of the company's nominal capital. A total price of € 299,999,987 was paid to buy back the shares, representing an average purchase price per share of € 61.36.
- We continued the share buyback programme with the commencement of a second tranche on March 6th, 2015. Over a period of time not to extend beyond July 3rd, 2015, in total no more than six million shares are to be repurchased for up to € 300 million. By the end of April, we had already bought back 2,173,303 shares. This represents around 1% of the company's nominal capital. A total price of € 158,676,293 has been paid so far to buy back shares in the second tranche, representing an average purchase price per share of € 73.01.

Ladies and gentlemen, this share buyback programme shows you how firmly we, the management team, believe in the long-term financial strength of the adidas Group.

#### **Dividend proposal: € 1.50 per share**

Our healthy financial structure enables us to maintain the dividend for 2014 at a stable level compared to the prior year. For 2014, we are again proposing to this Annual General Meeting a dividend of € 1.50 per share. This means the payout ratio increases to 54%. Our proposal concerning the appropriation of retained earnings means that of the adidas AG retained earnings, which amounted to € 307,117,680.14, a total of € 303,230,611.50 will be paid out in dividends to our shareholders, and the remaining amount will be carried

forward to the new year. The proposal concerning the appropriation of retained earnings was adjusted due to the buyback of further shares after March 12, 2015. Notification of potential adjustments was given in the invitation to this AGM.

Please allow me now to sum up the 2014 financial year:

We did not reach the financial targets we had set ourselves. Consequently, over the twelve-month period, we diminished the assets that you had invested in the adidas Group. We cannot be satisfied with this performance.

Our underlying business development, however, remained positive.

And we reached our adjusted goals, that we updated in summer 2014, despite the significant headwinds we again faced from currencies, in particular the Russian rouble, especially in the last few months of the year.

But, ladies and gentlemen, I can assure you of one thing: It never feels good if you don't reach all of your goals, neither in sport, nor in business nor in your personal life. But the key thing is to never give up, to grow with your challenges and thus to constantly improve. And that, ladies and gentlemen, is exactly what we did. We reacted to our poor performance in 2014 like true athletes. We analysed our strengths and weaknesses, adjusted our training and worked even harder. And in doing all this, in 2014, we laid the foundations for stepping up our pace again.

What was the most important lesson we learned from the past months? Our most important lesson, ladies and gentlemen, was as follows: We have to focus on what really counts. And the one and only thing that really counts is the consumer. The consumer must be at the heart of everything we do and the way we do it. And we need to put our money where we can make a real difference for the consumer. In concrete terms, this means:



- We need to build an internal organisation that is completely centred on the consumer. We have already delivered on this and have given the people in charge of our brands a lot more global responsibility.
- We don't need to win everywhere all over the world. We need to win where we can create the greatest halo effects for our brands.
- We need to set clear priorities. We know that we are always particularly successful whenever we fully focus our Group's entire strength. Our great success at the 2014 FIFA World Cup in Brazil™ is an excellent example.

Let us now briefly indulge once again in memories of a fantastic World Cup.

Ladies and gentlemen, these learnings are the starting point for our new long-term strategic plan which we presented to our employees, the media and the financial community at the end of March. Please allow me to spend a few minutes on introducing to you the key cornerstones of our strategy, from which you, as shareholders, will profit sustainably.

Catering to consumer demands in the best way possible is a huge challenge. The key lies in identifying trends that influence our industry before anybody else does. This is becoming increasingly difficult in a world that is turning ever faster. Only what is truly new is relevant to the consumer. Therefore we have to relentlessly surprise our consumers. We have to offer them a constant stream of new and exciting experiences and products. And in order to be able to do so, we also have to constantly re-invent ourselves as an organisation.

### **Three megatrends**

We have identified the following three megatrends.

First: digitalisation.

Everything that can be digitalised is being digitalised. And I am not only talking about our consumers using Facebook, Twitter and Google almost every single minute of their life. There is an array of digital technologies that can help create value for a company.

Second: urbanisation.

The number of megacities with more than 10 million inhabitants has tripled in the last 25 years. Today, more than ever, the appeal and power of a brand is determined in big cities. These are the 'halo' locations, where the perception of brands is shaped.

Third trend: experience individualisation.

Consumers love brands. But their relation to brands is increasingly based on their individual experiences with a brand, a campaign or a product.

What do these three trends mean for the adidas Group strategy?

Quite simple: They form the starting point for our new strategy, 'Creating the New'.

### **'Creating the New'**

'Creating the New' is the headline for our new five-year strategic plan. At the same time, 'Creating the New' is the attitude that will shape a successful future for the adidas Group. In this process, two things will remain constant: our deep roots in sport and the focus on our brands.

Our brands are what connects us with consumers. Therefore, the success of our brands defines the success of our business. Here, we have a clear competitive advantage: With our portfolio of brands, we address more consumers than any of our competitors. adidas appeals to the athlete. Reebok focuses on the fitness enthusiast. And TaylorMade-adidas Golf is all about the golfer.

'Creating the New' is an ambitious yet realistic plan that provides the layout for the adidas Group's accelerated growth, both on the top and on the bottom line, until 2020. And yes, this plan will last beyond my tenure at the helm of this Group. As you will be aware, my

Executive Board contract ends in March 2017. But you can rest assured that I will do everything in my power to get this plan off to a great start.

### **Team of adidas AG**

One thing is important to mention here: Our new strategy was developed under the full ownership of the entire adidas AG Executive Board, with the involvement of many members of our senior management. So, 'Creating the New' is not my plan. No, 'Creating the New' is the strategic business plan of the entire adidas Group. It was a true team effort, and we are now implementing it as a team.

### **3 strategic choices**

So how exactly will we bring this strategy to life? As a Group, we have taken three strategic choices that all our activities will focus on:

- Speed.
- Cities.
- Open source.

Let me briefly go into more detail on these three choices.

#### **Speed:**

The ability to act with speed will be a key competitive advantage for us. The adidas Group will become the first true fast sports company. With adidas NEO, we have already set new standards with regard to speed to market. Thanks to the underlying business model for adidas NEO, we have been able to significantly reduce production lead times. In addition, we are managing to increase in-season creation. Building on these successes, we will now roll out the mantra of 'speed' across the entire Group. At the same time, we intend to increase our revenues from controlled space initiatives to above 60% of total sales. This will allow us to present our products to the consumer in a high-value brand environment. We are also merging our distribution channels. No matter where consumers see or buy our products, we want our brand messaging to be consistent and, above all, inspiring. In

particular, we will expand our e-commerce activities. By 2020, we plan to grow our online business fourfold, to € 2 billion.

**Cities:**

80% of global GDP in our sector is generated in big cities, and this is where global trends are shaped. Therefore, the adidas Group intends to continue its growth in all relevant geographic markets, with a specific focus on six global key cities: Los Angeles, New York, London, Paris, Shanghai and Tokyo. Across these cities, we will over-proportionally invest in personnel, marketing and sales. We are convinced that if we win with running shoes in New York and Los Angeles, we will win throughout the USA.

**Open source:**

We will be the first company in the sporting goods industry to embrace this term, which originates from the IT sector. With open source, we are committing to further strengthening our ties with our consumers, athletes, retailers and partners, who will be increasingly involved in how we create, design and present products. Already today, we are working with some of the world's most creative and innovative influencers and organisations, such as Stella McCartney, Kanye West, BASF and Google, to name just a few.

**Our economic model**

We are going to execute these three strategic choices in a highly focused manner across our entire Group. By inviting consumers to be part of our brands, we will engage and inspire more consumers than ever before. By focusing on big cities, we will create positive effects for our key markets and categories way beyond these centres. By becoming faster, we will meet consumers' needs better and faster than our competitors. Taking these three things together, we will create unparalleled brand desirability.

I am sure you still remember what I mentioned a few minutes ago. The success of our Group is built on the success of our brands.

Therefore, our new strategy, 'Creating the New', will allow us to:

- Accelerate our top-line growth until 2020.
- Win significant market share across key markets and categories.
- And it will enable us to improve our profitability sustainably.

And that, dear shareholders, is news that I am sure you like to hear.

### **Financial ambition**

In concrete terms: We expect to generate high-single-digit sales growth on average each year over the next five years. At today's currency exchange rates, we would then achieve sales of more than € 22 billion in 2020. In the same period, our brands will outperform the sporting goods industry as a whole and thereby increase their market share. Our Group will thus be in a position to achieve operating leverage and attractive margin expansion. We forecast our bottom line to grow at a significantly faster rate than our top line, with net income expected to increase around 15% each year on average until 2020 compared to the results for 2015.

### **New dividend policy**

But that's not all the good news. The Group's cash flow will grow at a faster rate compared to our operating profit in each of the next five years. As a result of our Group's healthy financial position and the positive outlook for the future, we have decided to increase the corridor for future dividend payments. Going forward, we intend to pay out between 30% and 50% of net income attributable to shareholders. Previously, this range was between 20% and 40%. In addition, we will continue the shareholder return programme we have already initiated, with a volume of up to € 1.5 billion.

So, as you can see, ladies and gentlemen, it continues to pay to invest long term in the adidas Group. Our new strategy is based on speed, focus and openness. As a result, we will accelerate our growth and deliver high returns to you, our shareholders. I am already looking forward to implementing our 'Creating the New' strategy and to creating the new

together with our more than 53,000 employees across the globe. Our employees are our most valuable asset. It is they who will create the 'new' adidas Group each day with their dedication and their passion for our brands and our products. Therefore, I would like to take this opportunity to thank all adidas AG employees most sincerely for their outstanding work.

I hope you, our shareholders, agree with me so far, that the adidas Group is well positioned to step up the pace in the coming years. We have taken our learnings from 2014 and developed an exciting and promising strategy for the period up until 2020.

But, and that brings me to the last point in my report to you today, you won't have to wait until 2016 to see the first positive results of the work we've done over the last few months.

### **Results of first quarter 2015**

The results of the first quarter of 2015 show that our core brands, adidas and Reebok, have strong momentum. As you were able to see from our first quarter results which we published two days ago, adidas revenues increased 11% and sales at Reebok were up 9% on a currency-neutral basis. Currency-neutral Group sales also grew 9%. In euro terms, the development is even more positive because of the significant appreciation of major currencies such as the US dollar or the Chinese renminbi versus the euro. In euros, Group sales increased 17% to € 4.1 billion. And that, ladies and gentlemen, is a new record level for the adidas Group for a first quarter.

We grew in almost all markets, including North America, where currency-neutral revenues rose 7% due to strong growth at brand adidas. Russia was the only market with a slight sales decline. We again performed particularly well in Greater China and Western Europe. Here, sales increased at double-digit rates. And we grew our bottom line faster than our top line, with net income up 22% to € 255 million.

### **Full year guidance confirmed**

Ladies and gentlemen, this marks a strong start into 2015. Based on this, I can today confirm our guidance for the full year. In 2015, we will increase our sales at a mid-single-digit rate on a currency-neutral basis. The Group's bottom line will continue to grow faster than the top line, with net income expected to increase at a rate of 7% to 10% compared to 2014.

But it isn't only in terms of the top and bottom line that we got off to a successful start in 2015. Our financial results reflect numerous activities with which we have excited our consumers. Here are a few examples:

### **First quarter successes**

In February, we launched a global series of films for brand adidas, called Sport 15. Sport 15 will tell stories throughout the year showing that adidas understands athletes better than any other brand.

We are also performing well in the lifestyle sector. The adidas Superstar quickly became the shoe of the season. At the launch of the 'Yeezy', our first shoe developed in collaboration with Kanye West, long queues formed in front of stores.

Reebok kicked off the year with a new brand campaign. The campaign titled 'Be More Human' is a rally cry to everyone to take better care of their body. With this, Reebok resonates extremely well with its target group, the fitness generation. In addition, in March, Reebok introduced the Pump Fusion, featuring its successful Pump technology in innovative footwear models.

But pictures say more than a thousand words. Let's look back together on some of this year's successes:

Ladies and gentlemen, I hope that, with my report, I have been able to give you the good feeling that the adidas Group is tackling the next kilometres of its long-distance run in a fit and healthy state. A reminder of the most important messages:

**‘Creating the New’**

- We have a clear company core: sport. Sport has never before been so attractive, and we firmly believe that sport can make a positive change in everybody's life.
- With our portfolio of brands comprising adidas, Reebok and TaylorMade-adidas Golf, we address more consumers and athletes than any of our competitors.
- We didn't achieve all the goals that we had set ourselves in 2014. But we are and will remain a growth company. And we have drawn valuable learnings for the future from both the disappointments and the successes of the year.
- We have developed a long-term strategic plan with clear priorities which we are now implementing in a focused manner. Our new strategy, 'Creating the New', will enable us to accelerate the adidas Group's growth until 2020 and create sustainable value.
- We got off to a good start in 2015 and we are optimistic about our prospects for the future.

Therefore, I very much hope that you, our shareholders, will continue to place your trust in us. Thank you very much for your trust and for your attention.