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GROUP MANAGEMENT REPORT FINANCIAL REVIEW

INTERNAL MANAGEMENT SYSTEM

We are committed to significant value creation – for our company and all its stakeholders. We strive to create value by converting sales and profit growth into strong operating cash flow, while at the same time managing our asset base proactively. Our company's planning and controlling system is therefore designed to provide a variety of tools to assess our current performance and to align future strategic and investment decisions to best utilize commercial and organizational opportunities. As a result of our new strategy 'Own the Game,' our business is becoming significantly more cash generative than ever before. Consequently, we enhanced our internal management system. ▸ SEE STRATEGY

INTERNAL MANAGEMENT SYSTEM DESIGNED TO DRIVE SHAREHOLDER VALUE

In order to drive and steer value creation, the company's Management focuses on a set of major financial key performance indicators (KPIs). Sales and operating profit growth, paired with a focus on management of operating working capital, are the main contributors to operating cash flow improvements. At the same time, value-enhancing capital expenditure benefits future operating profit and cash flow development. In addition, the development of the company's net income from continuing operations is of high importance as it directly drives returns in the interest of our shareholders. Our strong focus on value creation is reflected in the fact that our Management's short- and long-term variable compensation is closely linked to the company's growth in sales, profitability, and net income from continuing operations. ▸ SEE COMPENSATION REPORT

OPERATING MARGIN AS MAJOR KPI FOR OPERATIONAL PROGRESS

Operating margin (defined as operating profit as a percentage of net sales) is one of the major KPIs to drive and improve our company's operational performance. It highlights the quality of our top-line and operational efficiency. The primary drivers to enhance operating margin are as follows:

- **Sales and gross margin development:** Management focuses on identifying and exploiting growth opportunities that not only provide for future top-line improvements but also have potential to increase our gross margin. Major levers for enhancing our sales and gross margin include:
  - Planning pricing and clearance activities according to market realities
  - Optimizing our product and channel mix
  - Improving the quality of distribution, with a particular focus on our direct-to-consumer business
- **Operating expense control:** Management puts high emphasis on tightly controlling operating expenses to leverage sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the company's cost base. This flexibility helped us manage the covid-19 pandemic in 2020 and 2021, when we adopted a disciplined approach to both marketing and operating overhead expenses. More broadly, marketing expenditure is one of our largest operating expenses, and at the same time, one of the most important mechanisms for driving brand desirability and top-line growth. Therefore, we are committed to improving the efficiency of our marketing investments. This includes concentrating our communication efforts on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs, federations, athletes, and artists. We also aim to increase operational efficiency by tightly managing operating overhead expenses. In this respect, we regularly review our operational structure by harmonizing business processes, standardizing systems, eliminating redundancies, and leveraging the scale of our organization.

CASH FLOW AND OPERATING WORKING CAPITAL MANAGEMENT

Actively managing our liquidity, cash flow and operating working capital remains a key focus for us and continues to be monitored closely by Management. Generally, due to a comparatively low level of fixed assets required in our business, the efficiency of the balance sheet depends to a large degree on our operating working capital management. Operating working capital comprises accounts receivable plus inventories minus accounts payable. ► SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

In this context, the KPI we use is average operating working capital as a percentage of net sales. Monitoring the development of this metric facilitates the measurement of our progress in improving the efficiency of our business cycle.

We strive to proactively manage our inventory levels to meet market demand and ensure fast replenishment. Inventory aging is controlled carefully to reduce inventory obsolescence and to minimize clearance activities. As a result, 'Inventory Days Lasting' (IDL) is monitored and assessed regularly as it measures the average number of days goods remain in inventory before being sold, highlighting the efficiency of capital locked up in products. To optimize capital tied up in accounts receivable, we strive to improve collection efforts in order to reduce the 'Days of Sales Outstanding' (DSO) and minimize the aging of accounts receivable. Likewise, we strive to optimize payment terms with our suppliers to manage our accounts payable in the best possible way.

CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS

Improving the effectiveness of capital expenditure is another major lever to drive our cash flow generation. We control capital expenditure with a top-down, bottom-up approach. In a first step, Management defines focus areas within the framework of our strategy and an overall investment budget based on investment requests from various functions within the organization. Then, in a second step, our operating segments align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value method. Risk is accounted for by adding a risk premium to the cost of capital, and thus reducing our estimated future earnings streams where appropriate. By means of scenario planning, the sensitivity of investment returns is tested against changes in initial assumptions. For large investment projects, timelines and deviations versus budget are monitored on a monthly basis throughout the course of the project. In addition to optimizing return on investments, we evaluate larger projects upon completion and document learnings for future capital expenditure decisions.

FOCUS ON NET INCOME IN THE INTEREST OF OUR SHAREHOLDERS

We are committed to a continuous improvement in the company's bottom line. Management closely monitors the development of net income from continuing operations and executes against this KPI. Our strong focus on driving sustainable expansion to the company's bottom line is also reflected in the fact that, as the most significant part of the Long-Term Incentive Plan 2021/2025, the variable compensation for our Management is directly linked to the growth of the company's net income from continuing operations. ► SEE COMPENSATION REPORT

STRATEGIC KEY PERFORMANCE INDICATORS

In addition to the major financial KPIs to assess the performance and operational success of our company, as outlined above, we have identified a set of strategic KPIs that help us track our progress in areas that are critical for our long-term success. The strategic KPIs also play a major role in measuring the success of our strategy 'Own the Game' for the period until 2025. These strategic KPIs are assessed on a regular basis and managed by the respective business functions. Strategic KPIs we are monitoring include, among others, women's business and DTC share of net sales, e-commerce net sales, the development of our member base, our sustainable article offering, employee engagement, and the share of female leadership.

NET SALES

With our strategy 'Own the Game,' we have identified several areas that are of particular strategic relevance in addition to the already existing focus on net sales:

- We aim at driving overproportionate growth in our women's business to increase its overall share.
- Through our focus on DTC, we defined the share of our DTC business in relation to total net sales as our metric to measure the success of our strategy.
- With e-commerce being an integral part of our growth plans, we monitor and assess the absolute net sales amount for this channel on a regular basis. SEE STRATEGY

MEMBERSHIP

We want to grow long-term relationships with our consumers who are at the center of our strategy 'Own the Game.' Our membership program offers personalized experiences and rewards our most valued consumers' engagement and purchasing activity. Therefore, our goal is to increase the member base over the years, and its growth serves as the metric to measure our success. SEE STRATEGY

EMPLOYEE ENGAGEMENT AND EXPERIENCE

We are convinced that listening to employees plays a crucial role in our pursuit of creating a best-in-class employee experience and continuing to attract and retain top talent. We can only tell if we are successful by asking our people, hence we empower them to share their feedback. We launched the 'Employee Listening Survey' in 2021 – our new approach to measure the level of employee engagement and experience that adidas provides as an employer. SEE OUR PEOPLE

FEMALE LEADERSHIP

Through our focus on Diversity, Equity, and Inclusion, we are committed to providing an equal starting line for all our people, ensuring that everyone has the same career opportunities. One of our commitments is to increase the share of women in management positions (Director level and above) globally to more than 40% by 2025. SEE OUR PEOPLE SEE STRATEGY

SUSTAINABILITY PERFORMANCE

We have a strong commitment to enhance the social and environmental performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation but also increase its economic value. We therefore made sustainability one of the focus areas in our strategy 'Own the Game.' To measure our progress, we have developed and implemented the strategic KPI 'Sustainable Article Offering.' In addition, we have already been following a comprehensive roadmap with clear targets for years, and regularly track our progress toward these targets with regard to the environmental and social impact. We are measuring the environmental footprint of our own sites globally as well as monitoring and rating our supplier factories with regard to social and environmental compliance with our Workplace Standards. We have a long-standing commitment to sustainability disclosure, providing regular updates about our sustainability performance in this Annual Report as well as on our corporate website.

► SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK ► SEE SUSTAINABILITY ► SEE STRATEGY ► SEE COMPENSATION REPORT ► ADIDAS-GROUP.COM/S/SUSTAINABILITY

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM

We have developed an extensive performance measurement system, which utilizes a variety of tools to measure the company's performance. Key performance indicators and other important financial metrics are regularly monitored and compared against initial targets as well as rolling forecasts on a monthly basis. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimize the development of our operating performance. To assess current sales and profitability development, Management continuously analyzes the performance of our operating segments. We also benchmark our financial results with those of our major competitors on a regular basis.

Taking into account the year-to-date performance as well as opportunities and risks, the company's expected full-year financial performance is assessed on a monthly basis. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

BUSINESS PERFORMANCE

In 2021, adidas recorded strong operational and financial improvements. Revenues increased 16% on a currency-neutral basis, reflecting broad-based growth across all market segments and categories. The gross margin increased 0.7 percentage points to 50.7%. Other operating expenses as a percentage of sales were down 4.7 percentage points to 41.9%. The company's operating margin increased 5.3 percentage points to 9.4%, reflecting both the gross margin increase and the decrease in other operating expenses as a percentage of sales. Net income from continuing operations increased 223% to € 1.492 billion. This translates into basic EPS from continuing operations of € 7.47, also representing an increase of 223% versus the prior year period.

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMY RECOVERS IN 2021[25]

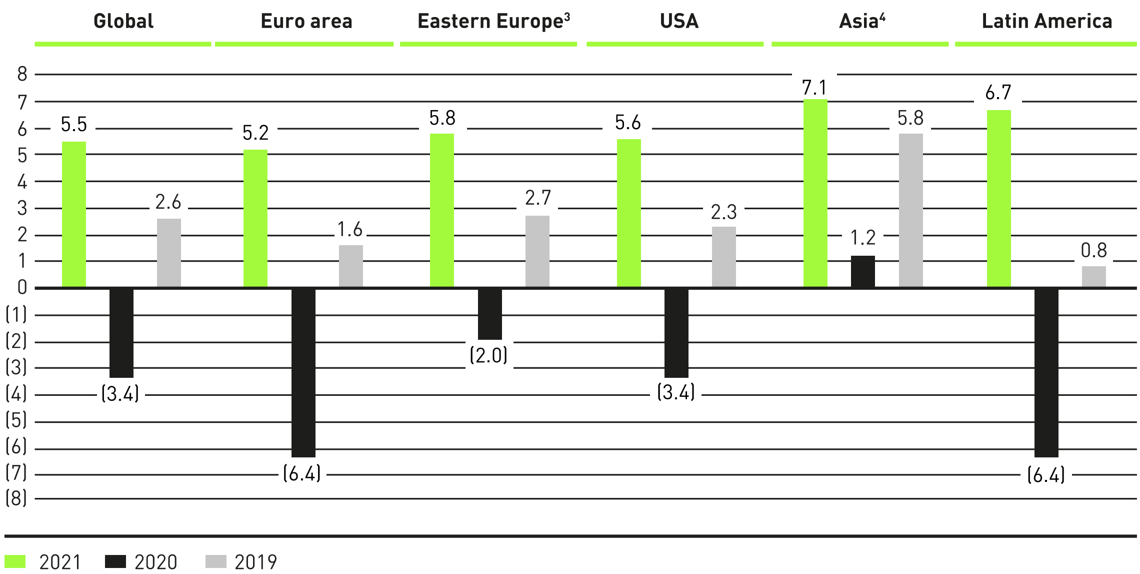
The global economy recovered in 2021, with global gross domestic product (GDP) rebounding 5.5%. Increasing vaccination rates allowed international trade to pick up, while policymakers transitioned from strict lockdowns to less disruptive measures such as face mask obligations and capacity limits, leading to an increase in output, consumption, and trade. Advanced economies grew by 5.0% in 2021, mainly driven by the discontinuation of lockdown measures, which partially had to be revoked in the wake of new coronavirus variants emerging in the second half of the year. Developing economies in aggregate were up 6.3% in 2021 as production expanded. Overall, rising demand faced supply bottlenecks, which led to rising prices in advanced and developing countries alike. Globally, risks of new emerging coronavirus variants leading to a further delay in the pandemic recovery remain.

SPORTING GOODS INDUSTRY REBOUNDS IN 2021

The global sporting goods industry expanded in 2021 while still facing steep challenges, such as increased freight costs and coronavirus-induced factory closures. Due to supply shocks in Southeast Asia, the industry could not always meet the increasing demand. Nevertheless, global demand was driven by the return of sports and large-scale sport events, such as the UEFA EURO 2020 or the Tokyo 2020 Olympics. Furthermore, existing global trends, such as the increased penetration of sportswear ('athleisure') as well as rising awareness for health and wellness, accelerated further. Moreover, sustainability remained an important theme for consumers. While physical retail recovered from the lockdown-related declines in the prior year, purchasing behavior continued to shift toward online channels. Ultimately, digital platforms, such as social fitness or membership programs, are evolving with growing interest of consumers. For the sporting goods industry, too, risks of a delayed pandemic recovery continue to exist.

25 Source: World Bank Global Economic Prospects.

REGIONAL GDP DEVELOPMENT [1,2] IN %



1 Real change in percent versus prior year; 2020 and 2019 figures restated compared to prior year.
2 Source: World Bank as of January 11, 2022.
3 Includes Emerging Europe and Central Asia.
4 Includes East Asia and Pacific.

INCOME STATEMENT

FOCUS ON CONTINUING OPERATIONS

Due to the expected divestiture of the Reebok business, all related income and expenses are reported as discontinued operations at the end of December 2021. All P&L-related figures for the 2020 financial year in this report refer to the company's continuing operations unless otherwise stated.

2021 MARKS SUCCESSFUL FIRST YEAR OF THE NEW STRATEGIC CYCLE

In 2021, revenues increased 16% on a currency-neutral basis. In euro terms, revenues were up 15% to € 21.234 billion from € 18.435 billion in 2020. From a market perspective, currency-neutral sales increased in all segments with EMEA, North America, and Latin America posting strong double-digit improvements. Currency-neutral sales in Asia-Pacific and Greater China were up by high-single- and low-single-digit rates, respectively. ▶ SEE BUSINESS PERFORMANCE BY SEGMENT

Net sales

+16% C.N.

€ 21.234 bn

REVENUE DEVELOPMENT DRIVEN BY ALL CATEGORIES

From a category perspective, currency-neutral revenues in Performance grew in the strong double-digits, driven by double-digit improvements in all key categories. In addition, Lifestyle also grew at a double-digit rate.

NET SALES[1] € IN MILLIONS

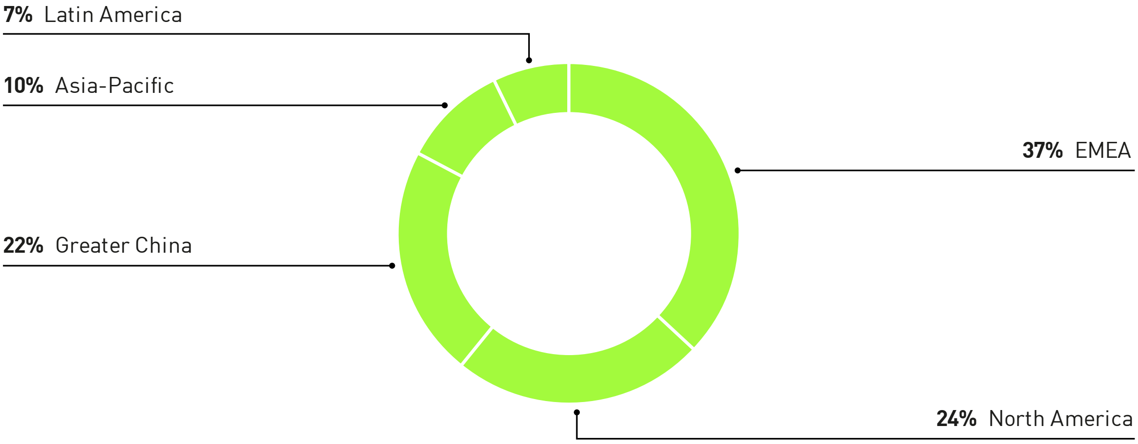
1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

NET SALES BY SEGMENT € IN MILLIONS[1]

	2021	2020	Change	Change (currency-neutral)
EMEA	7,760	6,308	23%	24%
North America	5,105	4,519	13%	17%
Greater China	4,597	4,342	6%	3%
Asia-Pacific	2,180	2,083	5%	8%
Latin America	1,446	1,035	40%	47%
Other Businesses	145	149	(3%)	(2%)
Total	**21,234**	**18,435**	**15%**	**16%**

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

NET SALES BY SEGMENT[1] IN % OF NET SALES



1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

SALES GROWTH IN ALL PRODUCT CATEGORIES

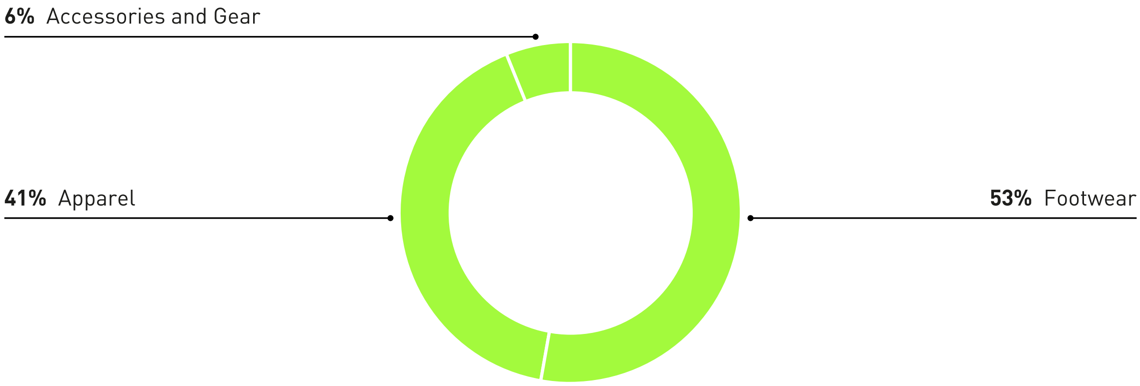
Currency-neutral footwear sales were up 13% in 2021 as a result of a double-digit sales increase in Performance as well as a high-single-digit improvement in Lifestyle. Apparel revenues were up 20% on a currency-neutral basis reflecting double-digit sales increases in both Performance and Lifestyle. Currency-neutral accessories and gear sales were up 22%.

NET SALES BY PRODUCT CATEGORY € IN MILLIONS[1]

	2021	2020	Change	Change (currency-neutral)
Footwear	11,336	10,129	12%	13%
Apparel	8,710	7,315	19%	20%
Accessories and Gear	1,187	991	20%	22%
Total	**21,234**	**18,435**	**15%**	**16%**

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

NET SALES BY PRODUCT CATEGORY [1] IN % OF NET SALES



1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

COST OF SALES INCREASES IN LINE WITH NET SALES

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2021, cost of sales was € 10.469 billion, representing an increase of 14% compared to the prior year level of € 9.213 billion. This development mainly reflects the increase in revenue.

GROSS MARGIN UP 0.7 PERCENTAGE POINTS

In 2021, gross profit increased 17% to € 10.765 billion from € 9.222 billion in 2020, representing a gross margin increase of 0.7 percentage points to 50.7% (2020: 50.0%). While negative currency developments, higher supply chain costs and a less favorable channel and market mix weighed on the development in 2021, higher full-price sales and lower inventory allowances as well as the non-recurrence of last year's purchase order cancellation costs were able to overcompensate the negative effects.

GROSS MARGIN [1,2] IN %

1 Gross margin = (gross profit / net sales) × 100.
2 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

ROYALTY AND COMMISSION INCOME INCREASES WHILE OTHER OPERATING INCOME DECREASES

In 2021, royalty and commission income increased 41% to € 86 million (2020: € 61 million) reflecting the comparably low licensing income in 2020 due to the coronavirus pandemic. Other operating income was down 35% to € 28 million from € 42 million in 2020.

OTHER OPERATING EXPENSES AS A PERCENTAGE OF SALES DOWN 4.7 PERCENTAGE POINTS

Other operating expenses, including depreciation and amortization, mainly consist of marketing and point-of-sale, distribution and selling as well as general and administration expenses. In 2021, other operating expenses were up 4% to € 8.892 billion (2020: € 8.580 billion). As a percentage of sales, other operating expenses decreased 4.7 percentage points to 41.9% from 46.5% in 2020. In 2021, marketing and point-of-sale expenses were up 7% to € 2.547 billion (2020: € 2.373 billion) as the company increased brand investments to support the introduction of new products and to drive consumer experience across both digital and physical platforms. As a percentage of sales, marketing and point-of-sale expenses decreased 0.9 percentage points to 12.0% (2020: 12.9%). Distribution and selling expenses increased 4% to € 4.782 billion in 2021 from € 4.601 billion in the prior year, mainly reflecting fewer coronavirus-related store closures compared to 2020. As a percentage of sales, distribution and selling expenses decreased 2.4 percentage points to 22.5% from 25.0% in 2020. General and administration expenses were up 7% to € 1.481 billion (2020: € 1.379 billion), mainly due to higher personnel costs. As a percentage of sales, general and administration expenses decreased 0.5 percentage points to 7.0% (2020: 7.5%). In total, operating overhead expenses increased 2% to € 6.345 billion (2020: € 6.207 billion) including more than € 220 million stranded costs related to the expected divestiture of the Reebok business. As a percentage of sales, operating overhead expenses decreased 3.8 percentage points to 29.9% from 33.7% in 2020.

► SEE NOTE 30

OTHER OPERATING EXPENSES [1,2] IN % OF NET SALES

1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

MARKETING AND POINT-OF-SALE EXPENSES [1,2] IN % OF NET SALES

1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

EBITDA INCREASES 56%

Earnings before interest, taxes, depreciation and amortization, as well as impairment losses/reversal of impairment losses on property, plant, and equipment; right-of-use; and intangible assets (EBITDA) increased 56% to € 3.066 billion in 2021 versus € 1.967 billion in 2020. Total depreciation and amortization as well as impairment losses/reversal of impairment losses for tangible and intangible assets decreased 11% to € 1.115 billion in 2021 (2020: € 1.257 billion).

EBITDA [1,2,3] € IN MILLIONS

1 EBITDA = income before taxes (IBT) + net interest expenses + depreciation and amortization + impairment losses - reversal of impairment losses.
2 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
3 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

OPERATING MARGIN INCREASES TO 9.4%

Operating profit increased 166% to € 1.986 billion in 2021 versus € 746 million in 2020. The operating margin increased 5.3 percentage points to 9.4% compared to the prior year level of 4.0%. This development was due to the gross margin increase and the decrease in other operating expenses as a percentage of sales.

Operating margin

9.4%

+5.3 PP

OPERATING PROFIT [1,2] € IN MILLIONS

1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

OPERATING MARGIN [1,2,3] IN %

1 Operating margin = (operating profit / net sales) × 100.
2 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
3 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

NET FINANCIAL RESULT DECREASES

Financial income decreased 32% to € 19 million in 2021 (2020: € 29 million), while financial expenses were down 22% to € 153 million compared to € 196 million in 2020. As a result, the company recorded a net financial result of negative € 133 million, compared to negative € 167 million in 2020. ▶ SEE NOTE 32

TAX RATE DECREASES 0.8 PERCENTAGE POINTS TO 19.4%

The company's tax rate decreased 0.8 percentage points to 19.4% in 2021 (2020: 20.2%). ▶ SEE NOTE 34

NET INCOME FROM CONTINUING OPERATIONS UP 223% TO € 1.492 BILLION

Net income from continuing operations increased 223% to € 1.492 billion versus € 461 million in the prior year. Basic earnings per share (EPS) from continuing operations increased 223% to € 7.47 from € 2.31 in 2020. Diluted EPS from continuing operations was also up 223% to € 7.47 in 2021 (2020: € 2.31).

Net income from continuing operations

+223%

€ 1.492 bn

NET INCOME FROM CONTINUING OPERATIONS [1,2,3] € IN MILLIONS

1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 2017 excluding negative one-time tax impact of € 76 million.

BASIC EARNINGS PER SHARE [1,2,3] IN €

1 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 2017 excluding negative one-time tax impact of € 76 million.

The total number of shares outstanding decreased by 3,471,205 shares to 191,594,855 at the end of 2021. This development was a result of shares repurchased as part of the company's share buyback program. Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 194,172,984 (2020: 195,155,924).

GAINS FROM DISCONTINUED OPERATIONS AMOUNT TO € 666 MILLION

In 2021, adidas incurred gains from discontinued operations of € 666 million, net of tax, mainly related to a write-up of the previously impaired Reebok trademark in an amount of € 549 million and deferred tax expenses thereon in the amount of € 143 million within discontinued operations (2020: loss of € 19 million). ► SEE NOTE 03

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS INCREASES 390% TO € 2.116 BILLION

The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the gains from discontinued operations, increased 390% to € 2.116 billion (2020: € 432 million). As a result, basic EPS from continuing and discontinued operations increased 392% to € 10.90 versus € 2.21 in 2020. Diluted EPS from continuing and discontinued operations also increased 392% to € 10.90 (2020: € 2.21).

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

EXPECTED DIVESTITURE OF THE REEBOK BUSINESS IMPACTS BALANCE SHEET ITEMS

At December 31, 2021, all assets and liabilities of the Reebok business are presented as assets and liabilities classified as held for sale due to a signed agreement to sell that business. The closing of the transaction is expected during the first quarter of 2022. At the end of 2021, assets of € 2.033 billion and liabilities of € 594 million were allocated to the Reebok business. However, a restatement of the 2020 balance sheet items is not permitted under IFRS.

ASSETS

At the end of December 2021, total assets were up 5% to € 22.137 billion versus € 21.053 billion in the prior year, mainly due to the write-up of the Reebok trademark and as right-of-use assets from leasing agreements increased.

STRUCTURE OF STATEMENT OF FINANCIAL POSITION[1] IN % OF TOTAL ASSETS[2]

	2021	2020
Assets (€ in millions)	**22,137**	**21,053**
Cash and cash equivalents	17.3%	19.0%
Accounts receivable	9.8%	9.3%
Inventories	18.1%	20.9%
Fixed assets[3]	30.2%	34.0%
Right-of-use assets (IFRS 16)[4]	38.4%	34.0%
Other assets	24.5%	16.8%

1 For absolute figures see adidas AG Consolidated Statement of Financial Position.
2 2021 figures reflect the reclassification of the Reebok business to assets held for sale.
3 Fixed assets = property, plant, and equipment + right-of-use assets + goodwill + trademarks + other intangible assets + long-term financial assets.
4 As a percentage of fixed assets.

Total current assets increased 15% to € 13.944 billion at the end of December 2021 compared to € 12.154 billion in 2020. Cash and cash equivalents were down 4% to € 3.828 billion at the end of December 2021 from € 3.994 billion in the prior year. The net cash generated from operating activities was more than offset by the net cash used for investing and financing activities, which included the repayment of the € 600 million eurobond, the repurchase of adidas AG shares for a total consideration of € 1.004 billion as well as the dividend payment of € 585 million. Currency effects had a positive impact on cash and cash equivalents in an amount of € 57 million. Inventories decreased 9% to € 4.009 billion at the end of December 2021 from € 4.397 billion in 2020, reflecting the reclassification of the Reebok inventory to assets held for sale due to the expected divestiture of the Reebok business. The strong sell-through of the company's products, successful inventory management as well as the impact from industry-wide supply chain challenges also contributed to the decline. On a currency-neutral basis, inventories decreased 12%. ► SEE NOTE 07

INVENTORIES € IN MILLIONS[1]

1 2021 figures reflect the reclassification of the Reebok business to assets held for sale.

Accounts receivable increased 11% to € 2.175 billion at the end of December 2021 (2020: € 1.952 billion), reflecting the company's strong top-line growth. On a currency-neutral basis, receivables were up 6%. Other current financial assets increased to € 745 million (2020: € 702 million), mainly due to an increase in the fair value of financial instruments and short-term deposits, partly offset by a decrease in custom claims. Other current assets were up 6% to € 1.062 billion at the end of December 2021 (2020: € 999 million). Assets classified as held for sale increased to € 2.033 billion (2020: € 0 billion) reflecting the reclassification related to the expected divestiture of the Reebok business and the write-up of the Reebok trademark. ▶ SEE NOTE 05 ▶ SEE NOTE 06 ▶ SEE NOTE 08

ACCOUNTS RECEIVABLE € IN MILLIONS[1]

1 2021 figures reflect the reclassification of the Reebok business to assets held for sale.

Total non-current assets decreased 8% to € 8.193 billion at the end of December 2021 from € 8.899 billion in 2020, mainly related to a decrease in fixed assets and other non-current financial assets. Fixed assets decreased 6% to € 6.696 billion at the end of December 2021 versus € 7.149 billion in 2020, as trademarks decreased 98% to € 16 million at the end of December 2021 (2020: € 750 million). This was solely due to the reclassification of the Reebok trademark as asset held for sale related to the expected divestiture of the Reebok business. Right-of-use assets increased 6% to € 2.569 billion (2020: € 2.430 billion) due to lease modifications and positive currency effects. Other non-current financial assets decreased 61% to € 160 million from € 414 million at the end of 2020, mainly due to cash proceeds from former discontinued operations. Deferred tax assets were up 2% to € 1.263 billion from € 1.233 billion in 2020, mainly due to the recognition of deferred tax assets on previousy unrecognized tax losses and movements in taxable and deductible temporary differences. ▶ SEE NOTE 34

LIABILITIES AND EQUITY

Total current liabilities were up 2% to € 8.965 billion at the end of December 2021 from € 8.827 billion in 2020. Short-term borrowings decreased to € 29 million at the end of December 2021 (2020: € 686 million), mainly reflecting the repayment of the € 600 million eurobond. Accounts payable declined by 4% to € 2.294 billion at the end of December 2021 versus € 2.390 billion in 2020, mainly reflecting the normalization of payment terms and a reclassification to liabilities held for sale related to the expected divestiture of the Reebok business. On a currency-neutral basis, accounts payable decreased 6%. Current lease liabilities remained fairly stable at € 573 million at the end of December 2021 versus € 563 million in 2020. Other current financial liabilities were down 19% to € 363 million from € 446 million in 2020, mainly as a result of a decrease in the fair value of financial instruments. Other current provisions were down 9% to € 1.458 billion at the end of December 2021 versus € 1.609 billion in 2020, mainly due to a reduction of the provision for returns and a reclassification to liabilities held for sale related to the expected divestiture of the Reebok business. Current accrued liabilities were up 24% to € 2.684 billion at the end of December 2021 from € 2.172 billion in 2020, partly due to higher accruals for personnel costs related to the company's annual bonus for its senior management. Other current liabilities were up 9% to € 434 million at the end of December 2021 from € 398 million in 2020. Liabilities classified as held for sale increased to € 594 million at the end of December 2021 (2020: € 0 million) related to the expected divestiture of the Reebok business. ▶ SEE NOTE 20 ▶ SEE NOTE 21

STRUCTURE OF STATEMENT OF FINANCIAL POSITION [1] IN % OF TOTAL LIABILITIES AND EQUITY [2]

	2021	2020
Liabilities and equity (€ in millions)	**22,137**	**21,053**
Short-term borrowings	0.1%	3.3%
Accounts payable	10.4%	11.4%
Long-term borrowings	11.1%	11.8%
Other liabilities	43.0%	41.8%
Current and non-current lease liabilities (IFRS 16)[3]	29.8%	30.9%
Total equity	35.4%	31.8%

1 For absolute figures see adidas AG Consolidated Statement of Financial Position.
2 2021 figures reflect the reclassification of the Reebok business to liabilities held for sale.
3 As a percentage of other liabilities.

ACCOUNTS PAYABLE € IN MILLIONS [1]

1 2021 figures reflect the reclassification of the Reebok business to liabilities held for sale.

Total non-current liabilities remained stable at € 5.334 billion at the end of December 2021 compared to € 5.535 billion in the prior year. Long-term borrowings stayed nearly flat at € 2.466 billion at the end of December 2021 compared with € 2.482 billion in the prior year. Non-current lease liabilities increased 5% to € 2.263 billion at the end of December 2021 from € 2.159 billion in the prior year as currency effects were partially offset by a reclassification related to the expected divestiture of the Reebok business. Other non-current financial liabilities were down 55% to € 51 million at the end of December 2021 from € 115 million in the prior year related to embedded derivative financial instruments. Deferred tax liabilities decreased 49% to € 122 million at the end of December 2021 from € 241 million in the prior year, mainly due to a reclassification related to the expected divestiture of the Reebok business. Other non-current provisions decreased 35% to € 149 million at the end of December 2021 from € 229 million in the prior year, mainly as a result of reduced provisions for personnel. ▶ SEE NOTE 22

Shareholders' equity increased 17% to € 7.519 billion at the end of December 2021 versus € 6.454 billion in 2020, mainly driven by the net income generated during the year, an increase in hedging reserves of

€ 226 million and a currency effect of € 308 million. This development was partly offset by the repurchase of adidas AG shares for a total consideration of € 1.004 billion and the dividend of € 585 million paid to shareholders for the 2020 financial year. ► SEE NOTE 25

EQUITY RATIO [1,2,3] IN %

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Based on shareholders' equity.
3 Figures reflect continuing and discontinued operations.

OPERATING WORKING CAPITAL

Operating working capital decreased 2% to € 3.890 billion at the end of December 2021 compared to € 3.960 billion in 2020. On a currency-neutral basis, operating working capital was down 6%. Average operating working capital as a percentage of sales decreased 5.3 percentage points to 20.0% (2020: 25.3%), reflecting the strong top-line growth, the company's successful inventory management, and the impact from industry-wide supply chain challenges.

AVERAGE OPERATING WORKING CAPITAL [1,2] IN % OF NET SALES [3]

1 Average operating working capital = sum of operating working capital at quarter-end/4. Operating working capital = accounts receivable + inventories - accounts payable.
2 2021 figure reflects the reclassification of the Reebok business to assets or liabilities held for sale. Calculation logic used for internal reporting as well.
3 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations. Calculation logic used for internal reporting as well.

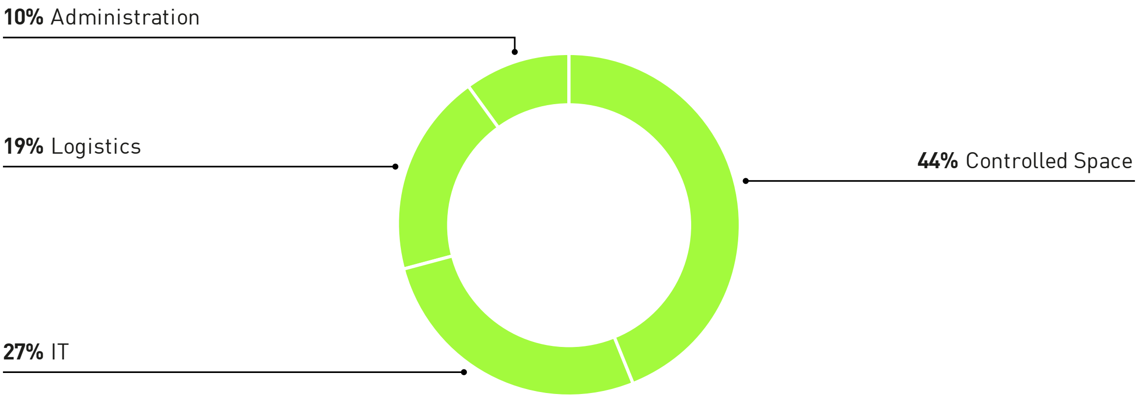
INVESTMENT ANALYSIS

Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions and right-of-use assets according to IFRS 16). Capital expenditure increased 51% to € 667 million (2020: € 442 million). Capital expenditure for property, plant, and equipment was up 34% to € 494 million compared to € 368 million in the prior year. The company invested € 173 million in intangible assets (2020: € 64 million). Depreciation and amortization, excluding impairment losses and reversal of impairment losses of tangible and intangible assets, decreased 9% to € 516 million in 2021 (2020: € 561 million).

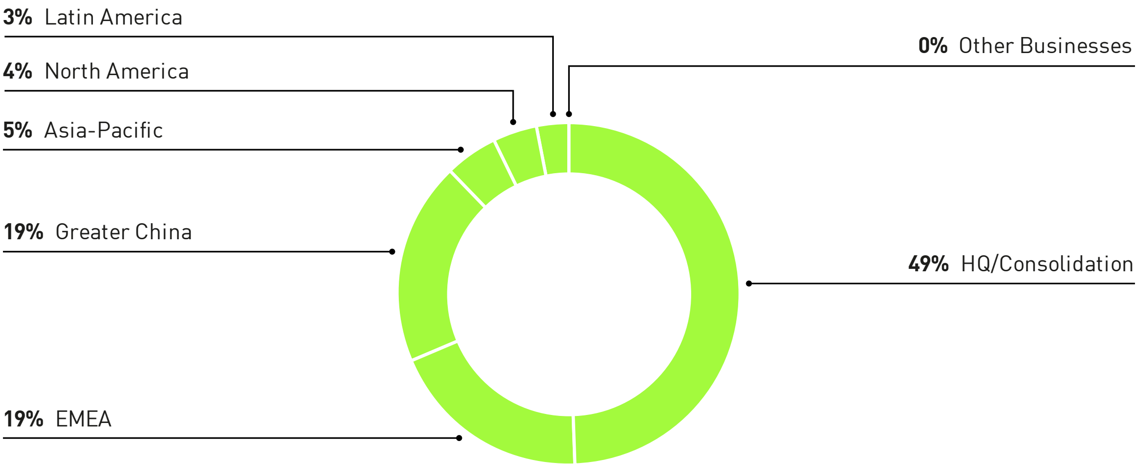
Controlled space initiatives, which comprise investments in new or remodeled own-retail and franchise stores as well as in shop-in-shop presentations of our products in our customers' stores, accounted for 44% of total capital expenditure (2020: 42%). Expenditure for IT and logistics represented 27% and 19%, respectively (2020: 14% and 8%, respectively). In addition, expenditure for administration accounted for

10% (2020: 4%). From a segmental perspective, the majority of the capital expenditure was recorded centrally at headquarter level, which accounted for 49% (2020: 49%). From a regional perspective, capital expenditure in EMEA accounted for 19% (2020: 12%) of the total capital expenditure, on par with Greater China at 19% (2020: 21%), followed by APAC with 5% (2020: 9%), North America with 4% (2020: 8%), and Latin America with 3% (2020: 2%).

CAPITAL EXPENDITURE BY TYPE IN % OF TOTAL CAPEX



CAPITAL EXPENDITURE BY SEGMENTS IN % OF TOTAL CAPEX



LIQUIDITY ANALYSIS

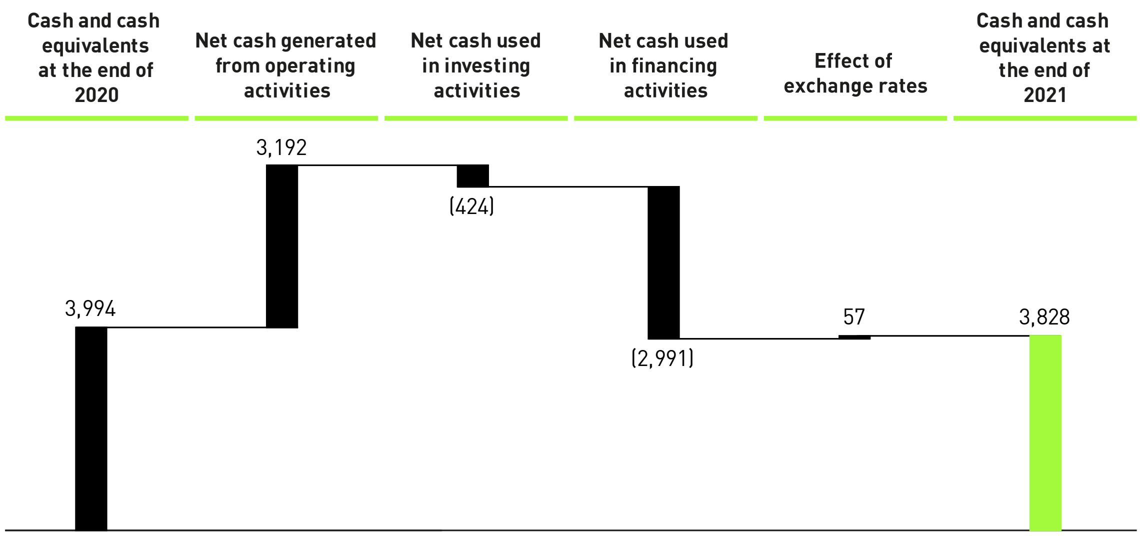
Due to the increase in operating profit, net cash generated from operating activities increased to € 3.192 billion in 2021 (2020: € 1.486 billion). Net cash generated from continuing operating activities increased to € 2.873 billion (2020: € 1.366 billion).

In 2021, net cash used in investing activities increased to € 424 million (2020: € 115 million) and net cash used in continuing investing activities increased to € 415 million (2020: € 105 million). This development was due to increased investing activities in 2021 compared to a lower investment base in 2020. This change was mainly related to expenditures for property, plant, and equipment, purchase of trademarks, and other intangible assets. Net cash used from financing activities amounted to € 2.991 billion (2020: € 479 million net cash generated) and net cash used from continuing financing activities amounted to € 2.952 billion (2020: € 514 million net cash generated). This development was mainly due the repayment of the eurobond, the repurchase of adidas AG shares as well as the dividend payment. Exchange rate effects positively impacted the company's cash position by € 57 million (2020: negative impact of € 75 million).

As a result of all these developments, cash and cash equivalents decreased by € 165 million to € 3.828 billion at the end of December 2021 compared to € 3.994 billion at the end of December 2020.

Adjusted net borrowings at December 31, 2021, amounted to € 2.963 billion, compared to € 3.148 billion in 2020. The company's ratio of adjusted net borrowings over EBITDA amounted to 1.0 at the end of December 2021 (2020: 1.6). ▶ SEE TREASURY

CHANGE IN CASH AND CASH EQUIVALENTS € IN MILLIONS [1]



1 Figures reflect continuing and discontinued operations.

ADJUSTED NET BORROWINGS/EBITDA [1,2,3,4] € IN MILLIONS

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 First-time application of adjusted net borrowings as of 2020. Only figure for 2019 restated.
3 2021 figures reflect the reclassification of the Reebok business to assets or liabilities held for sale.
4 2021 and 2020 figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

OFF-BALANCE-SHEET ITEMS

The company's most significant off-balance-sheet items are commitments for promotion and advertising as well as other contracts. These contracts are related to short-term leases as well as leases for offices and warehouses, which are not yet considered according to IFRS 16. Minimum future payments for other contracts were € 396 million at December 31, 2021, compared to € 323 million at the end of December 2020, representing an increase of 23%. At the end of December 2021, financial commitments for promotion and advertising decreased 4% to € 5.712 billion in 2021 (2020: € 5.948 billion). ▶ SEE NOTE 37 ▶ SEE NOTE 38

TREASURY

CORPORATE FINANCING POLICY

In order to be able to meet the company's payment commitments at all times, the major goal of our financial policy is to ensure adidas' solvency, to limit financing risks and to balance financing costs with financial flexibility. The operating activities of our segments and the resulting cash inflows represent the company's main source of liquidity. Liquidity is planned on a rolling monthly basis under a multi-year financial and liquidity plan.

TREASURY POLICY AND RESPONSIBILITIES

Our Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, financing arrangements and liquidity/asset management, currency, interest and commodity risk management, and the management of intercompany cash flows. Responsibilities are arranged in a three-tiered approach:

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Treasury Policy and provide strategic guidance for managing treasury-related topics. Major changes to our Treasury Policy are subject to the prior approval of the Treasury Committee.

- The Treasury department is responsible for specific centralized treasury transactions and for the global implementation of our Treasury Policy.

- On a subsidiary level, where applicable and economically reasonable, local managing directors and finance directors are responsible for managing treasury matters in their respective subsidiaries. Controlling functions on a corporate level ensure that the transactions of the individual business units are in compliance with our Treasury Policy.

CENTRALIZED TREASURY FUNCTION

In accordance with our Treasury Policy, all worldwide credit lines are directly or indirectly managed by the centralized Treasury department. Portions of those lines are allocated to our subsidiaries and sometimes backed by adidas AG guarantees. As a result of this centralized liquidity management, the company is well positioned to allocate resources efficiently throughout the organization. The company's debt is generally unsecured and may include standard covenants. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the company and our subsidiaries are required to have at least a BBB- long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. We authorize our companies to work with banks with a lower rating only in very exceptional cases. To ensure optimal allocation of the company's liquid financial resources, subsidiaries transfer excess cash to our headquarters in all instances where it is legally and economically feasible. In this regard, the standardization and consolidation of our global cash management and payment processes, including automated domestic and cross-border cash pools is a key priority for our centrally managed Treasury department. Effective management of our currency exposure and interest rate risks are additional goals and responsibilities of the department. SEE NOTE 02

STANDARD COVENANTS

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross-default provisions and change of control. However, our financial arrangements do not contain any financial covenants. If we fail to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As at December 31, 2021, we were in full compliance with all our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to internal and external sources of funds, will be sufficient to meet our future operating and capital needs.

SYNDICATED CREDIT FACILITY

In 2020, adidas took several steps to considerably strengthen its financial profile. On November 10, 2020, adidas entered into a new € 1.5 billion syndicated credit facility with twelve of its partner banks. This credit facility agreement was subsequently amended on October 8, 2021. The amended and restated credit facility of € 1.5 billion with eleven partner banks will run until November 2026 and includes an extension option of one year exercisable in 2022.

BONDS AND CREDIT RATINGS

On September 1, 2020, adidas successfully placed two bonds amounting to € 1 billion in total. The four-year bond of € 500 million matures in September 2024 and has a coupon of 0.00%, while the 15-year bond of € 500 million matures in September 2035 and has a coupon of 0.625%. The bonds have been listed on the Luxemburg Stock Exchange and have denominations of € 100,000 each.

On September 29, 2020, adidas successfully placed its first sustainability bond as the company continued to execute on its ambitious long-term sustainability roadmap while at the same time further optimizing its capital structure and financing costs. At the time of the issuance, the € 500 million bond had a term of eight years and a coupon of 0.00%. It has been listed on the Luxembourg Stock Exchange and has denominations of € 100,000. adidas plans to use the proceeds of the sustainability bond to finance and refinance, in whole or in part, eligible sustainable projects, as defined in the sustainability bond framework. As of December 31, 2021, the total amount allocated to eligible sustainable projects was € 225.5 million.

SUSTAINABILITY BOND: AMOUNT OF NET PROCEEDS ALLOCATED[1] € IN MILLIONS

	2021	Q4 2018 – 2020	Total
Eligible sustainable projects per category			
Sustainable materials	153.0	33.8	186.7
Sustainable processes	10.9	3.3	14.2
Community engagement	16.2	8.4	24.6
Cumulated eligible sustainable project expenditure	**180.0**	**45.4**	**225.5**
Unallocated proceeds			274.5

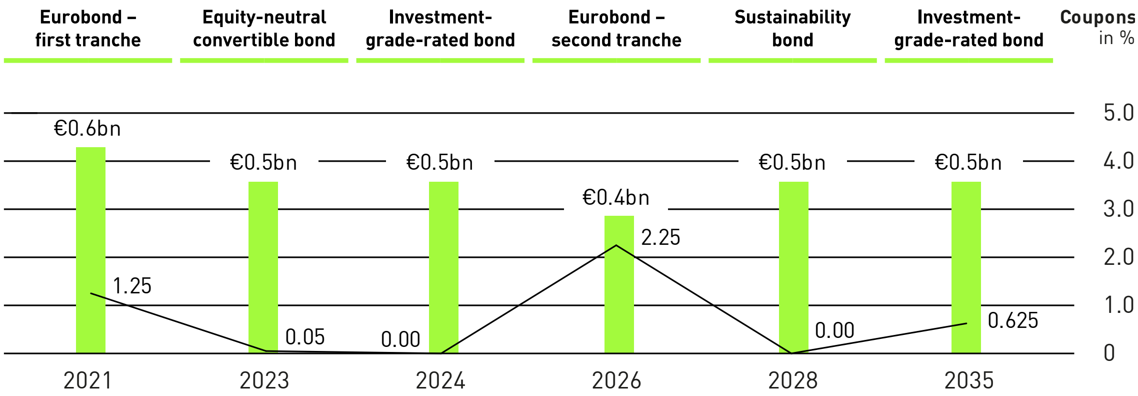
1 Allocation of proceeds was subject to an independent review by Sustainalytics.

These transactions followed after adidas had received strong first-time investment-grade ratings by both Standard & Poor's and Moody's in August 2020. Standard & Poor's gave adidas an 'A+' rating, and Moody's granted the company an 'A2' rating. The outlook for both ratings is 'stable.' The company's strong credit metrics, robust liquidity profile, and conservative financial policies are recognized by both agencies. The ratings make adidas one of the highest-rated companies both in Germany and in the global sporting goods industry.

OUTSTANDING BONDS

On top of the above-mentioned placements, the company has further outstanding bonds, issued in 2014, and one outstanding equity-neutral convertible bond, which was issued in 2018. The bond of € 400 million matures on October 8, 2026, and has a coupon of 2.25%. The equity-neutral convertible bond of € 500 million was issued on September 5, 2018, with a coupon of 0.05% and is due on September 12, 2023. On July 8, 2021, adidas exercised the early redemption option and fully repaid a € 600 million bond with a coupon of 1.25% originally maturing in October 2021. ▶ SEE OUR SHARE ▶ SEE NOTE 16

MATURITY PROFILE OF BORROWINGS INCLUDING COUPONS[1]



1 Coupons are fixed.

ADDITIONAL CREDIT LINES

In addition to the syndicated credit facility and improved access to bond markets following the strong investment-grade ratings of Standard & Poor's and Moody's, the company's financial flexibility is ensured by the availability of further credit facilities. At the end of 2021, committed and uncommitted credit lines, including the syndicated loan facility, amounted to € 4.169 billion (2020: € 4.274 billion), of which € 4.058 billion was unutilized (2020: € 4.085 billion). Committed and uncommitted credit lines represent approximately 38% and 62% of total credit lines, respectively (2020: 38% and 62%, respectively). In addition, we have an unused multi-currency commercial paper program in the amount of € 2.0 billion available (2020: € 2.0 billion). We monitor the ongoing need for available credit lines based on the current level of debt and future financing requirements.

GROSS BORROWINGS DECREASED

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as the outstanding bonds and the equity-neutral convertible bond. Gross borrowings decreased 21% to € 2.495 billion at the end of 2021 from € 3.168 billion in the prior year. The total amount of bonds outstanding at the end of 2021 was € 2.384 billion (2020: € 2.978 billion). Bank borrowings amounted to € 111 million at the end of 2021 compared to € 189 million in the prior year.

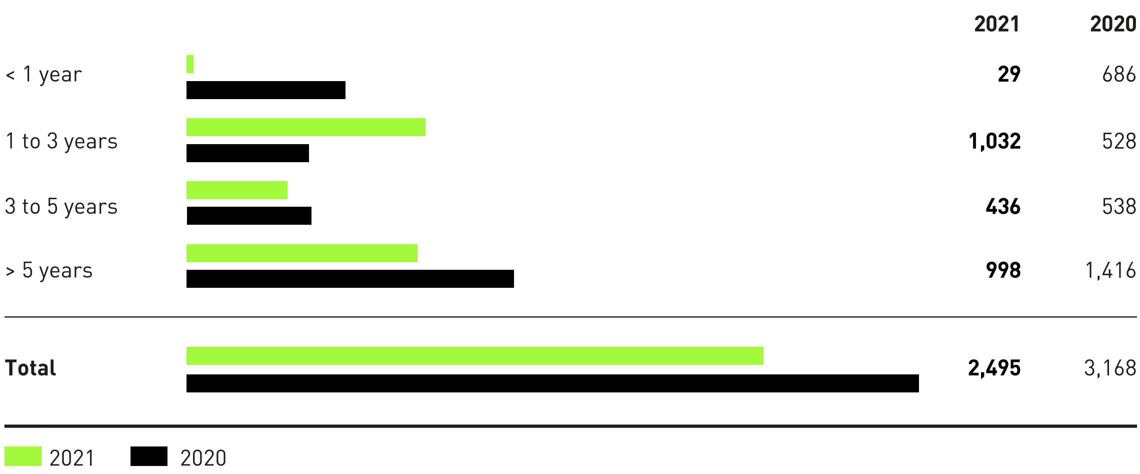
FINANCING STRUCTURE € IN MILLIONS

	2021	2020
Cash and short-term financial assets	**3,828**	**3,994**
Bank borrowings	111	189
Eurobonds	1,890	2,488
Equity-neutral convertible bond	494	491
Gross total borrowings	**2,495**	**3,168**
Net cash	**1,334**	**826**

DEBT MATURITY PROFILE

In 2022, assuming unchanged maturities, debt instruments of € 29 million will mature. This compares to € 686 million that matured during the course of 2021.

REMAINING TIME TO MATURITY OF GROSS BORROWINGS € IN MILLIONS



ADJUSTED NET BORROWINGS OF € 2.963 BILLION

Adjusted net borrowings on December 31, 2021, amounted to € 2.963 billion, compared with € 3.148 billion in 2020.

ADJUSTED NET BORROWINGS/NET CASH [1,2] € IN MILLIONS

1 Adjusted net borrowings = short-term borrowings + long-term borrowings and future cash used in lease and pension liabilities – cash and cash equivalents and short-term financial assets.
2 First-time application of adjusted net borrowings as of 2020. Only 2019 figure was restated.

INTEREST RATE DECREASES

The weighted average interest rate on the company's gross borrowings decreased to 0.7% in 2021 (2020: 1.0%). This development was mainly due to the repayment of the € 600 million bond with a coupon of 1.25% and a lower financing need. Fixed-rate financing represented 100% of total gross borrowings at the end of 2021 (2020: 98%). There were no variable-rate borrowings at the end of the year 2021 (2020: 2%).

INTEREST RATE DEVELOPMENT[1] IN %

1 Weighted average interest rate of gross borrowings.

EFFECTIVE FOREIGN EXCHANGE MANAGEMENT IS A KEY PRIORITY

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our hedging program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. In 2021, our Treasury department managed a net deficit of around US $ 7.3 billion related to business activities (2020: US $ 6.1 billion). Thereof, around US $ 6.0 billion was against the euro (2020: US $ 4.8 billion). As governed by our Treasury Policy, we have established a hedging program on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon. We had largely covered our anticipated hedging needs for 2022 as of the end of 2021. At the same time, we have already started hedging our exposure for 2023. The use or combination of different hedging instruments, such as foreign exchange contracts, currency options, and swaps, protects us against unfavorable currency movements.

▶ SEE GLOBAL OPERATIONS ▶ SEE RISK AND OPPORTUNITY REPORT ▶ SEE NOTE 28

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF ADIDAS AG

adidas AG is the parent company of the adidas Group. It includes operating business functions, primarily for the German market, as well as corporate headquarter functions such as Marketing, IT, Treasury, Taxes, Legal, and Finance. adidas AG also administers the company's shareholdings.

OPERATING ACTIVITIES AND CAPITAL STRUCTURE OF ADIDAS AG

The majority of the operating business of adidas AG consists of the sale of merchandise to wholesale partners and own-retail activities.

In addition to its own trading activities, the results of adidas AG are significantly influenced by its holding function for the company as a whole. This is reflected primarily in currency effects, transfer of costs for services provided, interest result, and income from investments in related companies.

The opportunities and risks as well as the future development of adidas AG largely reflect those of the company as a whole. ► SEE OUTLOOK ► SEE RISK AND OPPORTUNITY REPORT

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 43% of total assets as of December 31, 2021, related to financial assets (2020: 40%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 17% of total assets (2020: 21%) and 32% of total equity and liabilities as of December 31, 2021 (2020: 36%).

PREPARATION OF ACCOUNTS

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as of December 31, 2021, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

INCOME STATEMENT

STATEMENT OF INCOME IN ACCORDANCE WITH HGB (CONDENSED) € IN MILLIONS

	2021	2020
Net sales	4,475	3,991
Change in inventory	–	1
Total output	**4,475**	**3,992**
Other operating income	649	986
Cost of materials	(1,744)	(1,466)
Personnel expenses	(769)	(655)
Depreciation and amortization	(117)	(127)
Other operating expenses	(2,462)	(2,564)
Operating profit	**32**	**166**
Financial result	1,916	585
Taxes	(98)	(77)
Net income	**1,850**	**674**
Retained earnings brought forward	580	828
Allocation to other revenue reserves	(925)	(336)
Allocation to capital reserves	(8)	–
Utilization for the repurchase of adidas AG shares	(163)	–
Retained earnings	**1,334**	**1,166**

ADIDAS AG NET SALES € IN MILLIONS

	2021	2020
Royalty and commission income	2,237	2,010
adidas Germany	1,436	1,216
Foreign subsidiaries	39	35
Central distribution	120	119
Other revenues	643	611
Total	**4,475**	**3,991**

NET SALES INCREASE 12%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas and Reebok brands as well as revenues from foreign subsidiaries. Revenues of adidas AG also include royalty and commission income, mainly from affiliated companies, revenues from central distribution, and other revenues. In 2021, adidas AG net sales increased 12% to € 4.475 billion compared to € 3.991 billion in the prior year.

OTHER OPERATING INCOME DOWN 34%

In 2021, other operating income of adidas AG decreased 34% to € 649 million (2020: € 986 million). This development was primarily due to less positive currency effects.

OTHER OPERATING EXPENSES DECREASE 4%

In 2021, other operating expenses for adidas AG decreased 4% to € 2.462 billion (2020: € 2.564 billion). This was largely attributable to less currency losses, but partly offset due to the increased expenses for IT and maintenance costs.

DEPRECIATION AND AMORTIZATION DOWN 8%

Depreciation and amortization for adidas AG decreased 8% to € 117 million in 2021 (2020: € 127 million).

OPERATING RESULT BELOW PRIOR YEAR LEVEL

In 2021, adidas AG generated an operating profit of € 32 million. This was significantly below the prior year level of € 166 million and mainly due to less positive currency effects.

INCREASE OF THE FINANCIAL RESULT

The financial result of adidas AG increased 228% to € 1.916 billion in 2021 (2020: € 585 million). The increase was attributable to higher income from dividends and higher profit transfers from affiliated companies under profit and loss transfer agreements.

NET INCOME CONSIDERABLY ABOVE PRIOR YEAR LEVEL

Net income, after taxes of € 98 million (2020: € 77 million), amounted to € 1.850 billion in 2021 and was thus 174% above the prior year level (2020: € 674 million).

BALANCE SHEET

BALANCE SHEET IN ACCORDANCE WITH HGB (CONDENSED) € IN MILLIONS

	Dec. 31, 2021	Dec. 31, 2020
Assets		
Intangible assets	236	154
Property, plant and equipment	691	683
Financial assets	4,801	4,839
Fixed assets	**5,728**	**5,676**
Inventories	38	40
Receivables and other assets	2,155	2,698
Cash and cash equivalents, securities	3,024	3,449
Current assets	**5,217**	**6,187**
Prepaid expenses	116	96
Total assets	**11,061**	**11,959**
Equity and liabilities		
Shareholders' equity	3,801	3,533
Provisions	797	686
Liabilities and other items	6,463	7,740
Total equity and liabilities	**11,061**	**11,959**

TOTAL ASSETS BELOW PRIOR YEAR

At the end of December 2021, total assets decreased 8% to € 11.061 billion compared to € 11.959 billion in the prior year. This development was mainly a result of decreases in receivables and securities.

SHAREHOLDERS' EQUITY UP 8%

Shareholders' equity rose 8% to € 3.801 billion at the end of 2021 (2020: € 3.533 billion). The equity ratio increased to 34.4% (2020: 29.5%).

PROVISIONS INCREASE 16%

Provisions were up 16% to € 797 million at the end of 2021 (2020: € 686 million). The increase primarily resulted from higher provisions for personnel.

LIABILITIES AND OTHER ITEMS DOWN 16%

At the end of December 2021, liabilities and other items decreased 16% to € 6.463 billion (2020: € 7.740 billion). This results mostly from the repayment of a bond in 2021.

CASH INFLOW FROM INVESTING ACTIVITIES REFLECTS CHANGE IN CASH AND CASH EQUIVALENTS

adidas AG has a syndicated credit facility of € 1.5 billion and additional bilateral credit lines of € 1.0 billion. In addition, the company has a multi-currency commercial paper program in an amount of € 2.0 billion.

► SEE TREASURY

In 2021, operating activities of adidas AG resulted in a cash inflow of € 811 million (2020: outflow of € 703 million). The change versus the prior year was a result of the significant increase in net income, partly offset by lower payables. Net cash inflow from investment activities was € 1.785 billion (2020: € 160 million). This was primarily attributable to higher dividend income. Financing activities resulted in a net cash outflow of € 2.252 billion (2020: net cash inflow of € 1.162 billion). The net cash outflow from financing activities mainly relates to the repurchases of adidas AG shares, the repayment of a bond and the paid dividends. As a result of these developments, cash and cash equivalents of adidas AG increased to € 1.600 billion at the end of December 2021 compared to € 1.256 billion at the end of the prior year.

adidas AG is able to meet its financial commitments at all times.

DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT

COMPOSITION OF SUBSCRIBED CAPITAL

The nominal capital of adidas AG amounts to € 192,100,000 (as at December 31, 2021) and is divided into the same number of registered no-par-value shares with a notional pro rata amount in the nominal capital of € 1 each. In the 2021 financial year, the nominal capital and the number of shares were reduced due to the cancelation of 8,316,186 treasury shares and the capital reduction with effect from November 30, 2021. The shares are fully paid in. Any claim on the part of the shareholders to the issuance of individual share certificates is generally excluded pursuant to § 4 section 7 of the Articles of Association unless such issuance is required in accordance with the regulations applicable at a stock exchange where the shares are admitted. Pursuant to § 67 section 2 German Stock Corporation Act (Aktiengesetz – AktG), in relation to adidas AG, only a person who is registered as such in the share register shall be deemed a shareholder. Each share grants one vote at the Annual General Meeting and determines the shareholders' share in the company's profit. All shares carry the same rights and obligations. The shareholders' individual rights and obligations follow from the provisions of the German Stock Corporation Act, in particular from §§ 12, 53a et seq., 118 et seq., and 186 AktG. As at December 31, 2021, adidas AG held in total 505,145 treasury shares, which do not confer any rights to the company in accordance with § 71b AktG. ► SEE NOTE 25

In the USA, adidas AG has issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one adidas AG share. ► SEE OUR SHARE

RESTRICTIONS ON VOTING RIGHTS OR TRANSFER OF SHARES

We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct and internal guidelines of adidas AG and based on Article 19 section 11 of the Regulation (EU) No 596/2014 (Market Abuse Regulation), however, particular trade prohibitions do exist for members of the Supervisory Board and the Executive Board with regard to the purchase and sale of adidas AG shares, in connection with the (time of) publication of quarterly results, half-year, and year-end financial reports.

In addition, restrictions of voting rights may exist pursuant to, inter alia, § 136 AktG or for treasury shares pursuant to § 71b AktG as well as due to capital market regulations, in particular pursuant to §§ 33 et seq. German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

The shares that were issued in the context of the Stock Purchase Plan to employees of adidas AG and employees of subsidiaries participating in the Stock Purchase Plan are not subject to any lock-up periods, unless such a waiting period is stipulated in locally applicable regulations. Employees who hold the shares that they purchased themselves (investment shares) for at least one year will subsequently receive one share for every six investment shares without having to pay for these shares (matching share) if they are still adidas employees at that point in time. If employees transfer, pledge, or hypothecate investment shares in any way during the one-year vesting period, the right to receive matching shares ceases.

SHAREHOLDINGS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

We have not been notified of, and are not aware of, any direct or indirect shareholdings in the share capital of adidas AG reaching or exceeding 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS

There are no shares bearing special rights. In particular, there are no shares with rights conferring powers of control.

VOTING RIGHT CONTROL IF EMPLOYEES HAVE A SHARE IN THE CAPITAL

Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association. The shares that employees acquire in the context of the Stock Purchase Plan are held in trust centrally by a service provider on behalf of the participating employees. As long as the shares are held in trust, the trustee shall take reasonable measures to enable participating employees to directly or indirectly exercise their voting rights in respect of the shares held in trust.

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO and five further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years. ► SEE EXECUTIVE BOARD

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or CEO if there is good cause, such as gross negligence of duties or a vote of no confidence by the Annual General Meeting.

As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal require a majority of at least two-thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, the Mediation Committee has to present a proposal, which, however, does not exclude other proposals. The appointment or dismissal is then made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which the Chairman of the Supervisory Board has two votes.

If the Executive Board does not have the required number of members, the competent court must, in urgent cases, make the necessary appointment upon application (§ 85 section 1 AktG).

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to §§ 119 section 1 number 6, 179 section 1 sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution passed by the Annual General Meeting. Pursuant to § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the nominal capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority of voting rights or capital, this is applicable. When it comes to amendments solely relating to the wording, the Supervisory Board is authorized to make these modifications in accordance with § 179 section 1 sentence 2 AktG in conjunction with § 10 section 1 sentence 2 of the Articles of Association.

AUTHORIZATIONS OF THE EXECUTIVE BOARD

The authorizations of the Executive Board are regulated by §§ 76 et seq. AktG in conjunction with §§ 7 and 8 of the Articles of Association. The Executive Board is responsible, in particular, for managing the company and represents the company judicially and extra-judicially.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

The authorization of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions:

AUTHORIZED CAPITAL

- Until August 6, 2026, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorized Capital 2021/I). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights.

- Until August 6, 2026, the Executive Board is also authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind and/or cash once or several times by no more than € 20,000,000 altogether (Authorized Capital 2021/II). The Executive Board is authorized, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to wholly or partly exclude shareholders' subscription rights when issuing shares against contributions in kind. Additionally, the Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights if the new shares against contributions in kind are issued at a price not significantly below the stock market price of the company's shares already quoted on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the company's shares on a foreign stock exchange. The authorization to exclude subscription rights under this authorization, however, may only be used to the extent that the pro-rata amount of the new shares in the nominal capital together with the pro-rata amount in the nominal capital of other shares that have been issued while excluding subscription rights by the company since May 12, 2021, subject to the exclusion of subscription rights on the basis of an authorized capital or following a repurchase or for which subscription or conversion rights or subscription or conversion obligations have been granted, through the issuance of convertible bonds and/or bonds with warrants, does not exceed 10% of the nominal capital existing on the date of the entry of this authorization with the commercial register or – if this amount is lower – as of the respective date on which the resolution on the utilization of the authorization is adopted. The previous sentence does not apply to the exclusion of subscription rights for residual amounts. The Authorized Capital 2021/II must not be used to issue shares within the scope of compensation or participation programs for Executive Board members or employees or for members of the management bodies or employees of affiliated companies. ► SEE NOTE 25

CONTINGENT CAPITAL

The nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2018). The Contingent Capital serves the purpose of granting holders or creditors of bonds that are issued based on the resolution of the Annual General Meeting on May 9, 2018, subscription or conversion rights relating to no more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorization granted by the Annual General Meeting on May 9, 2018, the Executive Board is authorized to issue bonds with warrants and/or convertible bonds in an aggregate nominal value of up to € 2,500,000,000 with or without a limited term against contributions in cash once or several times until May 8, 2023, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for residual amounts and to exclude shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Finally, the Executive Board is authorized, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the hypothetical market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. Treasury shares that are or will be sold with the exclusion of subscription rights in accordance with § 71 section 1 no. 8 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds shall be attributed to the aforementioned limit of 10%. Shares that are or will be issued, subject to the exclusion of subscription rights pursuant to § 186 section 3 sentence 4 AktG or pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds in the context of a cash capital increase shall also be attributed to the aforementioned limit of 10%. Finally, shares for which there are option or conversion rights or obligations or a right to delivery of shares of the company 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 shall be attributed to the aforementioned limit of 10%. Notwithstanding the Supervisory Board's right to determine further approval requirements, the Executive Board requires the Supervisory Board's approval for the issuance of bonds with warrants and/or convertible bonds based on this authorization of the Annual General Meeting on May 9, 2018, with the exclusion of shareholders' subscription rights.

The Executive Board has so far not utilized the authorization to issue bonds with warrants and/or convertible bonds granted by the Annual General Meeting on May 9, 2018.

AUTHORIZATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES

The authorizations of the Executive Board to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorization granted by the Annual General Meeting on May 12, 2021.

Until May 11, 2026, the Executive Board is authorized to repurchase adidas AG shares in an amount totaling up to 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization) for any lawful purpose and within the legal framework. The authorization may be used by the company but also by its subordinated Group companies or by third parties on account of the company or its subordinated Group companies or third parties assigned by the company or one of its subordinated Group companies.

The repurchase can be carried out via the stock exchange, through a public invitation to submit sale offers, through a public repurchase offer, or through granting tender rights to shareholders. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

The purposes for which treasury shares repurchased based on this authorization may be used are set out in the resolution on Item 12 of the Agenda for the Annual General Meeting held on May 12, 2021. The shares may, in particular, be used as follows:

- They may be sold on the stock exchange or through a public offer to all shareholders in relation to their shareholding quota; in case of an offer to all shareholders, subscription rights for residual amounts are excluded. The shares may also be sold differently, provided the shares are sold in exchange for a cash payment and at a price that, at the time of the sale, is not significantly below the stock market price of the company's shares with the same features; the prorated amount of the nominal capital which is attributable to the aggregate number of shares sold under this authorization may not exceed 10% of the nominal capital. The prorated amount of the nominal capital attributable to new shares issued between May 12, 2021, and the sale of the shares based on an authorized capital with the exclusion of shareholders' subscription rights pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG shall be attributed to the limit of 10%. Likewise, the prorated amount of the nominal capital that is attributable to shares, which may be issued due to bonds with warrants and/or convertible bonds, which are linked to subscription or conversion rights or obligations or the company's right to delivery of shares, provided these bonds are issued on the basis of authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG between May 12, 2021, and the sale of the shares, shall also be attributed to the limit of 10%.

- The shares may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies, or participations in companies or other business assets, especially real estate and rights to real estate or receivables (also from the company) or within the scope of company mergers.

- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licenses relating to such rights, also through subordinated Group companies.

- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.

- In connection with employee stock purchase plans, the shares may be used in favor of (current and former) employees of the company and its affiliated companies as well as in favor of (current and former) members of management bodies of the company's affiliated companies, whereas the amount of shares must not exceed 5% of the nominal capital neither at the point in time when this authorization becomes effective nor at the point in time when the shares are used. Shares assigned to members of the Executive Board as compensation in the form of a share bonus based on this authorization shall be attributed to this limit.

- They may be canceled without such cancelation requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be assigned to members of the Executive Board as compensation in the form of a share bonus subject to the provision that resale by the Executive Board members shall only be permitted following a lock-up period of at least four years. Responsibility in this case lies with the Supervisory Board. The amount of shares that may be used for such purposes must not exceed 5% of the nominal capital, neither at the point in time when this authorization becomes effective nor at the point in time when the shares are used or promised. Shares used based on this authorization shall be attributed to this limit.

The rights of shareholders to subscribe treasury shares shall be excluded to the extent that such shares are used pursuant to the aforementioned authorization. The Supervisory Board may determine that transactions based on this authorization may only be carried out subject to the approval of the Supervisory Board or one of its committees.

Within the scope of the authorization resolved upon by the Annual General Meeting on May 12, 2021, the Executive Board is furthermore authorized to conduct the share buyback also by using equity derivatives, which are arranged with a credit institution or financial services institution in close conformity with market conditions or by using a multilateral trading facility within the meaning of § 2 section 6 Stock Exchange Act (Börsengesetz). adidas AG is authorized to acquire options that entitle the company to purchase shares of the company upon the exercise of the options (call options) and/or to sell options, which require the company to purchase shares of the company upon the exercise of the options by the option holders (put options) or to use a combination of call and put options or other equity derivatives if the option conditions ensure that the shares delivered for these equity derivatives were purchased in compliance with the principle of equal treatment. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of exercising the authorization). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are purchased upon the exercise of the options no later than May 11, 2026. The authorization to purchase treasury shares while using equity derivatives or via multilateral trading facilities also contains specifications on the highest and lowest amount of consideration paid per share.

For the use, the exclusion of subscription rights and the cancelation of shares purchased using equity derivatives or a multilateral trading facility, the general provisions adopted by the Annual General Meeting (set out above) apply accordingly.

In the 2021 financial year, the Executive Board utilized the authorization to repurchase adidas AG shares through the Share Buyback Program 2021/I and the Share Buyback Program 2021/II. Under the Share Buyback Program 2021/I, adidas AG purchased 1,851,522 treasury shares. Under the Share Buyback Program 2021/II, further 1,619,683 treasury shares were purchased. In the year under review, adidas AG thus purchased 3,471,205 treasury shares in total. ► SEE NOTE 25

CHANGE OF CONTROL/COMPENSATION AGREEMENTS

Substantial agreements that provide for regulations in the case of a change of control are the material financing agreements of adidas AG. In the case of a change of control, these agreements, as is customary in the market, entitle the creditor/bondholder to termination and early calling-in.

No compensation agreements were entered into with members of the Executive Board or employees relating to the event of a takeover bid.

BUSINESS PERFORMANCE BY SEGMENT

At the beginning of 2021, we launched our new strategy 'Own the Game' for the period until 2025. As part of this strategy, we are focusing our growth efforts on the three strategic markets Greater China, EMEA, and North America. To be able to execute this strategy successfully, adidas has changed its organizational structure. Since January 1, 2021, adidas manages Greater China as a separate market. The remaining Asia-Pacific (APAC) market now comprises Japan, South Korea, Southeast Asia, and the Pacific region. The change reflects the increasing importance of Greater China as a growth market for the company. In addition, adidas created the EMEA (Europe, Middle East, and Africa) market. To better leverage economies of scale, the company has integrated the former markets Europe, Russia/CIS, and Emerging Markets into the newly formed EMEA market. The markets North America and Latin America remain unchanged.

EMEA

In 2021, sales in EMEA increased 24% on a currency-neutral basis and 23% in euro terms to € 7.760 billion from € 6.308 billion in 2020. The currency-neutral increase was driven by exceptional growth in Performance and strong double-digit growth in Lifestyle. The former reflects excellent growth in Training and Running as well as exceptional increases in Football and Outdoor.

Net sales in EMEA

+24% C.N.

€ 7.760 bn

EMEA AT A GLANCE € IN MILLIONS[1]

	2021	2020	Change	Change (currency-neutral)
Net sales	7,760	6,308	23%	24%
Gross margin	50.8%	50.0%	0.8pp	–
Segmental operating profit	1,658	1,003	65%	–
Segmental operating margin	21.4%	15.9%	5.5pp	–

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

Gross margin in EMEA increased 0.8 percentage points to 50.8% from 50.0% in 2020 reflecting a more favorable pricing mix due to less promotional activity. Negative currency developments and higher sourcing costs had a negative impact on the gross margin development. Operating expenses were up 6% to € 2.294 billion versus € 2.159 billion in 2020, mainly driven by a double-digit increase in marketing expenditure. Operating expenses as a percentage of sales were down 4.7 percentage points to 29.6% (2020: 34.2%). As a result of the higher gross margin and lower operating expenses as a percentage of sales, operating margin was up 5.5 percentage points to 21.4% (2020: 15.9%). Operating profit in EMEA improved 65% to € 1.658 billion versus € 1.003 billion in the prior year.

NORTH AMERICA

Revenues in North America increased 17% on a currency-neutral basis and 13% in euro terms to € 5.105 billion from € 4.519 billion in 2020. The currency-neutral improvement was driven by strong double-digit growth in Performance, reflecting double-digit increases in Training and Running as well as exceptional growth in Football and Outdoor. In addition, Lifestyle grew at a double-digit rate, as well.

Net sales in North America

+17% C.N.

€ 5.105 bn

NORTH AMERICA AT A GLANCE € IN MILLIONS[1]

	2021	2020	Change	Change (currency-neutral)
Net sales	5,105	4,519	13%	17%
Gross margin	46.2%	42.8%	3.4pp	–
Segmental operating profit	960	506	90%	–
Segmental operating margin	18.8%	11.2%	7.6pp	–

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

Gross margin in North America increased 3.4 percentage points to 46.2% (2020: 42.8%). While a more favorable pricing mix due to less promotional activity supported the improvement, higher sourcing costs as well as a less favorable channel mix had an adverse impact on gross margin. Operating expenses were down 2% to € 1.433 billion versus € 1.460 billion in 2020, reflecting a decrease in operating overhead costs as marketing expenditure increased. Operating expenses as a percentage of sales decreased 4.2 percentage points to 28.1% (2020: 32.3%). As a result of the higher gross margin and lower operating expenses as a percentage of sales, operating margin increased 7.6 percentage points to 18.8% from 11.2% in 2020. Operating profit in North America increased 90% to € 960 million from € 506 million in 2020.

GREATER CHINA

Sales in Greater China increased 3% on a currency-neutral basis. In euro terms, sales in Greater China improved 6% to € 4.597 billion from € 4.342 billion in 2020. The currency-neutral increase was driven by mid-single-digit growth in Lifestyle. In addition, low-single-digit improvements in Training and Outdoor also contributed to the increase.

Net sales in Greater China

+3% C.N.

€ 4.597 bn

GREATER CHINA AT A GLANCE € IN MILLIONS [1]

	2021	2020	Change	Change (currency-neutral)
Net sales	4,597	4,342	6%	3%
Gross margin	51.8%	52.3%	(0.5pp)	–
Segmental operating profit	1,194	1,137	5%	–
Segmental operating margin	26.0%	26.2%	(0.2pp)	–

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

Gross margin in Greater China decreased 0.5 percentage points to 51.8% from 52.3% in 2020, mainly due to negative currency developments and higher sourcing costs, which could only be partly offset by a more favorable category mix. Operating expenses were up 5% to € 1.188 billion (2020: € 1.134 billion), reflecting an increase in both marketing expenditure and operating overhead costs. Operating expenses as a percentage of sales decreased 0.3 percentage points to 25.8% versus 26.1% in the prior year. As the gross margin decline was not fully offset by lower operating expenses as a percentage of sales, operating margin decreased 0.2 percentage points to 26.0% from 26.2% in 2020. Operating profit in Greater China increased 5% to € 1.194 billion versus € 1.137 billion in 2020.

ASIA-PACIFIC

Sales in Asia-Pacific improved 8% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were up 5% to € 2.180 billion from € 2.083 billion in 2020. On a currency-neutral basis, this development was driven by mid-single-digit increases in Performance due to moderate improvements in Training and Running as well as by low-single-digit growth in Lifestyle.

Net sales in Asia-Pacific

+8% C.N.

€ 2.180 bn

ASIA-PACIFIC AT A GLANCE € IN MILLIONS [1]

	2021	2020	Change	Change (currency-neutral)
Net sales	2,180	2,083	5%	8%
Gross margin	51.3%	52.0%	(0.7pp)	–
Segmental operating profit	457	382	19%	–
Segmental operating margin	20.9%	18.3%	2.6pp	–

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

Gross margin in Asia-Pacific decreased 0.7 percentage points to 51.3% (2020: 52.0%), due to negative currency developments, higher sourcing costs, and a less favorable channel mix. Operating expenses were down 6% to € 677 million versus € 717 million in 2020, reflecting a decline in both marketing expenditure and – to a higher extent – operating overhead costs. Operating expenses as a percentage of sales were down 3.4 percentage points to 31.1% (2020: 34.4%). As the gross margin decline was more than offset by lower operating expenses as a percentage of sales, operating margin was up 2.6 percentage points to 20.9% versus 18.3% in 2020. Operating profit in Asia-Pacific increased 19% to € 457 million from € 382 million in 2020.

LATIN AMERICA

Revenues in Latin America increased 47% on a currency-neutral basis. In euro terms, sales in Latin America improved 40% to € 1.446 billion from € 1.035 billion in 2020. On a currency-neutral basis, this improvement was driven by exceptional sales growth in both Performance and Lifestyle. All key categories – Training, Running, Football, and Outdoor – grew at strong double-digit rates.

Net sales in Latin America

+47% C.N.

€ 1.446 bn

LATIN AMERICA AT A GLANCE € IN MILLIONS [1]

	2021	2020	Change	Change (currency-neutral)
Net sales	1,446	1,035	40%	47%
Gross margin	48.2%	44.2%	3.9pp	–
Segmental operating profit	265	33	709%	–
Segmental operating margin	18.3%	3.2%	15.1pp	–

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.

Gross margin in Latin America increased 3.9 percentage points to 48.2% (2020: 44.2%). While a more favorable pricing mix due to lower promotional activity had a positive impact on the gross margin development, negative currency developments, a less favorable channel mix, and higher sourcing costs had an adverse impact. Operating expenses were up 1% to € 434 million from € 429 million in 2020, reflecting a double-digit increase in marketing expenditure while operating overhead costs declined. Operating expenses as a percentage of sales decreased 11.5 percentage points to 30.0% (2020: 41.5%). As a result of the higher gross margin and lower operating expenses as a percentage of sales, operating margin improved 15.1 percentage points to 18.3% from 3.2% in 2020. Operating profit in Latin America increased 709% to € 265 million versus € 33 million in 2020.

OUTLOOK

In 2022, we expect the robust recovery of the global economy and consumer spending to continue. While uncertainty due to prolonged adverse effects of the coronavirus pandemic remains, we anticipate the global sporting goods industry to continue expanding significantly in 2022. The macroeconomic recovery as well as structural industry tailwinds in combination with the execution of our strategy 'Own the Game' and our strong product pipeline are forecast to lead to currency-neutral net sales growth between 12% and 14%. Gross margin is expected to increase to a level of between 51.5% and 52.0%. Operating margin is anticipated to go up to a level of between 10.5% and 11.0%. As a result, net income from continuing operations is forecast to increase to a level of between € 1.8 billion and € 1.9 billion. All expectations stated in this outlook are for continuing operations and hence exclude the Reebok business.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

► SEE RISK AND OPPORTUNITY REPORT

DIVESTITURE OF REEBOK

As part of the development of its new strategy 'Own the Game,' adidas has decided to sell its Reebok business to Authentic Brands Group for a total consideration of up to € 2.1 billion. Closing of the transaction is expected to occur in the first quarter of 2022.

GLOBAL ECONOMIC GROWTH TO STABILIZE IN 2022[26]

Global gross domestic product (GDP) is expected to grow 4.1% in 2022 despite continued impact from covid-19, diminishing policy support and lingering supply disruptions. All regions will continue to face downside risks from potential resurgences of covid-19, tightening financial conditions, geopolitical conflicts and extreme weather as well as other natural disasters. Output, consumption, and trade, however, are forecast to improve gradually amid more efficient pandemic management, supported by elevated vaccination rates globally. In addition, differences in the pace of growth between advanced and developing economies affect the global GDP projection. Advanced economies are forecast to see growth of 3.8% with pent-up demand fading and inflation remaining above target levels. Growth in developing economies is projected at 4.6% as vaccination rates steadily increase while monetary policy accommodation is being withdrawn.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2022

In the absence of any delay in pandemic recovery or other macroeconomic shocks, the global sporting goods industry is set to continue its recovery in 2022. Demand is forecast to stay robust amid elevated vaccination rates and less restrictive pandemic management as lockdowns, social distancing measures and store closures have become less likely. In addition, major sports events, such as the Beijing 2022 Olympic Winter Games and the FIFA World Cup Qatar 2022 will support industry growth, as spectators

26 Source: Worldbank Global Economic Prospects.

return to larger and smaller stages. Moreover, the sporting goods industry is projected to remain fundamentally attractive in the long-term, as existing global trends such as 'athleisure,' increasing sport participation rates and rising health and fitness awareness are further accelerating. In addition, sustainability is expected to further gain in importance amid growing environmental awareness of consumers. The pandemic supports the shift toward online and social media channels as a powerful catalyst, while major industry players leverage this trend by increasing their direct-to-consumer (DTC) efforts. However, the risks of a delayed pandemic recovery and rising geopolitical tensions also continue to exist for the sporting goods industry.

2022 OUTLOOK[1]

	2021	2022 Outlook
Net sales (€ in millions)	21,234	to increase at a rate between 12% and 14%[2]
EMEA	7,760	mid-teens growth[2]
North America	5,105	mid- to high-teens growth[2]
Greater China	4,597	mid-single-digit growth[2]
Asia-Pacific	2,180	mid-teens growth[2]
Latin America	1,446	mid- to high-teens growth[2]
Gross margin	50.7%	to increase to a level of between 51.5% and 52.0%
Operating margin	9.4%	to increase to a level of between 10.5% and 11.0%
Net income from continuing operations (€ in millions)	1,492	to increase to a level of between € 1.8 billion and € 1.9 billion
Average operating working capital (in % of sales)[3]	20.0%	to decrease to a level below 20%
Capital expenditure (€ in millions)[3]	667	to increase to a level of up to € 900 million

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 Currency-neutral.
3 2021 figures reflect the reclassification of the Reebok business to assets or liabilities held for sale.

CURRENCY-NEUTRAL SALES TO INCREASE BETWEEN 12% AND 14% IN 2022

After the recovery from the coronavirus pandemic in 2021, we expect strong top-line growth to continue in 2022. Despite covid-19-related challenges in parts of the world, uncertainties regarding the global economic outlook and risks from geopolitical tensions, the company's sales development will continue to be favorably impacted by long-term industry growth drivers such as increasing sports participation, the growing penetration of sports-inspired apparel and footwear ('athleisure') and digitalization. Beyond these structural industry tailwinds, the execution of our strategy 'Own the Game' as well as our strong product pipeline are expected to drive double-digit sales growth. Specifically, we expect sales to increase at a rate between 12% and 14% on a currency-neutral basis. This development will be supported by currency tailwinds.

CURRENCY-NEUTRAL REVENUES TO INCREASE IN ALL MARKET SEGMENTS

In 2022, we expect currency-neutral revenues to increase in all market segments. While currency-neutral sales in North America and Latin America are projected to grow at a mid- to high-teens rate, currency-neutral revenues are expected to grow at a rate in the mid-teens in EMEA and Asia-Pacific. Greater China is expected to record growth in the mid-single-digits.

GROSS MARGIN EXPECTED TO EXPAND TO A LEVEL BETWEEN 51.5% AND 52.0%

In 2022, gross margin is expected to continue to recover and reach a level of between 51.5% and 52.0%. A positive channel mix effect, price increases as well as the positive impact from favorable currency developments will drive the gross margin improvement and are expected to outweigh significantly higher supply chain costs.

OPERATING MARGIN TO INCREASE TO A LEVEL OF BETWEEN 10.5% AND 11.0%

In 2022, the operating margin is projected to increase significantly to a level of between 10.5% and 11.0%. In addition to the expected higher gross margin, lower operating expenses as a percentage of sales – also due to the non-recurrence of some of the Reebok-related stranded costs – will contribute to the profitability improvement. Driven by the strong top-line growth in combination with the margin improvements net income from continuing operations is projected to increase to a level of between € 1.8 billion and € 1.9 billion in 2022.

AVERAGE OPERATING WORKING CAPITAL AS A PERCENTAGE OF SALES TO DECREASE

During the coronavirus pandemic, average operating working capital as a percentage of sales increased significantly as a result of prolonged temporary store closures and lower product sell-through. While we were able to normalize inventory levels and significantly improve our working capital position in 2021 already, we will continue this development in 2022 and bring average operating working capital as a percentage of sales back to a level below 20%.

CAPITAL EXPENDITURE TO INCREASE TO UP TO € 900 MILLION

In order to execute our growth strategy, we will continue to invest into our business. Consequently, capital expenditure is expected to increase to a level of up to € 900 million in 2022. Investments into our own retail stores as well as into digital, including e-commerce, will make up the biggest part of capital expenditure.

MANAGEMENT PROPOSES DIVIDEND PAYMENT OF €3.30 PER SHARE

As a result of the strong operational and financial performance in 2021, the company's financial position as well as Management's confidence in our long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.30 per dividend-entitled share to shareholders at the Annual General Meeting on May 12, 2022. This represents an increase of 10% compared to the prior year dividend (2021: € 3.00) and would result in a total payout of € 632 million (2021: € 585 million). ► SEE OUR SHARE

RISK AND OPPORTUNITY REPORT

In order to remain competitive and ensure sustainable success, adidas consciously takes risks and continuously explores and develops opportunities. Our risk and opportunity management principles and system provide the framework for our company to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES

The key objective of the risk and opportunity management is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements, and communication timelines within our company. Risk and opportunity management is a company-wide activity that utilizes key insights from the members of the Executive Board as well as from global and local business units and functions. We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company's ability to achieve its business objectives or financial goals.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Executive Board has overall responsibility for establishing a risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. The Risk Management department governs, operates, and develops the company's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the Executive Board. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. Working independently of all other functions of the organization, the Internal Audit department provides objective assurance to the Executive Board and the Audit Committee regarding the adequacy and effectiveness of the company's risk and opportunity management system on a regular basis. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company's Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

Our risk and opportunity management system is based on frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, we have adapted our risk and opportunity management system to more appropriately reflect the structure as well as the culture of the company. This system focuses on the identification, evaluation, handling, systematic reporting, and monitoring of risks and opportunities. In 2021, we evolved our risk and opportunity management system by introducing a quantitative concept for risk capacity and risk appetite. Risk capacity is a liquidity-based measure and represents the maximum level of risk adidas AG can take before being threatened with insolvency. Risk appetite refers to the maximum level of risk the company is willing to take and is linked to the company's liquidity targets.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

Our risk and opportunity management process comprises the following steps:

- **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry as well as internal processes to identify risks and opportunities as early as possible. On a semi-annual basis, the Risk Management department conducts a survey with all members of the 'Core Leadership Group' ('CLG'), 'Extended Leadership Group' ('ELG'), and 'Global High Potential Group' ('GHIPO') to ensure an effective bottom-up identification of risks and opportunities. Risk Management has also defined 25 categories to help identify risks and opportunities in a systematic way. In addition, adidas uses various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups, and product styles that show the most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. Furthermore, as part of our identification process and following the 'Task Force on Climate-related Financial Disclosures' ('TCFD') framework, we monitor physical risks related to climate change as well as risks and opportunities resulting from the transition to a low-carbon economy. Our risk and opportunity identification process is however not only limited to external risk factors or opportunities; it also includes an internal perspective that considers company culture, processes, projects, human resources, and compliance aspects.

- **Risk and opportunity evaluation:** We assess identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritization as well as allocation of resources. Risk and opportunity evaluation is part of the responsibility of the Risk Management department supported by subject matter experts as well as internal and external data. The Risk Management department also conducts assessments with the Executive Board members and senior leaders to validate the evaluation of risks and opportunities.

According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materializes. Based on this evaluation, we classify risks and opportunities into three categories: minor, moderate, and major.

The potential impact is evaluated using five categories: marginal, low, medium, high, and significant. These categories represent financial or equivalent non-financial measurements. The financial measurements are based on the potential effect on the company's net income and cash flow. Non-financial measurements used are the degree to which the company's reputation, brand image, and employer value proposition are affected. Moreover, the degree of damage to people's health and safety and the degree of legal and judicial consequences at a corporate and personal level can be considered. Likelihood represents the possibility that a given risk or opportunity may materialize with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories.

RISK EVALUATION CATEGORIES

	Marginal	Low	Medium	High	Significant
Financial equivalent[1]	€ 1 million - € 10 million	€ 10 million - € 35 million	€ 35 million - € 60 million	€ 60 million - € 100 million	> € 100 million
Qualitative equivalent	Marginal impact on reputation, e.g., growing negative consumer reactions locally & slightly impaired bargaining power with partners & lower ranking in employer ratings. Minor harm to employees or third parties that doesn't require medical treatment. Internal corrective actions required.	Low impact on reputation, e.g., strong increase of negative consumer reactions globally & impaired bargaining power with partners & weaker results in important non-financial external ratings. Minor harm to employees or third parties that requires medical treatment. Judicial investigations leading to no direct sanctions but requiring internal corrective actions, including dismissal of employees.	Medium impact on reputation, e.g., rejection by specific consumer groups & termination or renegotiation of partnerships & profit warnings. Harm to employees or third parties that leads to hospitali-zation. Judicial investigations leading to imprisonment of employees and/or business interruption.	High impact on reputation, e.g., regional consumer boycotts & termination of key partnership & downgrade of credit and analyst ratings & temporary local employee strikes. Serious, life-changing harm to employees or third parties. Judicial investigations leading to imprisonment of senior leadership and/or significant business interruption including due to ongoing investigations.	Significant impact on reputation, e.g., persisting global consumer boycott & termination of multiple key partnerships & exclusion from key stock indices & long-lasting global employee strikes. Fatalities of employees or third parties. Litigation (including class action), imprisonment of Board member(s), monitorship and/or cessation of business operations due to court order.

Potential impact

Risk classification: Minor Moderate Major

1 Based on net income and cash flow.

When evaluating risks and opportunities, we also consider the speed of materialization (velocity). In this respect, we differentiate in which financial year risks and opportunities could occur. We consider both gross and net risk in our risk assessments. While the gross risk reflects the inherent risk before any mitigating action, the net risk reflects the residual risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of the most relevant risks and opportunities that materialized against the original assessment on a yearly basis ('back-testing'). In this way, we ensure continuous monitoring of the accuracy of risk and opportunity evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is not only applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

We aggregate risks and opportunities using a stochastic simulation (Monte Carlo simulation) to determine the company's risk and opportunity profile (i.e., the company's aggregated risk position), considering interdependencies of individual risks and opportunities. To identify a potential threat to the company as a going concern, we compare the risk and opportunity profile to the company's defined risk capacity and determine the likelihood that the aggregated risk exceeds the risk capacity; to identify a potential threat to the company's rating, we compare the risk and opportunity profile to the defined risk appetite and determine the likelihood that the aggregated risk exceeds the risk appetite.

- **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to lower impact or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the benefit of any planned mitigating action if applicable. The Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action. Depending on the risk class determined by the risk and opportunity evaluation, the authority to make decisions to accept risks resides with the Executive Board, leaders reporting directly to an Executive Board member and the operational management on the next hierarchical level. The decision to accept material risks without taking additional mitigating action can only be made by the entire Executive Board. In its decision-making process, the Executive Board takes into account the relationship between risk and opportunity profile (i.e., the company's aggregated risk position) and risk appetite as well as risk capacity. To support the Executive Board, the Risk Management department defined clear thresholds for the likelihood that the company's aggregated risk exceeds the defined risk appetite and risk capacity. The company's risk appetite must not be exceeded with a likelihood of at least 95%; the company's risk capacity must not be exceeded with a likelihood of at least 99%.

- **Risk and opportunity monitoring and reporting:** Our risk and opportunity management system aims to increase the transparency of risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments but also the adequacy and effectiveness of the current risk-handling strategy on an ongoing basis.

Regular risk reporting takes place half-yearly and consists of a five-step reporting stream:

- Risk Management identifies risks and opportunities (with a potential effect on net income and cash flow higher than € 1 million) by conducting a survey of 'CLG,' 'ELG,' and 'GHIPO' members as well as utilizing available information concerning the internal and external environment of the company. Risk Management evaluates, consolidates, and aggregates the identified risks and opportunities ('bottom-up assessment').

- Risk Management discusses the assessment of substantial risks and opportunities with the members of the Executive Board and leaders directly reporting to them. The Executive Board members and their direct reports validate the assessment of risks and opportunities in their respective area of responsibility ('top-down assessment').

- Risk Management provides a consolidated report to the Executive Board summarizing the results of both bottom-up and top-down assessment as well as the risk and opportunity aggregation to highlight a threat to the company's rating and going concern. The Executive Board reviews the report, jointly agrees on a company assessment of risks and opportunities and decides if Risk Owners are required to take further action.

- Based on the Executive Board's decision, Risk Management creates the final risk and opportunity report that is also shared with the 'CLG.'

- The Executive Board presents in collaboration with Risk Management the final risk and opportunity assessment results to the Audit Committee of the Supervisory Board.

Material changes in previously reported risks and opportunities or newly identified material risks and opportunities as well as any issues identified that, due to their material nature, require immediate reporting, are also reported outside the regular half-yearly reporting stream on an ad hoc basis to the Executive Board.

COMPLIANCE MANAGEMENT SYSTEM (ADIDAS FAIR PLAY)

We consider compliance with the law as well as with external and internal regulations to be imperative. The Executive Board sets the tone from the top. Every employee is required to act ethically and in compliance with the law as well as with internal and other external regulations while executing the company's business. We believe adidas Fair Play will prevent the majority of potential compliance issues. For that reason, we have specific measures to detect and respond to any concerns. We realize, however, that no compliance system can eliminate all violations.

The adidas Chief Compliance Officer oversees the company's Compliance Management System (CMS). We see compliance as all-encompassing, spanning all business functions throughout the entire value chain. Our central Compliance team works closely with Regional Compliance Managers and Local Compliance Officers to conduct a systematic assessment of key compliance risks on a yearly basis. In addition, the central Compliance team regularly conducts compliance reviews within selected entities. Due to widespread pandemic-related travel restrictions in 2021, the reviews have been postponed to 2022.

The company's CMS is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises and is designed to:

- support the achievement of qualitative and sustainable growth through good corporate governance,

- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct,

- protect and further enhance the value and reputation of the company and its brand through compliant conduct, and

- preserve diversity by fighting harassment and discrimination.

The adidas Fair Play Code of Conduct is accessible on our website, includes guidelines for employee behavior in everyday work, and is applicable globally for all business areas. In 2020, we revised the Code of Conduct to ensure it remains up to date and reflects our business environment.

► ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT

The Fair Play Code of Conduct and our CMS are organized around three pillars: prevent, detect, and respond.

- **Prevention:** The Compliance team regularly reviews and updates the CMS as necessary. In addition to the revised Fair Play Code of Conduct mentioned above, we also introduced an Anti-Harassment and Anti-Discrimination Policy in September 2020, emphasizing adidas' renewed initiative to prevent and fight harassment and discrimination in the workplace. Management also shares compliance-related communication, and the Compliance department provides mandatory training to all employees globally during onboarding and in regular, repeated cycles. The Compliance team and partners also provide targeted in-person compliance training as appropriate with senior management and newly promoted or hired senior executives across the globe in order to further enhance the compliance 'tone from the top,' as well as the 'tone from the middle.' We closely monitor the completion rates for these training measures and continuously update our web-based training. Also in 2021, the company launched trainings on several topics, including information security; procurement, and 'Diversity, Equity, and Inclusion' ('DEI'). We also focused on strengthening cooperation between the Compliance team and the Internal Audit, the Group Policies and Internal Controls, and the Risk Management departments.

- **Detection:** adidas has whistleblowing procedures in place to ensure timely detection of potential infringements of statutory regulations or internal guidelines. Employees can report compliance concerns internally to their supervisor, the Chief Compliance Officer, Regional Compliance Managers or Local Compliance Officers, the relevant HR Manager, or, where applicable, the Works Council. Employees can also report externally via the independent, confidential Fair Play hotline and website, which also allow for anonymous complaints. The Fair Play hotline and website are available at all times worldwide, including the services of interpreters, if required. They are promoted digitally and with posters to reach all our locations around the world. The company's continuous work to identify potential compliance violations accelerated in 2021 through several initiatives related to the Global 'Diversity, Equity, and Inclusion' ('DEI') Program.

- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report potential incidents of non-compliance worldwide. In 2021, we recorded 485 potential compliance violations (2020: 414). Most importantly, insights gained from the investigation of past violations are used to continuously improve the CMS. Where necessary, we react promptly to confirmed compliance violations, through appropriate and effective sanctions ranging from warnings to termination of employment contracts. In addition, in 2021, the Compliance team strengthened its relationship with the HR organization, a key partner in many compliance matters, especially those related to harassment and discrimination.

POTENTIAL COMPLIANCE VIOLATIONS

	2021
Financial, including theft	51
Malfeasance, including conflicts of interest and corruption	21
Competition	0
Behavioral	294
Other[1]	119

1 Includes payroll issues, intellectual property, and leaks of confidential information, inter alia.

REPORTING OF POTENTIAL COMPLIANCE VIOLATIONS

	2021
Anonymous contact to hotline	47%
Named contact to hotline	30%
Compliance Officer and other	23%

The company's Chief Compliance Officer regularly reports to the Executive Board on the further development of the compliance program and on major compliance cases. In addition, the Chief Compliance Officer reports to the Audit Committee on a regular basis. In 2021, the Chief Compliance Officer attended four meetings of the Audit Committee of the Supervisory Board to report on the further development of the compliance program, major compliance cases, and other relevant compliance topics. The Compliance department has revised its process for detecting compliance risks and included new risks, as well as captured some risk areas (e.g., e-commerce) more clearly. In addition, the description of the CMS has been sharpened.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM PROCESS PURSUANT TO § 315 SECTION 4 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH - HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the company represents a process embedded within the company-wide corporate governance system. It aims to provide reasonable assurance regarding the reliability of the company's external financial reporting by ensuring company-wide compliance with statutory accounting regulations, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Finance Manual). We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, mitigation, monitoring, and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process. In a first step, the internal control and risk management system serves to identify, assess, limit and control risks identified in the consolidated financial reporting process that might result in the consolidated financial statements not being compliant with internal and external regulations.

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of IcoFR, the Group Policies and Internal Controls department and the Internal Audit department regularly review accounting-related processes. Additionally, as part of the year-end audit, the external auditor assesses the effectiveness of selected internal controls, including IT controls. The Audit Committee of the Supervisory Board also monitors the effectiveness of IcoFR. However, due to the limitations of IcoFR, even with appropriate and functional systems absolute certainty about the effectiveness of IcoFR cannot be guaranteed.

All adidas companies are required to comply with the consolidated financial reporting policies (Finance Manual), which are available to all employees involved in the financial reporting process through the company-wide intranet. We update the Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Finance Manual are promptly communicated to all adidas companies. Clear policies serve to limit employees' scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the company. We aim to ensure compliance with the Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, the local manager responsible for the accounting process within the respective company and the respective local Managing Director confirm adherence to the Finance Manual and to IFRS in a signed representation letter to the Accounting department semi-annually.

The accounting for adidas companies is conducted either locally or by our Global Business Services. Virtually all the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardized SAP system. Following approval by the Finance Director of the respective adidas company, the local financial statements are transferred to a central consolidation system based on SAP SEM-BCS. At the corporate level, the regularity and reliability of the financial statements prepared by adidas companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and adherence to the reporting logic. In addition, differences between current-year and prior-year financial data as well as budget figures are analyzed on a market level. If necessary, adidas seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the adidas companies. After finalization of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analyzed with respect to trends and variances. Unless already otherwise clarified, the adidas companies are asked to explain any identified material deviations.

All financial systems used are protected against malpractice by means of appropriate authorization concepts, approval concepts and access restrictions. Access authorizations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimized through central control and monitoring of virtually all IT systems, centralized management of change processes and regular data backups.

ILLUSTRATION OF RISKS

This report includes an explanation of financial and non-financial risks that we deem to be most relevant to the achievement of the company's objectives in 2022 and beyond. We still consider risks related to the coronavirus pandemic material to the success of our company. In this report, we therefore present a holistic assessment of the risks resulting from the pandemic. In addition, according to our risk assessment methodology, macroeconomic, socio-political, regulatory and currency risks; risks related to consumer demand and product offering; business partner risks; personnel risks; risks related to tax and customs regulations; risks related to the Reebok divestiture; litigation risks; and IT and cyber security risks are classified as material. The risks overview table illustrates the assessment of all risks described below.

CORPORATE RISKS OVERVIEW

Risk categories	Potential impact	Change (2020 rating)	Likelihood	Change (2020 rating)
Risks related to the coronavirus pandemic	Significant		30% – 50%	
Macroeconomic, sociopolitical, regulatory, and currency risks	Significant		30% – 50%	
Risks related to consumer demand and product offering	Significant		30% – 50%	↑ (15% – 30%)
Business partner risks	Significant		15% – 30%	
Personnel risks	Significant	↑ (High)	15% – 30%	↓ (30% – 50%)
Risks related to tax and customs regulations	Significant		15% – 30%	↑ (< 15%)
Risks related to Reebok divestiture	Significant	(no risk in 2020)	15% – 30%	(no risk in 2020)
Litigation risks	Significant	↑ (High)	15% – 30%	↑ (< 15%)
IT and cyber security risks	High	↓ (Significant)	15% – 30%	↑ (< 15%)
Hazard risks	Medium		30% – 50%	
Risks related to media and stakeholder activities	Medium		30% – 50%	
Project risks	Medium	↓ (Significant)	30% – 50%	↑ (< 15%)
Risks related to the competitive and retail environment	Significant		< 15%	↓ (15% – 30%)
Compliance risks	Significant		< 15%	

RISKS RELATED TO THE CORONAVIRUS PANDEMIC

The ongoing coronavirus pandemic could substantially impact the company's success in multiple ways, in particular in the short term. Risks related to the coronavirus pandemic include but are not limited to:

- Widespread lockdowns and containment measures across all our markets might result in traffic declines in our own and our retail partners' stores or even require those stores to close. This could have a noticeable negative impact on the company's financial performance as seen in 2020 and 2021.
- Closures of distribution centers would negatively impact the company's ability to fulfill orders by consumers or retail partners and lead to sales and profit shortfalls, order cancellations, or excess inventory.
- Supply chain disruptions, such as the closure of factories of our manufacturing partners or the closure of ports in critical sourcing countries, could cause production or delivery delays and negatively impact our ability to fulfill consumer demand.
- Major sports events could take place without people in attendance or even be canceled completely. This would result in sales and profit shortfalls and, more importantly, negatively affect our ability to showcase our brands and new product innovations.

- Wholesale customers may cancel purchase orders or return product to adidas, which could result in excess inventory and higher inventory allowances.

- Lower-than-expected sales and profits in our own retail stores may result in higher impairment charges or inventory allowances and negatively affect the company's bottom line.

- Third-party business partners may partially or completely fail to meet their contractual financial obligations, which could result in higher loss allowances and increased write-offs for accounts receivable.

- Volatile global financial markets might negatively affect the company's access to capital in the future.

To mitigate the effects of the ongoing coronavirus crisis, adidas is taking numerous measures. We are further shifting our focus to our own and our partners' e-commerce and other digital channels with targeted consumer marketing, exclusive product launches and prioritized supply chain management. With flexible shifts in our product purchasing in close alignment with our manufacturing partners, a disciplined sell-in, and the conscious use of our factory outlets, we reduce negative margin effects and avoid excess inventory. By securing alternative freight capacities and adjusting planning processes for early shipments, we mitigate the effect of container scarcity and port congestions. Strict cash flow and cost management help us to ensure the financial stability of our company. Furthermore, adidas is safeguarding the health of its employees and other stakeholders through strict measures. For example, we have increased our workplace flexibility and given our employees the possibility to work remotely, depending on the development of infection rates in the respective countries.

MACROECONOMIC, SOCIOPOLITICAL, REGULATORY, AND CURRENCY RISKS

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, inflation, financial market turbulence, currency exchange rate fluctuations, and sociopolitical factors such as military conflicts, changes of government, civil unrest, pandemics, nationalization, expropriation, or nationalism, in particular in regions where adidas is strongly represented, could therefore negatively impact the company's business activities and top- and bottom-line performance. Currency risks are a direct result of multi-currency cash flows within the company, in particular the mismatch of the currencies required for sourcing our products versus the denominations of our sales. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. In addition, substantial changes in the regulatory environment (e.g., trade restrictions, economic and political sanctions, regulations concerning product compliance, environmental, and climate protection regulations) could lead to potential sales shortfalls or cost increases. ► SEE NOTE 28

To mitigate these macroeconomic, sociopolitical, and regulatory risks, adidas strives to balance sales across key regions and also between developed and emerging markets. We continuously monitor the macroeconomic, political, and regulatory landscape in all our key markets to anticipate potential problem areas, so that we can quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be a reallocation of manufacturing of our products to alternative countries, a reallocation of investments to alternative, more attractive markets, changes in product prices, closure of our own-retail stores, more conservative product purchasing, tight working capital management, and an increased focus on cost control.

To mitigate the risk related to fluctuations in currency exchange rates, we utilize a centralized currency risk management system and hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-months horizon. ► SEE TREASURY

By building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators in their efforts to liberalize global trade and curtail trade barriers, and to proactively adapt to significant changes in the regulatory environment.

In the context of these and other risks relating to consumer demand, product offering, ongoing coronavirus pandemic or supply chain challenges, our business in China is of particular importance. As one of our strategic markets, we are already focusing on this market as part of our 'Own the Game' strategy. In order to meet the specific needs of consumers in this market, we are pursuing a tailored approach – as in other strategic focus markets such as North America – that takes up local trends in products and marketing.

RISKS RELATED TO CONSUMER DEMAND AND PRODUCT OFFERING

Our success largely depends on our ability to continuously create new, innovative, and sustainable products. Consumer demand changes can be sudden and unexpected, particularly when it comes to the more fashion-related part of our business. Therefore, we face a risk of short-term revenue loss in cases where we are unable to anticipate consumer demand or respond quickly to changes. In addition, creating and offering products that do not resonate with consumers and our retail partners is a critical risk to the success of our brands, especially considering our focus on key product franchises. This risk could be exacerbated if our marketing activities and brand campaigns fail to generate consumer excitement. We consider this risk most relevant in our key markets Greater China, EMEA, and North America. Even more critical in the long term, however, are the risks of continuously overlooking new trends and failing to continuously introduce and successfully commercialize new product innovation.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brand and sales organizations and, in particular, of the respective Risk Owners. Therefore, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process. By putting the consumer at the center of our decision-making, we intend to create higher brand advocacy and attract new consumers. We continuously expand our consumer analytics efforts to read and quickly react to changes in demand or trend shifts. In addition, direct touchpoints with consumers via our own digital channels, such as the adidas app with the 'Creators Club' membership program, and direct communication with consumers on social media platforms strengthen our understanding of consumer preferences and behavior and, as a result, help us to reduce our vulnerability to changes in demand. Through continuous monitoring of sell-through data and disciplined product life-cycle management, in particular for our major product franchises, we are able to better detect demand patterns and prevent excess supply. By leveraging our promotion partnerships and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Utilizing external insights and capabilities in product creation helps us strengthen our product offering and drive consumer demand, brand desire, market share, and profitability.

BUSINESS PARTNER RISKS

adidas interacts and enters into partnerships with various third parties, such as athletes, creative partners, innovation partners, retail partners, or suppliers of goods or services. As a result, the company is exposed to a multitude of business partner risks.

We work with strategic partners in various areas of our business (e.g., product creation, manufacturing, research, and development) or distributors in a few selected markets whose approach might differ from our own business practices and standards, which could also negatively impact the company's business performance and reputation. Similarly, failure to maintain strong relationships with our partners could negatively impact the company's sales and profitability. Risks may also arise from a dependency on particular partners. For example, the overdependency on a supplier or customer increases the company's vulnerability to delivery and sales shortfalls, respectively, and could lead to significant margin pressure. Business partner default (including insolvency) or other disruptive events such as strikes may negatively affect the company's business activities and result in additional costs and liabilities as well as lower sales for the company. Unethical business practices on the part of business partners or improper behavior of individual athletes, influencers or partners in the entertainment industry could have a negative spillover effect on the company's reputation, lead to higher costs or liabilities or even disrupt business activities.

To mitigate business partner risks, adidas has implemented various measures. For example, we generally include clauses in contractual agreements with partners that allow us to suspend or even terminate our partnership in case of improper or unethical conduct. In addition, we work with a broad portfolio of promotion partners to reduce the dependency on the success and popularity of a few individual partners. We utilize a broad distribution strategy, which includes further expansion of our direct-to-consumer business to reduce the risk of overreliance on key customers. Specifically, no single customer accounted for more than 5% of the company's sales in 2021. To reduce risk in the supply chain, we work with suppliers who demonstrate reliability, quality, and innovation. Furthermore, in order to minimize any potential negative consequences such as a violation of our Workplace Standards by our suppliers, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to suppliers' premises. To reduce supplier dependency, the company follows a strategy of diversification. In this context, adidas works with a broad network of suppliers in different countries and, for the vast majority of its products, does not have a single-sourcing model.

PERSONNEL RISKS

Achieving the company's strategic and financial objectives is highly dependent on our employees and their talents. In this respect, strong leadership and a performance-enhancing culture are critical to the company's success. Therefore, ineffective leadership as well as the failure to install and maintain a performance-oriented culture that fosters 'Diversity, Equity, and Inclusion' ('DEI') and strong employee engagement amongst our workforce could substantially impede our ability to achieve our goals. An ineffective, unbalanced, or insufficient allocation of resources to business activities as well as improper planning and untimely execution of reorganization and transformation initiatives may reduce employee engagement, cause business disruption and inefficiencies, and may negatively affect business performance. In addition, global competition for highly qualified personnel remains fierce. As a result, the loss of key personnel in strategic positions and the inability to identify, recruit, and retain highly qualified and skilled talent who best meet the specific needs of our company pose risks to our business performance.

We are taking various measures to ensure that we maintain a culture that fosters 'DEI.' Through several specialized programs, 'DEI' is embedded into our recruitment processes. In 2021, we also launched the 'Global DEI Council' that drives the increase of representation, retention, and advancement of diverse talents within our global workforce. Furthermore, our workforce takes part in 'DEI' learning programs. We have also established a global Leadership Framework that is inclusive and articulates the behaviors expected of our leaders to ensure effective leadership across the company. In addition, we offer a portfolio of leadership development experiences designed for every level of management across all markets and functions. To optimize staffing levels and resource allocation (i.e., having the right people with the right skillsets in the right roles at the right time), we have a dedicated workforce management process in place. Organizational transformations and reorganizations are supported by change activations with our leadership teams and organizational design consultancy.We continuously invest in improving employer branding activities and our global recruiting organization constantly enhances our internal and external recruiting services and capabilities. Our global succession management helps create internal talent pipelines for critical leadership positions and therefore reduces succession risk.

RISKS RELATED TO TAX AND CUSTOMS REGULATIONS

Numerous laws and regulations regarding customs and taxes as well as changes in such laws and regulations affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions, or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties. Changes in regulations regarding customs and taxes may also have a substantial impact on the company's sourcing costs or income taxes. Therefore, we also create provisions in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities. Increasingly aggressive positions taken by tax and customs authorities in audits could increase the potential impact of such risks and the likelihood that they materialize. In 2021, the 'OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting' agreed on a two-pillar solution to address the tax challenges arising from the digitalization of the economy. Once details are clearly defined, these new requirements could have a considerable impact on income tax expense.

We seek to manage tax and customs risks in a balanced way that bears an appropriate relationship to the operating structure, commercial and economic substance, and other business risks. To proactively manage such risks, we constantly seek expert advice from specialized independent law and tax advisory firms in areas such as process design, transaction advisory, compliance, and tax or customs audits. Processes are in place requiring that attention is regularly directed to potential areas of tax or customs risk (e.g., a quarterly tax risk questionnaire) and the corporate tax and customs teams are involved in critical business transactions. Compliance with global tax and customs policies and controls is monitored by the Corporate Tax and Customs teams, internal controls experts and the Internal Audit department. We closely monitor changes in legislation to properly adopt regulatory requirements regarding customs and taxes; apply any available and applicable guidance from tax authorities and organizations such as the OECD, the World Customs Organization and the World Trade Organization; and seek guidance from individual authorities, as appropriate, which may include requesting tax rulings from a tax authority. In addition, our internal legal, customs, and tax teams advise our operational management teams to ensure appropriate and compliant business practices. Our specialized staff receive adequate training for their role and non-tax, or non-customs staff are made aware of potential tax and customs matters relevant to their roles. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and trade regulations at import and export to ensure the availability and obtain the required clearance of products to fulfill sales demand. ► SEE SUSTAINABILITY

RISKS RELATED TO REEBOK DIVESTITURE

After completion of the divestiture of Reebok to the new owner, a gradual transfer of assets to the respective legal successors is taking place. Additionally, adidas must fulfill the contractually agreed transitional services. This could require additional resources and efforts, cause management distraction, and result in lower efficiency and higher costs. Furthermore, lower-than-planned income for provided transitional services could result in higher-than-planned stranded costs.

To mitigate these risks, a cross-functional project team has been set up. The team drives the carve-out process supported by external advisors with profound expertise in comparable transactions. In addition, dedicated transition teams in our market organizations drive execution of transition activities to enable a smooth handover of the Reebok business.

LITIGATION RISKS

adidas might be involved in legal disputes and proceedings in different jurisdictions. Legal action taken against adidas due to the company's use of technologies or other intellectual property that are owned by a third party may result in the loss of rights to use those technologies or rights, imposed royalty payments, withdrawal of products from the market, legal costs, or reputational damage. In December 2021, Nike filed two complaints against adidas alleging that adidas footwear (Primeknit) infringes certain U.S. patents protecting Nike's Flyknit technology. ► SEE NOTE 38

Our Legal Intellectual Property and Trademark team is actively defending adidas' intellectual property and associated rights and regularly exchanging with internal business partners to ensure that designs and innovations are cleared for use and protected. Furthermore, we engage with qualified external consultants and lawyers in case legal actions are taken against the company.

IT AND CYBER SECURITY RISKS

Theft, leakage, corruption, or unavailability of critical information (e.g., consumer data, employee data, product data) and systems could lead to reputational damage, regulatory penalties, or the inability to perform key business processes. Key business processes, including product marketing, order management, warehouse management, invoice processing, customer support, and financial reporting, are all dependent on IT systems. Significant outages, application failures, or cyber security threats to our infrastructure, or that of our business partners, could therefore result in reputational damage, regulatory penalties, or cause considerable business disruption or impact to business-critical data.

To mitigate these risks, our IT organization proactively engages in system preventive maintenance, service continuity planning, adherence to IT policies and maintenance of a comprehensive information security program. Information security governance, data security, security architecture design, continuity management, and employee awareness programs help us to protect the company adequately. We have also secured limited insurance coverage for damage resulting from cyber security incidents.

HAZARD RISKS

As climate change intensifies, the likelihood and intensity of natural disasters such as storms, floods, droughts, pandemics, or heat waves increases, and so does adidas' potential risk. In addition, our business activities could be impacted by port congestions, strikes, riots, or terrorist attacks. All of the above could damage our offices, stores, or distribution centers or disrupt our operational processes leading to loss of sales, higher cost, and a decrease in profitability.

To manage and mitigate these risks, we continuously monitor potential threats and have implemented business continuity plans including but not limited to fallback solutions for transportation, dynamic capacity management of containers and carriers, and reallocation of production. We also maintain high safety standards in all our locations and have secured insurance coverage for property damage and business interruptions.

RISKS RELATED TO MEDIA AND STAKEHOLDER ACTIVITIES

Adverse or inaccurate media coverage on our products or business practices as well as negative social media discussion may significantly harm the adidas' reputation and brand image, lead to public misperception of the company's business performance and eventually result in a sales slowdown. Similarly, certain activities on the part of key stakeholders (e.g., non-governmental organizations, governmental institutions) could cause reputational damage, distract top management, and disrupt business activities.

To mitigate these risks, we pursue proactive, open communication and engagement with key stakeholders (e.g., consumers, media, the financial community, non-governmental organizations, governmental institutions) on a continuous basis. In addition, we have established clear crisis communication processes to ensure a quick and effective response to adverse developments. We have also strengthened social media capabilities and created various digital newsrooms around the globe that enable continuous monitoring of social media content related to the company's products and activities and allow early management of potentially damaging social media discussion. On a case-by-case basis, we seek external advice from experts in communication and stakeholder management.

PROJECT RISKS

To effectively support further business growth and improve efficiency, adidas continuously invests in new projects such as the creation, implementation, expansion, harmonization, or modernization of IT systems, distribution centers, or office buildings. Ineffective project management could delay the execution of critical projects and lead to higher expenditures. Inadequate project planning and controlling as well as executional mistakes or ineffective change management could cause inefficiencies, delays, or business disruption, resulting in higher costs and sales shortfalls. Inappropriate project governance, prioritization, and oversight of the project portfolio may lead to suboptimal resource allocation and undesired project results.

We manage projects utilizing reviews by project teams as well as project steering committees to evaluate the progress, quality, and costs of those projects on a regular basis. This approach allows early detection of project risks and quick implementation of corrective action or timely cancelation of projects with a low chance of success. To ensure true end-to-end management of key projects we have established a network of program and project management departments across all main functions (i.e., Sales, Marketing, Operations, Finance, IT, and Human Resources). We also work with external partners for project management support in areas where we do not have the required expertise or experience in-house.

RISKS RELATED TO THE COMPETITIVE AND RETAIL ENVIRONMENT

Changes in the competitive landscape and the retail environment could impact the company's success. Strategic alliances among competitors or retailers, the increase in retailers' own private-label businesses and intense competition for consumers, production capacity, and promotion partnerships between well-established industry peers and new market entrants pose a substantial risk to adidas. This could lead to harmful competitive behavior, such as sustained periods of discounting in the marketplace or intense bidding for promotion partnerships. Failure to recognize and respond to consolidation in the retail industry could lead to increased dependency on particular retail partners, reduced bargaining power, and, consequently, margin erosion. Sustained pricing pressure in key markets could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position. The inability to adjust our distribution strategy in a timely manner to a changing retail industry, which is experiencing rapid substitution of physical retail stores by digital commerce platforms as well as increasing connectivity between physical and digital retail, could result in sales and profit shortfalls. A decline in the attractiveness of particular shopping locations such as shopping malls could lead to sales shortfalls in our customers' and our own stores, higher inventory in the marketplace, increased clearance activity and margin pressure.

To mitigate these risks, we continuously monitor and analyze information on our competitors and markets in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to such changes. This enables us to proactively adjust our marketing and sales activities (e.g., product launches or selective pricing adjustments) when needed. We also continuously and closely monitor numerous indicators (e.g., order placement, sell-through rates at the point of sale, average selling prices, discounts, store traffic) that help us identify changes in the retail environment and quickly take appropriate action such as closing or remodeling our own stores. We constantly adjust our segmentation strategies to ensure that the right product is sold at the right point of sale at an appropriate price. Continuous investment in research and development ensures that we remain innovative and distinct from competitors. We also pursue a strategy of entering into long-term agreements with key promotion partners. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth, and strengthen our brand's market position.

COMPLIANCE RISKS

As a globally operating company, adidas is subject to various laws and regulations. Non-compliance with such laws and regulations could lead to penalties and fines and cause reputational damage. For example, non-compliance with laws and regulations concerning data protection and privacy, such as the EU General Data Protection Regulation (GDPR), may result in substantial fines. In addition, publication of failure to comply with data protection and privacy regulations could cause reputational damage and result in a loss of consumer trust in our brands. We also face the risk that members of top management as well as our employees breach rules and standards that guide appropriate and responsible business behavior. This includes the risks of fraud, financial misstatements or manipulation, anti-competitive business practices, bribery, corruption, discrimination, and harassment in the workplace.

Our Compliance Management System (CMS) helps us to prevent, detect, and adequately respond to these risks. Our Global Policy Manual provides a framework for basic work procedures and processes, and our Fair Play Code of Conduct stipulates that every employee and our business partners shall act ethically in compliance with the laws and regulations of the legal systems where they conduct company business. In addition, our Regional Compliance Managers and Local Compliance Officers guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilize controls such as segregation of duties in IT systems and data analytics technology to prevent or detect fraudulent activities. We are also working with external partners and law firms to ensure we are informed about legal requirements across the globe, and we take appropriate action to ensure compliance. To mitigate the risk of non-compliance with laws and regulations concerning data protection and privacy, we developed a global privacy management framework that introduces the company's privacy principles and provides guidance for the use and deletion of personal information. This framework applies to all adidas businesses worldwide and also sets our expectations of third-party business partners for managing personal information for or on behalf of adidas. Our Global Privacy Officer and the Global Privacy department drive the operational establishment of the framework and monitoring capabilities to track and report its implementation. During the implementation, they are continuously providing further implementation guidance and training.

ILLUSTRATION OF OPPORTUNITIES

In this report, we illustrate financial and non-financial opportunities considered most relevant in 2022 and beyond. According to our assessment methodology, opportunities related to consumer demand and product offering; opportunities related to the distribution strategy; macroeconomic, sociopolitical, regulatory and currency opportunities; opportunities related to tax regulations; and opportunities related to data analytics are considered material. The assessment is illustrated in the opportunities overview table.

CORPORATE OPPORTUNITIES OVERVIEW

Opportunity categories	Potential impact	Change (2020 rating)	Likelihood	Change (2020 rating)
Opportunities related to consumer demand and product offering	Significant		15% – 30%	↓ (30% – 50%)
Opportunities related to the distribution strategy	Significant		15% – 30%	↓ (30% – 50%)
Macroeconomic, sociopolitical, regulatory, and currency opportunities	Significant		15% – 30%	↑ (< 15%)
Opportunities related to tax regulations	Significant	↑ (Medium)	15% – 30%	
Opportunities related to data analytics	High	↓ (Significant)	15% – 30%	↓ (30% – 50%)
Personnel opportunities	Medium		15% – 30%	

OPPORTUNITIES RELATED TO CONSUMER DEMAND AND PRODUCT OFFERING

Well-executed campaigns and marketing initiatives could increase brand desire and consumer appeal, which may drive full-price sell-through and result in higher-than-expected sales and profit. In addition, outstanding competitive performance of promotion partners such as individual athletes, club teams, or national teams may further increase their popularity among consumers. As a result, adidas may generate higher sales of signature footwear or licensed apparel and accessories. We believe that our continued focus on product innovation and the ability to fully commercialize such innovation through an attractive product offering that resonates with consumers could provide further upside potential both in terms of sales and profit. In that respect, we see untapped potential particularly in sport-inspired apparel, in our women's and basketball business, and in the metaverse sphere. Furthermore, we are convinced that a continued focus on sustainability represents an opportunity for the company, in particular in the medium to long term. Consumers are increasingly looking for products composed of more sustainable materials and manufactured in an innovative and yet socially and environmentally responsible way. ▶ SEE SUSTAINABILITY

OPPORTUNITIES RELATED TO THE DISTRIBUTION STRATEGY

The further expansion of our own e-commerce activities and the amplification of our digital partner commerce business could provide further upside potential in terms of sales and profit. In addition, our wholesale channel, where we clearly focus on partners that provide consumers with the best shopping experience and customer service, could generate higher-than-expected sales and profit.

MACROECONOMIC, SOCIOPOLITICAL, REGULATORY, AND CURRENCY OPPORTUNITIES

Favorable exchange rate developments can potentially have a positive impact on the company's financial results. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might also positively impact our company's financial performance. Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements can create cost savings or potentially open up new channels of distribution and, as a result, positively impact profitability.

OPPORTUNITIES RELATED TO TAX REGULATIONS

The potential release of valuation allowances on deferred tax assets or the release of tax risk reserves (e.g., relating to transactions or internal reorganizations in prior years) could positively impact income tax expense. In addition, changes in local tax regulations may offer the company the option to realize benefits that could result in a reduction of tax expenses and higher net income.

OPPORTUNITIES RELATED TO DATA ANALYTICS

Data and analytics play a crucial role in enabling fact-based decision-making. Therefore, we have a dedicated Data and Analytics team to support business decision-making by leveraging the power of data. The continuous enhancement of our existing capabilities to build and scale insights-driven use cases and the use of the latest technology could bring value to our business operations across the entire company. As a result, we see the opportunity to become faster and more efficient in our operations. We may increase visibility and understanding of consumer preferences, apply these insights in our product creation and, as a result, increase sales and reduce cost of sales. Leveraging data may also help us, for instance, optimize order book management, inventory management, and purchasing. All this could result in improved financial performance.

PERSONNEL OPPORTUNITIES

Creating and managing a performance-oriented culture that fosters 'Diversity, Equity, and Inclusion' as well as leadership accountability and clear values in the workplace could lead to increased diversity of thought, increased creativity and innovation, and higher employee satisfaction and engagement. This may positively impact the company's financial performance. A workforce that includes diverse talent and reflects the diversity of our customers and consumers helps us better serve the communities we work in and strengthens brand reputation among our consumers, which could potentially create a competitive advantage and positively impact top- and bottom-line performance.

MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

ASSESSMENT OF PERFORMANCE VERSUS TARGETS

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2021, financial results especially in Greater China and Asia-Pacific were still impacted by the coronavirus pandemic. On the other hand, EMEA and North America were able to offset some of these challenges. As there were still covid-19-related lockdowns in some countries, our digital platforms facilitated consumer engagement, seamless personal experiences and brand building even in times of social distancing. At the same time, we saw increased traffic in our physical stores compared to 2020 due to fewer store closures and less restrictive covid-19 regulation. Moreover, global trends such as the increasing penetration of sportswear ('athleisure') and rising awareness for health and wellness further supported adidas' development throughout the year. As a result, we delivered top- and bottom-line results which were in line with the guidance provided at the beginning of the year. ► SEE ECONOMIC AND SECTOR DEVELOPMENT

COMPANY TARGETS VERSUS ACTUAL KEY METRICS [1]

	2020 Results	2021 Initial Targets[2]	2021 Updated Targets[3]	2021 Results	2022 Outlook
Currency-neutral sales development	(13%)	to increase at a mid- to high-teens rate	to increase up to 20%	16%	to increase at a rate between 12% and 14%
Gross margin	50.0%	to increase to a level of around 52%	to increase to a level of between 50.5% and 51.0%	50.7% *0.7pp*	to increase to a level of between 51.5% and 52.0%
Operating margin	4.0%	to increase to a level of between 9% and 10%	to increase to a level of between 9.5% and 10.0%	9.4% *5.3pp*	to increase to a level of between 10.5% and 11.0%
Net income from continuing operations (€ in millions)	461	to increase to a level of between € 1.25 billion and € 1.45 billion	to increase to a level of between € 1.4 billion and € 1.5 billion	1,492 *223%*	to increase to a level of between € 1.8 billion and € 1.9 billion
Average operating working capital in % of net sales[4]	25.3%	to decrease to a level below 20%		20.0% *(5.3pp)*	to decrease to a level below 20%
Capital expenditure (€ in millions)[4,5]	442	to increase to a level of around € 700 million		667	to increase to a level of up to € 900 million

1 Figures reflect continuing operations as a result of the reclassification of the Reebok business to discontinued operations.
2 As published on March 10, 2021.
3 As published on August 5, 2021. For Gross margin as of November 10, 2021.
4 2021 figures reflect the reclassification of the Reebok business to assets or liabilities held for sale.
5 Excluding acquisitions and leases.

In 2021, revenues increased 16% on a currency-neutral basis. The improvement was driven by increases across all market segments and was in line with the guidance provided at the beginning of the year. Sales grew significantly faster than initially expected in EMEA, North America and Latin America. At the same time, revenues in Greater China and Asia-Pacific increased below our initial projections due to the impact from covid-related restrictions as well as – in the case of Greater China – the challenging market environment and natural disasters. Gross margin ended the year at 50.7%, reflecting an increase of 0.7 percentage points versus the prior year level. While higher full-price sales, lower inventory allowances as well as the non-recurrence of last year's purchase order cancellation costs drove the increase, unfavorable currency developments and a less favorable channel and market mix weighed on the gross margin development in 2021. In addition, significantly higher supply chain costs as a result of pandemic-related challenges in global logistics markets put further pressure on our gross margin. As a result, the gross margin came in below our initial expectations. Our operating margin increased 5.3 percentage points to 9.4%, in line with our guidance provided in March as we were able to compensate the spike in supply chain costs with an increase in our operating overhead efficiency. Net income from continuing operations increased 223% to € 1.492 billion, and thus exceeded our initial guidance of an improvement to a level of between € 1.25 billion and € 1.45 billion. ▶ SEE INCOME STATEMENT

Average operating working capital as a percentage of sales ended the year 2021 at a level of 20.0%. This reflects a year-over-year decrease of 5.3 percentage points and is only slightly above the targeted level. Capital expenditure increased 51% to € 667 million in 2021, in line with our guidance. More than 70% of these investments were spent on controlled space initiatives as well as on Digital and IT activities. Controlled space initiatives comprise investments in new or remodeled own-retail or franchise stores as well as in shop-in-shop presentations of our products in our customers' stores.
▶ SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Beyond our financial performance, we also actively monitor strategic KPIs in order to track the progress of our strategy 'Own the Game.' These strategic KPIs include the share of our direct-to-consumer business, the development of our e-commerce revenues, the number of members in our membership program, the share of our sustainable article offering as well as the share of women in management positions in our organization. ▶ SEE INTERNAL MANAGEMENT SYSTEM

OVERVIEW OF CURRENT STATUS AND OBJECTIVES FOR SELECTED STRATEGIC KPIS

	2021	Objective 2025
DTC share	38%	to increase to around 50% of net sales
E-commerce revenues	€ 3.942 billion	to increase to a level of between € 8 billion and € 9 billion
Member base in membership program	240 million members	to increase to around 500 million members
Sustainable article offering[1]	69%	9 out of 10 articles to be sustainable
Share of women in management positions	37%	to increase to more than 40%

1 Meaning that they are – to a significant degree – made with environmentally preferred materials.

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities identified through the half-yearly risk and opportunity assessment process to determine the company's risk and opportunity profile (i.e., the company's aggregated risk position). Results from this process are analyzed and reported to the Executive Board accordingly. The Executive Board discusses and assesses risks and opportunities on a regular basis and takes into account the relationship between risk and opportunity profile (i.e., the company's aggregated risk position) and risk appetite as well as risk capacity in its decision-making. Compared to the prior year, our assessment of certain risks and opportunities has changed in terms of likelihood of occurrence and/or potential financial impact. Our risk and opportunity aggregation using a Monte-Carlo simulation determined that the company's aggregated risk does not exceed the company's risk capacity threshold with a likelihood of at least 99%. Therefore, we do not foresee any material jeopardy to the viability of the company as a going concern. ▶ SEE RISK AND OPPORTUNITY REPORT

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2021, we unveiled 'Own the Game,' our strategy for the period until 2025, which defines strategic priorities and objectives for the period up to 2025. The strategy is focused on capturing consumer-driven opportunities which, in turn, is expected to spur above industry top- and sustainable bottom-line growth.

We project currency-neutral revenues to increase at a rate of between 8% and 10% per annum on average between 2021 and 2025. Our bottom-line is expected to grow sustainably, as we expect net income from continuing operations to increase by an average of between 16% and 18% per annum in the four-year period between 2021 and 2025. ► SEE STRATEGY ► SEE OUTLOOK

Following the recovery from the coronavirus pandemic in 2021, we project further strong top-line improvements in 2022. Long-term industry trends such as increasing sports participation, the growing penetration of sports-inspired apparel and footwear ('athleisure') and digitalization are benefitting this development. As a result, we expect sales to increase between 12% and 14% on a currency-neutral basis in 2022. Gross margin is forecast to continue to recover as significantly higher supply chain costs will be more than offset by a positive channel mix effect, price increases as well as the positive impact from favorable currency developments. The strong top-line development in combination with the expected margin expansion is projected to result in an increase in net income from continuing operations to a level of between € 1.8 billion and € 1.9 billion in 2022. ► SEE OUTLOOK

We believe our outlook for 2022 realistically describes the underlying development of the company. However, the outlook for 2022 as outlined in this report is subject to change depending on further developments related to the coronavirus pandemic and industry-wide supply chain challenges. In addition, ongoing uncertainties regarding the economic outlook, the impact from geo-political conflicts and consumer sentiment in both advanced and developing economies as well as re-escalating trade tensions represent risks to the achievement of our stated financial goals and aspirations. No other material event between the end of 2021 and the publication of this report has altered our view. ► SEE OUTLOOK