ANNUAL REPORT 1996

adidas

ADIDAS GROUP
SELECTED FINANCIAL DATA
(INTERNATIONAL ACCOUNTING STANDARDS)

(DM million)	**1996**	1995	1994	1993	1992*
Net sales	**4,709**	3,500	3,196	2,544	2,675
Gross profit	**1,877**	1,389	1,141	827	796
Gross margin (%)	**39.8**	39.7	35.7	32.5	29.8
Income (loss) from operations	**360**	243	90	(27)	(152)
Income (loss) from operations (% of net sales)	**7.6**	6.9	2.8	(1.1)	(5.7)
Royalty and commission income	**97**	100	97	85	75
Financial expenses, net	**13**	47	36	33	58
Income (loss) before taxes and minority interests	**444**	296	151	25	(135)
Net income (loss)	**314**	245	117	14	(152)
Net income (loss) (% of net sales)	**6.7**	7.0	3.7	0.6	(5.7)
Net income (loss) per ordinary share (DM)	**6.93**	5.40	2.59	0.31	(3.35)
Inventories	**1,088**	843	687	605	636
Receivables and other current assets	**818**	563	475	424	398
Total current assets	**1,990**	1,447	1,200	1,071	1,095
Total assets	**2,456**	1,777	1,442	1,293	1,309
Working capital	**555**	343	353	285	252
Total borrowings, net	**340**	407	300	349	397
Total liabilities	**1,506**	1,180	1,000	955	1,023
Shareholders' equity	**904**	577	423	324	283
Net sales footwear	**2,171**	1,790	1,749	1,360	1,452
Net sales apparel	**2,314**	1,528	1,256	1,007	1,051
Net sales hardware	**181**	131	132	117	118
Net sales Europe	**3,111**	2,335	2,101	1,860	1,995
Net sales North America	**1,026**	767	768	490	417
Net sales Asia/Pacific	**464**	307	243	129	150
Net sales Latin America	**108**	91	85	65	113
Total net sales of the brand					
– adidas	**4,709**	3,500	3,196	2,544	2,675
– Licensees	**1,374**	1,450	1,466	1,367	1,249
Number of employees (year-end)	**6,986**	5,730	5,087	5,096	6,401

* The 1992 IAS financial data included in this table is unaudited.
The Company produced audited accounts for 1992 in accordance with German GAAP.

TABLE OF CONTENTS

● PRESIDENT'S LETTER

What a year!

In 1996, adidas surged past records of business growth as well as consumer and trade acceptance. It's a tribute to adidas people worldwide, and we are proud of their achievement last year, as well as of their commitment to build upon that momentum. Together, we will maintain our momentum towards achieving our mission – *to be the best sports brand in the world.*

In 1996, fans everywhere couldn't miss adidas as they watched their favorites on the field. The year was an outstanding year for adidas in the sports arenas, as the company consistently worked to create opportunities for brand visibility on the international sports scene. Thousands of athletes wearing the adidas colors successfully took part in the top championships worldwide: Germany triumphed at soccer's Euro '96 wearing head-to-toe adidas outfits, and over 220 medals were won at the Olympic Games in Atlanta by athletes who chose adidas as their brand for footwear and/or apparel. To further enhance brand visibility in soccer and track and field, adidas signed on as Official Sponsor and Licensee of the FIFA World Cup FRANCE '98 and the International Amateur Athletic Federation. In signing on for soccer's World Cup, adidas made history as the first-ever sponsor of this event in the sports brand category, assuring it unique and universal visibility for what is expected to be the world's most-watched sports event this century. To ensure continuing visibility in all fields, adidas scouted and signed exceptional young athletes including Kobe Bryant in basketball, Anna Kournikova in tennis and Alessandro del Piero in soccer, the promising sports stars of the future.

The year 1996 also marked an exciting turning point in our product history with the launch of the Feet You Wear footwear range.

The philosophy behind Feet You Wear is simple and powerful: based on the fundamental observation that the foot is at its best in its natural state, adidas designed a shoe which offers athletes the biomechanical properties of the foot in a high-performance shoe. The current range, which includes shoes for tennis, basketball, handball, outdoor, and training has been a success, and sales projections for 1997 indicate a sharp rise in volume; the introduction of Feet You Wear running shoes should guarantee another blockbuster year. With Feet You Wear, adidas demonstrates once again that its tradition of technological breakthroughs remains strong and enduring. It is a heritage that will continue to power its trajectory in the marketplace race worldwide.

The year 1996 was the first full year for adidas as a public company; it also proved to be the best year in company history in terms of financial results. Strong growth in sales and profitability continued. For the third year in a row, adidas can report record figures, despite significant marketing investments in the brand to assure sustained growth in the future.

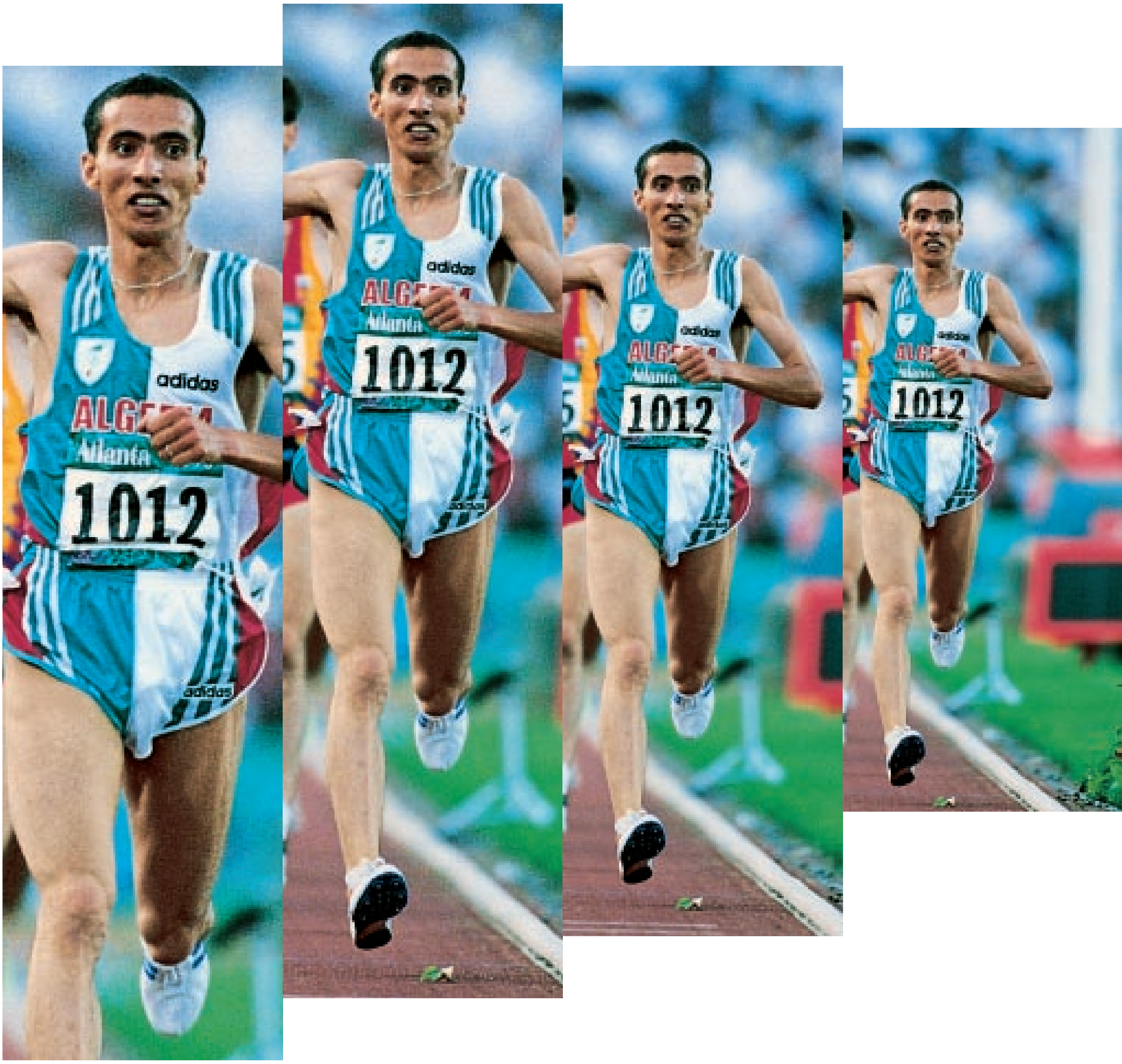
Operational and financial results for 1996 were outstanding, with net sales increasing by 35% to DM 4.7 billion and income before tax by 50% to DM 444 million, as earnings per share increased by 28% to DM 6.93 for the year. Financial leverage decreased significantly as working capital requirements from increased business volume and the purchase of new subsidiaries could be financed with internally-generated cash. The financial community took note of adidas' performance, helping to boost the share to outperform the DAX by 44% since the Initial Public Offering in November 1995 through December 31, 1996.

Moving into 1997, adidas is geared to succeed in a highly competitive environment and we are committed to sustained growth in both sales and profit. Our business outlook is strong; the order backlog for 1997 is up substantially over last year's at the same time, demonstrating the tremendous acceptance of our brand and products by both the trade and consumers.

Results in 1996 have put adidas back where it belongs – in the top league at the very heart of sports. That is, at the same time, our heritage and our motivation. That tradition – proven each day – continues to inspire athletes, their fans, and consumers worldwide. That is also the meaning behind our new streamlined corporate logo featuring the legendary three stripes; this ultimate seal of sporting excellence will accompany the adidas brand and its own ever-growing numbers of committed fans into the next millennium with the clear identity of the best sports brand in the world.

Sports is our passion and our future, a true universal language where the value of the adidas brand is both our legacy and our springboard to the next century. And adidas is fit for the challenges of the global marketplace. We have a clear mission and vision. We have defined specific strategies accepted and implemented enthusiastically by a highly-dedicated international management team and by employees who demonstrate their personal commitment to the brand and to our customers each day. In short, we all have everything we need – especially the will – to win.

Robert Louis-Dreyfus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There couldn't have been a more striking demonstration of adidas' continuing commitment to excellence in sport than the three-stripe brand's vivid and visible presence at Atlanta's Olympic Games in the summer of 1996. The Games also provided an ideal podium for adidas' Olympic champions' product testimonials in the truest sense of the word.

The challenge we faced at Atlanta was unprecedented. The results were also unsurpassed. With 33 Olympic delegations and some 6,000 athletes in virtually all sports categories wearing adidas shoes and/or apparel, adidas was all over the championship territory – on the tracks and fields at all of the Olympic sites in and around Atlanta, and for the entire duration of the Games. Triumph for the products, triumph for the adidas brand.

A triumph for the products. In footwear, adidas successfully developed an entire range of new, technically-advanced shoes, specifically designed for each category of athletes. At the Games, adidas was the brand with the broadest range of functional footwear – the choice of top athletes in a multitude of sports. The top athletes selected our shoes, and we were delighted with their performance. On the apparel side, two years of lab and on-site testing and development led to the creation of a range of performance-enhancing apparel featuring innovative new fabrics and cuts.

A triumph for the brand image. The Games provided adidas with unrivaled opportunities for exposure to build brand and product image. In the sports arena, the omnipresence of adidas footwear and apparel worn by the Olympic athletes was a perfect testimonial that adidas was achieving its brand mission as "the best sports brand in the world" in the eyes of the world's champions. Outside the Olympic arena, a major advertising campaign featured all-time favorite Olympic champions, bringing images of adidas' unique Olympic heritage to millions of homes around the world. The campaign struck a chord of the continuity of adidas' Olympic heritage. It did so by linking Olympic legends like Jesse Owens, Al Oerter or Teofilo Stevenson with contemporary Olympic athletes including Canada's sprinter Donovan Bailey, Cuba's boxer Felix Savon, or Ethiopia's 10,000m runner Haile Gebrselassie, all of whom won gold.

A triumph for adidas. adidas, along with its champions, triumphed with a volley of medals. All in all, over 220 medals (including more than 70 gold medals) were won, making adidas' athletes the single-biggest group of winners among all equipment manufacturers. Of course, adidas is more than proud to have contributed to historic Olympic moments of true athletic grace, including Donovan Bailey's unforgettable world record run in the men's 100m final, Lars Riedel's next-to-last throw in the discus, Felix Savon's brilliance in boxing and Fatuma Roba's dominance in the women's marathon, to name a few.

As a legacy to the Games, adidas has made permanent the house in Atlanta that was the site of its winning presence at the Summer Olympic Games. So, the adidas House in Atlanta, a meeting point for Olympic-class athletes and coaches, team and sports federation officials, as well as business partners and journalists, has become the headquarters for adidas in the region, as well as an adidas international meeting facility.

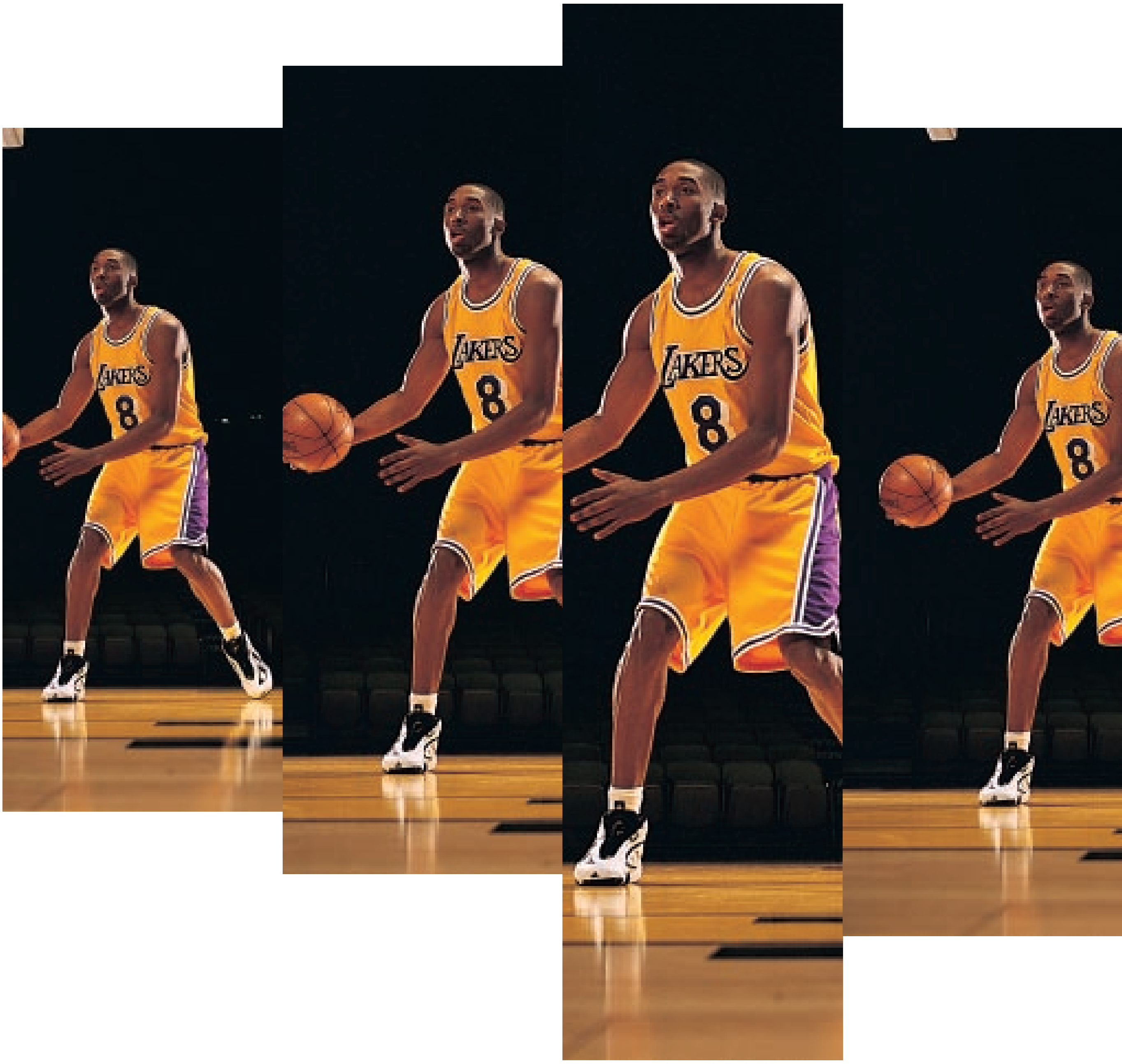
● ADIDAS IN THE SPORTS ARENA:

In 1996, adidas demonstrated, perhaps more than ever before, why its name truly is synonymous with sports. The brand and its products were present all over the world's best sports fields, in addition to the Summer Olympic Games, and on the most promising athletes. Because adidas helped make sports history in 1996, it's worth reviewing those twelve months, sport by sport:

Soccer – Euro '96: adidas outfitted five teams in this event, and was once again able to associate its name with that of a grand winner when Germany took home the coveted trophy after a thrilling final against the Czech Republic. The new Predator and Traxion shoes and the eye-catching new jerseys worn by many of the players on the field gave adidas visibility; the win gave adidas even more credibility as the world's top soccer brand.

adidas' image also was reinforced by a powerful pan-European advertising campaign featuring favorite adidas soccer players, such as England's Paul Gascoigne, Italy's Alessandro del Piero, France's Marcel Desailly and Germany´s Matthias Sammer.

In the fall, we made history with the announcement that adidas would become the first-ever sports brand to be an Official Sponsor of the World Cup FRANCE '98. In addition, adidas became a World Cup supplier and licensee. So, not only will adidas be visible as the World Cup sports brand at what should be the most-watched sporting event of this century, our associations create an array of business opportunities with licensed products. The first licensed products already hit the French market before Christmas 1996, and the big international rollout will start with the Spring/Summer 1997 collection.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Athletics – Additional new business opportunities are being developed from the combined long-term sponsorship/license agreement with the International Amateur Athletic Federation. More than just another Official Sponsor, adidas becomes a true partner in the development of athletics on a worldwide basis. As a result, we will be able to introduce ranges bearing the official symbols of the IAAF. It will be seen as one more proof that when it comes to championship sport the best performers know where to turn.

Tennis – Again, adidas is on the ball with its champion Steffi Graf winning all three Grand Slam tournaments in which she competed. Steffi is an active endorser of Feet You Wear footwear, and her flying feet on the court help power the remarkably successful new footwear line.

On the men's circuit, adidas salutes long-time partner Edberg who retired from the active play and welcomes Stefan as an expert consultant in product development and testing. Fans around the world followed the ultimate tour of the 'last gentleman of tennis' with admiration.

1997 will be a year for new faces and fresh talents: two-time French Open winner Sergi Bruguera and the world's junior number one ranking Anna Kournikova have joined adidas to help perpetuate a long tradition of excellence in sports.

Basketball – adidas proudly welcomes the "new kids on the block". In the steps of their big brothers like Detlef Schrempf (Seattle SuperSonics), John Starks (New York Knicks) and Joe Dumars (Detroit Pistons), NBA rookies Kobe Bryant (LA Lakers), Antoine Walker (Boston Celtics), Jermaine O'Neal (Portland Trail Blazers) and Randy Livingston (Houston Rockets) all proudly sport Feet You Wear basketball shoes during matches. Bryant and Walker – and their shoes – are the stars of the 1997 adidas global Feet You Wear advertising campaign.

In 1996, under the adidas banner, teams from over 40 countries met in Budapest to compete for the 2nd Streetball World Championship. The event will be bigger and better still in 1997, when they all meet again in Milan.

Other games, other countries – adidas extended its long-standing promotional contracts with the Cuban Olympic Committee and Sports Federations. In addition to supporting prominent track and field athletes and boxers, adidas will now sponsor the world-class Cuban Volleyball Federation. adidas continues as the partner of the Russian Wintersport Federations and Olympic Champion Croatian Handball Federation. And, to promote training shoes, adidas is now using American football: it has just signed key players Keyshawn Johnson (New York) and Troy Aikman (Dallas).

For a growing number of the world's top athletes, then, adidas is already *the world's best sports brand.*

Why is it that simple ideas seem so ingenious? It's often because the creative ideas that work best require a genius to turn them into reality; that's the hard part.

Adi Dassler, the founder of adidas, was one of those geniuses who knew how to tame the devil in the detail to make great ideas work the way he imagined.

Adi Dassler was so passionate about sport that he dedicated his life to imagining sports shoes that would enable athletes to perform better by helping the foot – a perfectly calibrated mechanism – to work as it was designed to do. Shoes like the Copa Mundial, Handball Spezial or Grand Slam followed the foot's own design. Another example is adidas' 'Torsion' design, which allows the forefoot and heel to act independently in the same way as the foot itself moves. In fact, the 'Torsion' concept is the forerunner to adidas' giant step forward, Feet You Wear, launched in 1996, and already a success.

Feet You Wear is based upon a simple observation: the foot in its natural state is the athlete's optimal 'footwear', whether torsionning, bending, pushing, revolving, or gripping the ground. The ultimate sports shoe is one that will enhance the foot's function without altering it in any way. Feet You Wear is adidas' answer to the challenge. It is the product of a total comprehension of the foot's function plus a thorough understanding of athletes' requirements, translated into a unique design through technological innovation applied creatively.

Feet You Wear is a no-frill, pure-performance shoe, which, we know from our testing, both in the lab and on the field, makes a difference to the athlete. The difference is not only in fit and comfort but in actual athletic performance and safety. In fact, Feet You Wear is demonstrating once again the wisdom in adidas' design philosophy that form should follow function.

Overall, Feet You Wear enhances athletic performance on two complementary levels: on the ground and in the mind. With a real feeling of 'fresher legs', a basketball player will score more baskets, a runner will go farther, a tennis player will move faster to the ball. And, with a true sensation of stability and proximity to the surface, any athlete will feel more confident and perform better. What's more, because the Feet You Wear design supports the natural contours of the foot, instead of trying to supplement its function, it should reduce ankle, knee and hip problems as well as reducing injuries created by imperfect foot support during lateral athletic movement.

Tennis players were the first to take advantage of Feet You Wear, with the launch of the Equipment Integral tennis shoe in March 1996 at the adidas sponsored Newsweek Tennis Championship. Steffi Graf, one of the world's most consistent champions, who doesn't change her tennis equipment without a good reason, wore the Equipment Integral in winning the Lipton Championship and the US Open later in the year.

The success of Feet You Wear with the Equipment Integral tennis shoe was quickly followed by more products in other athletic categories. The Equipment Top Ten 2000 brings the Feet You Wear concept to basketball and boosts eighteen-year-old Los Angeles Lakers' phenomenon Kobe Bryant. The Equipment 40 is the Feet You Wear entry in training and the Equipment X.T.R. extends the Feet You Wear benefits to adventure. Feet You Wear will become part of the adidas running shoe line in 1997.

How will adidas get final users of the product as excited as those who created it? We start from the premise that the product is exciting in its own right. And, via an ambitious international advertising campaign, strong marketing initiatives and heavy in-store promotional activities, we are making sure people know *why* the product is really worth getting excited about. We have seen already how the campaign is getting athletes to experience Feet You Wear and we know that the intrinsic qualities of the shoe will convince them to wear them when in competition.

Feet You Wear is the quintessence of sports footwear, a unique blend of the best technology and natural sports performance. And Feet you Wear has a mission: to take sports and athletes where no one has been before. The challenge is one that Adi Dassler would have embraced, one that will move adidas a big step closer towards its mission.

● ADIDAS APPAREL:

WHERE FORM ALSO FOLLOWS FUNCTION

Given last year's successful track record of sales of adidas shoes, we're particularly pleased that our apparel sales grew even faster in 1996; in fact, apparel was adidas' fastest-growing product category over the past three years. In 1996, apparel sales grew by 51% year-over-year. This strong performance was the product of two unique adidas competitive advantages: unmatched expertise in the functional sports textiles sector plus a big boost from the adidas brand name.

The linkage is no coincidence; we search out the potential synergies between these two advantages. There's another benefit from our success with apparel; innovative quality apparel extends our brand leadership in clothing and this, in turn, allows us to increase R&D to sustain that lead. In a word, success breeds success.

Or, put another way, quality breeds success. And to get that quality in apparel, we rely on that same simple yet powerful idea that has been the basis of adidas products from the beginning – *"form follows function"*. We apply this philosophy to a true understanding of the athlete's requirements that we know are constantly evolving. We design fabrics and garments which represent the ultimate for sport and for athletes because they are made to be at the leading edge of innovation and technical excellence. In short, we create *quality and style for top performance* from day one.

One of the best examples of this process was the challenge faced by adidas to provide world champion athletes with apparel for the 1996 Olympic Games in Atlanta, where heat and humidity combine to create difficult conditions for the athletes. How do you design and manufacture apparel for top athletic performance under those conditions? To adidas, the challenge was transformed into an opportunity for product development. New fabrics, designs and details were tested on the tracks by athletes over an 18-month period. The resulting technological innovations were so convincing that they will be introduced in the top-of-the-line commercial ranges in the Spring/Summer 1998 collection.

Quality, of course, must be produced at marketplace prices. And adidas is committed to producing the highest-quality products that give the best value. To keep the quality built in at affordable cost, we continually aim to be more productive, to reduce lead times and expenses, and, overall, to improve all aspects of sourcing. Improvements in 1996 include the consolidation of the apparel sourcing process (60% in Asia, 40% in Europe) and its rationalization, including the opening of a sourcing office in Istanbul, to achieve even better FOB prices and margins.

All of this so that, when the three-stripes are worn worldwide, both adidas and the consumer can be prouder than ever.

CHAMPIONSHIP KNOWS NO GENDER

As much as adidas is passionate about sports, it is as committed to encouraging and supporting female athletes as well as women's participation in sports in general. For the desire to compete, the urge to excel, all have no gender; they call forth the universal, human spirit of sport – the will to win, the commitment to a goal, and both the physical and mental dedication required to be the best. Women rely on their athletic equipment to enhance their performance, and adidas is devoted to being the one supplier consistently able to provide women with the best in the big league of sports equipment.

adidas' sales records achieved in 1996 are proof positive that more and more women recognize that adidas understands their specific needs in sports equipment and consistently translates those needs into superior products. In fact, adidas broke all of its records for women's goods in 1996. Sales of performance equipment in both footwear and apparel for women surged last year, as an increasing number of women around the world chose adidas as their performance footwear, textile and hardware brand: the total net sales in the women's category rose 71% over 1995 sales.

How does adidas gain the confidence of so many women? It's a real sense of trust that adidas has earned over time by providing women in sports with high quality, and innovative products that cater to their specific needs. Workout experts, for example, rely on adidas' apparel to provide them with support and comfort adapted to their needs. Workout clothing lines are developed with advice from the world's leading fitness instructors; we took their guidance and then innovated; in 1997, for example, women will be moving to the new adidas Feet You Wear workout shoe.

Yet, this new tradition of trust between adidas and women is more than a story of facts and figures about performance, innovation, quality and value; adidas is a brand with which women are developing a special affinity because, at its base, adidas represents a quest for authenticity in sports. That quest, of course, is at the very heart of the spirit of sport itself.

We tried to make sure that this spirit came through in our international advertising campaign targeted to the women's category in 1996. It featured international champions such as Steffi Graf, French middle distance runner Patricia Djaté, US Olympic fencer Sharon Monplaisir and Italian Olympic diver Francesca d'Oriano. This celebration of women in sports will continue in 1997, with more women champions joining adidas' winning parade.

Our commitment to women in sports will continue to pervade our business strategy across all key sports categories, including workout, running and tennis. And new, related sponsorship opportunities will be launched in 1997, such as the women's race series in Europe. Because if we are to accomplish our mission of becoming the best sports brand in the world, we will do so with a special emphasis on the excellence demonstrated by women in athletic achievement.

1996 AS A LANDMARK YEAR

If any year can be said to be a landmark in adidas' recent history, 1996 was it. The past year witnessed a real adidas renaissance in every sense of the term – a powerful re-launch of the brand in the eyes of the world. This gave it an increased momentum that we aim to maintain and even speed up. Everywhere you looked, the adidas brand was there – twelve months of exceptional visibility on the international sports scene, and on the international media scene in general.

This wasn't by chance. We generated that momentum through a number of announcements, launches, campaigns, and events. There was the launch of integrated communication campaigns around Euro '96 and the Centennial Olympic Games, the official announcement of the World Cup '98 sponsorship, the launch of the Feet You Wear range of footwear, just to name a few of the activities that marked our adidas year. These across-the-board successes translated into exceptional financial growth: double-digit increases in net sales (+35%) and income before taxes (+50%), and a palpable feeling of motivation and enthusiasm throughout the organization.

In fact, if 1996 was such a landmark in adidas' recent history, it was the result of many years of concerted efforts. These included the complete restructuring of the company in the first half of the nineties, followed by a wholly new organizational structure. The new organization is the basis for the levels of productivity and performance required to succeed in our mission to become nothing less than the best sports brand in the world.

Today, adidas has consolidated its activities around two key operational functions – marketing and sourcing – and around four market regions (Europe, North America, Asia/Pacific, Latin America), fully dedicated to sales, distribution and trade marketing. The growth is carefully orchestrated by increasing size and productivity of sourcing and marketing, and by continuing to expand the international network of subsidiaries (e.g. in South Korea). To that end, we increased the number of employees worldwide, from just over 5,700 in 1995 to just about 7,000 at the end of 1996. And we expect our '97 business growth to be supported by a staff addition of up to 1,000 new people in the course of the year.

These are the people behind our business success. They are exceptional men and women who pride themselves on achievement and on being part of a truly multicultural organization. And they can be found everywhere we operate worldwide, be they members of our board, of executive management, or of any other team in the adidas global network of employees. These people are the future of adidas, and it is our responsibility to nurture their talent and to provide them with global opportunities.

Training and coaching is at the base of it all. In addition to the formal programs available in each and every of our major centers, adidas employees benefit from training on the job under an informal 'mentor' system with adidas' more seasoned leaders coaching the company's future managers. We also believe in moving people between countries and regions to enhance the multicultural


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nature of the company. Of course, it's not enough to recruit the best and train for the future; retaining these talents in the company requires us to provide true career opportunities and an overall stimulating working environment, including an attractive package of compensation and benefits.

Of course, we never will forget that our mission is based on the passion for sport. So we actively encourage management and employees worldwide to be sportsmen and -women, and we make this a factor in our recruitment. This not only provides invaluable insight into the industry and our own products; most importantly, it nurtures a certain "adidas" spirit and attitude within our company. Sports is a state of mind, and its practice fosters in our people essential qualities such as endurance, the aspiration for excellence, and the desire and pride to be part of a winning team.

To make sure that happens, we will continue to emphasize accountability, as well as real teamwork. That means giving everyone responsibility to be the best at his or her position, but never forgetting that no one player can achieve victory in what is, at base, a team effort. This is really our management style: give the individual full responsibility over his/her job, make sure the managers are coaches who bring out the best in each person, and work together toward a common goal that is clear and attainable through teamwork. The adidas management philosophy of broad delegation creates an environment where essential qualities such as initiative and creativity can develop to their greatest degree. adidas managers have great freedom in the way they manage their teams, as long as they attain their results. Sales, margins or income before tax are indicators of their financial performance, while service level, market share or lead-time measure operational performance. Top management defines and reviews these measurements, systematically assesses individual performance against these criteria, and compensates accordingly.

As adidas continues to grow, so will the numbers of people in adidas teams around the world. In a fiercely competitive environment, management of human resources is as much a strategic management role as any other. For this reason, we created an adidas task force which has a specific mission to make best use of human resources at a global level in order to ensure that we are always in a position to recruit, train, nurture and retain the world's best talents.

As adidas prepares itself for more banner years like 1996, a continuous flow of new people from the younger generation will be brought in to ensure that fresh enthusiasm and ideas will meld with our experienced work force and with our spirit and passion for sport. What better way to make sure that 1996, the adidas year, in fact will lead to the adidas decade as we turn the corner of the new century?

To a company like adidas, the 'status-quo' is unacceptable. To be a leader, to succeed in a world where the competition for the consumer's loyalty is tested every day, adidas people know that we can't afford to stand still. We are committed to applying our energy each day behind our quest to be the best.

Continued evolution, constant re-inventing, continuous self-questioning, unwillingness to settle for anything less than the best – these all generate the drive, creativity and ingenuity that can lead to corporate success. However, achieving that success depends on management's ability to channel that energy toward clear and attainable goals through the motivation of a sense of shared mission and a vision of the way to get there. That is precisely how adidas is managing its organization and coaching its teams: to win. And the year's results measure just how well adidas has been succeeding in the last couple of years.

Indeed, if adidas has been able to evolve from a company based on manufacturing to one where market needs drive the engine to assure sustained leadership, it is because adidas has a brand mission that provides purpose and a brand vision that gives direction by defining how that mission will be achieved.

– The brand *mission* is to become the best sports brand in the world.
– The brand *vision* is to become the leading performance brand in the world in both footwear and apparel in all categories where we compete.

adidas has come a long way precisely because it has set out where it wants to go, and how it wants to get there. Our vision is the roadmap to the future – and we are united on that road to success. Being the best means exceeding all others in our industry in performance, quality, service, value, communication and staffing. We will know we have achieved our objective when true athletes in all of our major sports categories select adidas as their performance-enhancing equipment. This is an ambitious target, but one we have the true desire to reach, and one that we are now equipped for.

We are fully aware of what it takes to get to the top. We must sustain growth in sales and profit, reinforce financial strength, and increase shareholder value. We must also provide a secure working environment that will attract, motivate, develop and keep the best people. Yet, if we are to assume the role of a real leader, we must go beyond quantitative business measurements of today in order to assure our acceptance in society today and tomorrow. We must recognize and assume our responsibility as a corporation and strive to foster an understanding for social and environmental responsibility, for the rights of all individuals, and for the laws of the countries in which we operate.

Our vision is further defined into specific strategies that provide a detailed roadmap to sustained brand, product, and corporate development across the board. We have refined our strategic orientations for key activities, including product marketing, communications, sales, distribution and sourcing. These are defined in detailed terms for applicability across the regions of Europe, Asia/Pacific, North America and Latin America. And then they are translated into measurable objectives.


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Product marketing will focus on innovative high-performance footwear and apparel, with particular emphasis on the landmark Feet You Wear line of products. Although we produce products for many sports, the core categories will be soccer, running, basketball, tennis and training, with additional developments aimed at the women's and kids' segments. Product marketing will benefit from above-industry-average spending on R&D, a level of 2.5% of footwear net sales.

Communications will be made more productive. In an environment of an ever-increasing spiral of inflation in the promotional investment circuit, we will concentrate on key symbols and messages. Promotional activities will be centered around these symbols and be leveraged by a combination of creative advertising and public relations, extensive merchandising, and large-scale grass root programs. The Feet You Wear concept will be the focal point of our overall communication effort, with an additional boost from the World Cup '98 sponsorship which will gain importance as the event approaches.

In sales and distribution, we aim to maintain maximum control over our brand and to provide top-rank service to the trade. To this end, we will continue to expand our network of fully-owned subsidiaries or joint ventures: Italy and South Korea were signed in '95/'96, and negotiations with Japan are currently underway. Activities to increase our service level include the development of partnership programs with key trade partners. These include 'Shop-in-Shops', Electronic Data Interchange, or 'Fit for Sales', a unique educational training program for retail sales personnel which we have pioneered in Germany.

Sourcing is at the heart of our business, and an essential lever to reduce FOB prices and optimize our service level to subsidiaries and customers. Strategies in 1997 will include consolidating and enhancing partnerships with key suppliers in footwear and in apparel. We will continue to reduce lead times by securing a highly flexible and higher-technology factory base in Asia for footwear and will also source an increasing amount of apparel close to our major markets.

We have specific strategic objectives in mind for the different regions. In Europe, we want to reinforce leadership in Germany and push for share growth in all other major countries. In North America, we will continue to drive marketshare in some of our core categories, especially running, and to revitalize basketball to reflect its importance in America and worldwide. In Asia/Pacific, we will capitalize on market growth and pursue our joint-venture efforts by concluding current business partnership projects including those in Japan, as well as by improving existing ventures. Finally, in Latin America, we will strengthen the regional organization by reinforcing management in key countries and stabilize performance in countries which have proven volatile, including Mexico, Brazil and Argentina.

We all are committed to these clearly defined strategies. In close cooperation with our trade partners, we are all personally committed to being the best performer in the business. Now is the time to make a statement: we are one company, with one mission and a single, unifying brand. And in time, if we are true to our mission, we will be the best sports brand in the world.

MEMBERS OF THE SUPERVISORY BOARD AND THE BOARD OF DIRECTORS

Supervisory Board

Henri Filho (Chairman)
Paris, France

Dr. Hans Friderichs
(Deputy chairman)
Mainz, Germany

Georg Beer *)
Herzogenaurach, Germany

Gerold Brandt
Gräfelfing, Germany
(since May 30, 1996)

David Bromilow
Bangkok, Thailand

Dominique Eugène
Paris, France
(until May 30, 1996)

Ludwig Günther *)
Markt Bibart, Germany
(until April 30, 1996)

Hans-Dieter Hippmann *)
Scheinfeld, Germany

Fritz Kammerer *)
Fürth/Bayern, Germany
(since October 11, 1996)

Peter Nolan
Los Angeles, USA

Serge Okun
Lungern, Switzerland

Dr. Thomas Russell
Sarasota, USA

Charles Thomas Scott
London, UK
(since May 30, 1996)

Heidi Thaler-Veh *)
Uffenheim, Germany

*) Employee representatives

Board of Directors

Robert Louis-Dreyfus (Chairman)
Davos, Switzerland

Pierre Galbois
Paris, France
(until April 30, 1996)

Peter C. Moore
Portland, USA

Michel Perraudin
Nuremberg, Germany

Christian Tourres
Lungern, Switzerland

REPORT OF THE SUPERVISORY BOARD

In the course of the financial year the members of the Supervisory Board were regularly and extensively informed about the development of the Company and about fundamental matters relating to corporate strategy and business transactions of major importance by means of verbal and written reports from the Board of Directors. In three joint meetings with the Board of Directors, the prospects of the adidas Group as well as the current business development of the major Group companies were dealt with in detail. In addition to the responsibilities prescribed by law and the articles of incorporation, the Supervisory Board acted in an advisory role in essential individual matters.

As in the prior year, consolidated financial statements were drawn up in accordance with the requirements of German commercial law (HGB) and additional consolidated financial statements were prepared in compliance with International Accounting Standards. The auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, have audited both consolidated financial statements as well as the financial statements of adidas AG and the management report of adidas AG combined with that of the Group and issued unqualified opinions thereon. The financial statements, the management report as well as the audit reports of the auditors have been presented to the Supervisory Board.

The Supervisory Board has examined the financial statements, the management report and the proposal submitted by the Board of Directors with respect to the appropriation of retained earnings and – as no objections have been raised – has approved the results of the audit.

The financial statements for the year ended December 31, 1996 have been approved by the Supervisory Board. The Supervisory Board has expressed its agreement with the management report and especially with the outlook for the future development of the Company. The financial statements are thus approved.

The proposal submitted by the Board of Directors with respect to the appropriation of retained earnings has been approved.

Dominique Eugène resigned as a member of the Supervisory Board at the beginning of the annual general meeting on May 30, 1996. In his place and in the place of Prof. Dr. Dietrich Köllhofer, who died in June 1995, Charles Thomas Scott and Gerold Brandt were appointed members of the Supervisory Board at the same annual general meeting of May 30, 1996.

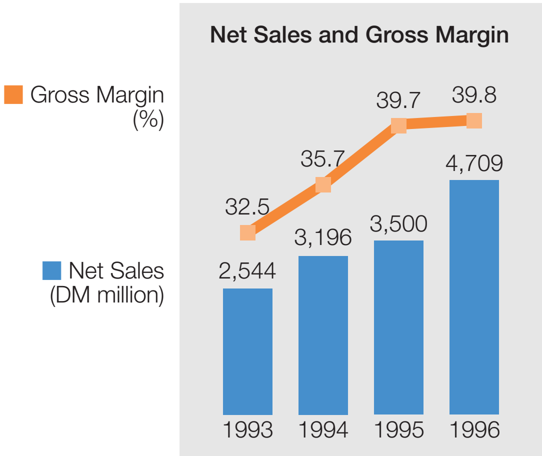
In the place of Ludwig Günther, who resigned his seat on the Supervisory Board effective April 30, 1996, Fritz Kammerer was appointed as a representative of the employees on October 11, 1996.

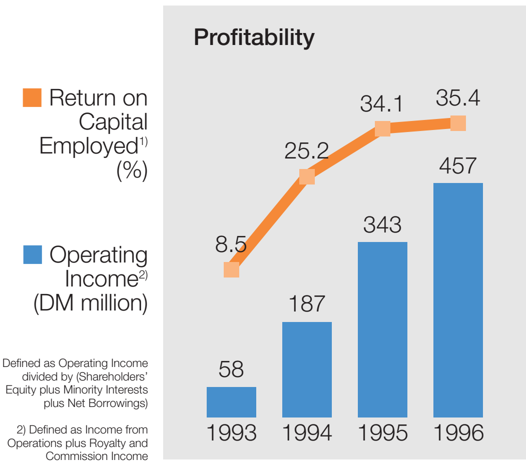
On April 30, 1996, Pierre Galbois retired from the Board of Directors. We thank the retired members of the Supervisory Board and of the Board of Directors for their personal commitment for the benefit of adidas AG.

We very much appreciate the work of the Board of Directors, the Management Boards of the Group companies, the Works Council and all employees and thank them all for their commitment to adidas.

Herzogenaurach, March 6, 1997

The Supervisory Board
Henri Filho
(Chairman)





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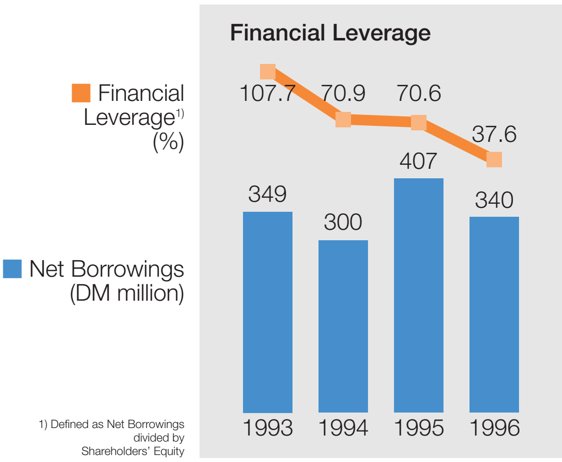
2) Defined as Income from Operations plus Royalty and Commission Income



1) Defined as Net Borrowings divided by Shareholders' Equity

OVERVIEW

Improvement of operational and financial performance continued in 1996:

- Net sales increased by 35% to DM 4.7 billion primarily driven by organic growth in Europe and North America and, to a lesser extent, by the consolidation of new subsidiaries

- Gross profit grew by 35% to DM 1.9 billion based on strong volume growth

- Income before taxes rose from DM 296 million in 1995 to DM 444 million in 1996, representing growth of 50% and improving the ratio to net sales by 90 basis points to 9.4%

- Earnings per ordinary share (EPS) reached DM 6.93 in 1996, achieving growth of 28% for the total fiscal year

- Profitability as measured by return on capital employed was raised from 34.1% in 1995 to 35.4%. A significant increase in operating income more than compensated for the rise in capital employed due to expanded business volume

- Financial leverage decreased as working capital requirements from increased business volume and the purchase of shareholdings in new subsidiaries were more than offset by an enlarged equity base and internally generated cash

NET SALES ANALYSIS

Net Sales increased by 35% to DM 4.7 billion in 1996 from DM 3.5 billion in 1995. The impact of special effects on net sales was as follows:

- Consolidation effects from new subsidiaries contributed approximately 7% to net sales growth
- Translation effects from converting non-Deutsche Mark denominated sales into Deutsche Mark denominated sales enhanced net sales by 3%

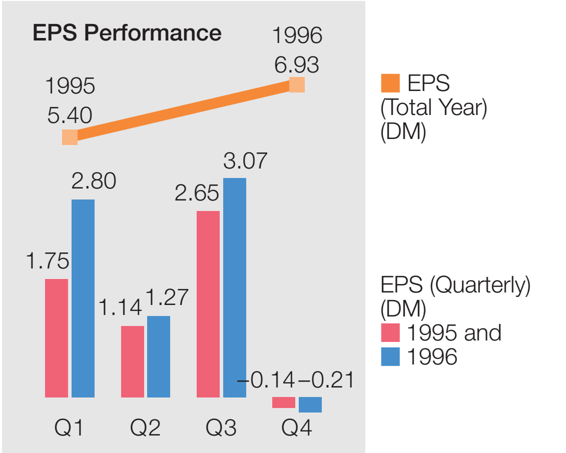
Total Brand Net Sales by adidas and its licensees reached DM 6.1 billion in 1996, which resulted in a growth rate of 23%. The decreasing share of net sales by licensees relative to total brand net sales reflects the continuing strategy to purchase outright or to acquire a majority shareholding in licensee operations in countries with significant market size and potential in order to assure quality control over the brand.

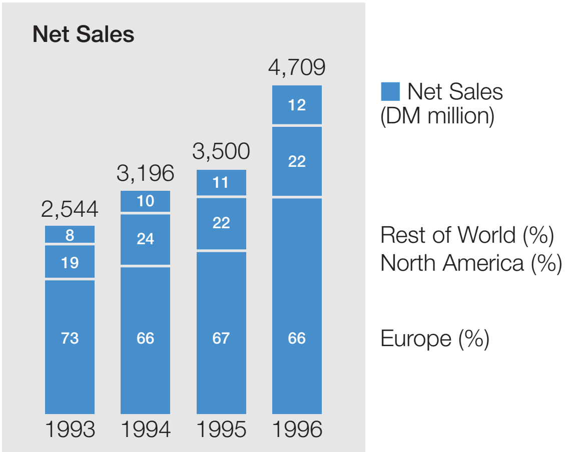
Net sales of **Footwear** reached DM 2,171 million in 1996 compared to DM 1,790 million in 1995, achieving a 21% growth rate. Most major sports categories contributed to the increase in net sales in 1996 led by the running and training categories, which together accounted for more than 40% ot total net sales in footwear. The soccer category sustained the high volume level achieved in 1995 for performance footwear; it contributed approximately one fifth of total footwear sales. Basketball regained momentum as the continued decline in sales of the “Originals” line was more than offset by sales from the introduction of the performance line Feet You Wear as well as from sales increases in other product lines. The “women’s” lines continued with strong growth at around 70% in 1996.

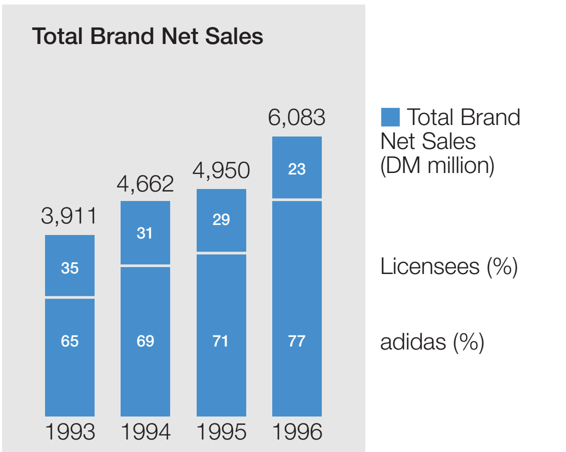
Since the introduction of Feet You Wear in the second half of 1996, adidas has sold approximately 600,000 units based on the new “Barefoot Technology”. It is expected that the innovative Feet You Wear range can be positioned at the top end of the premium brand footwear segment, providing a platform to enhance the core range of adidas footwear.

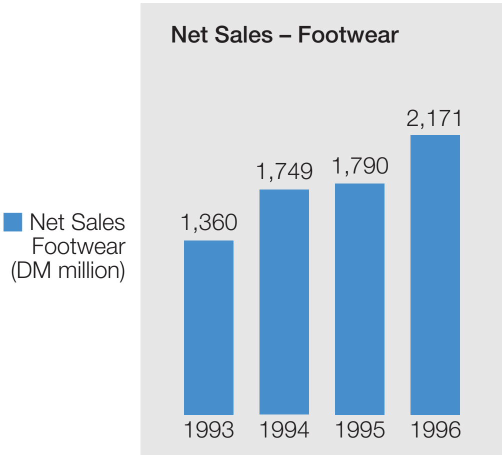
Apparel was once again a strong performer. Net sales grew 51% reaching DM 2,314 million in 1996 and increasing its share of total company sales from 44% in 1995 to 49% in 1996. The all-purpose apparel segment remained the largest product category, representing around 70% of total apparel sales. All-purpose grew more than 45% from its already high volume in 1995. The Workout category more than doubled sales and the “kids’” and “women’s” lines also achieved excellent growth rates.

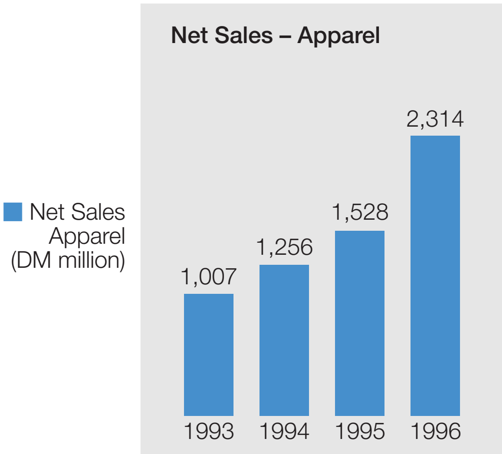
Hardware and Other Sales increased from DM 182 million to DM 225 million growing at 24%.

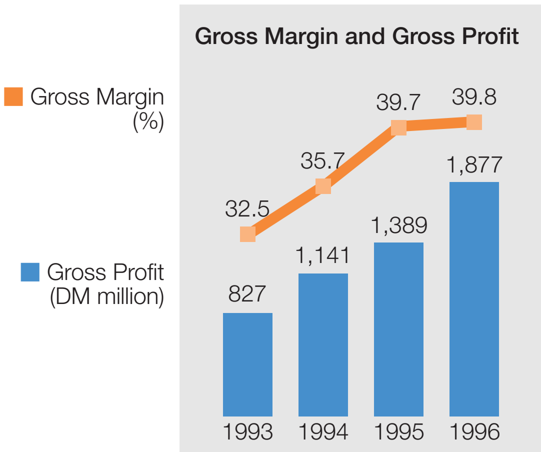












PROFITABILITY ANALYSIS

Gross Profit increased from DM 1,389 million in 1995 to DM 1,877 million in 1996 primarily based on volume growth. Gross Margin improved slightly from 39.7% in 1995 to 39.8% in 1996. The less favorable purchasing terms during the second half of 1996 as compared to 1995, primarily due to the appreciation of the U.S. Dollar versus the Deutsche Mark, was offset by the tight control of product costs and a further shift to the higher margin apparel business in the sales mix. Additionally, a more favorable product mix led to satisfactory margin performance in footwear as high margin segments such as running increased their share while other volume segments such as soccer, basketball and tennis maintained margins at comparable levels to those of 1995.

Because two thirds of our purchases from suppliers are denominated in U.S. Dollars, and because the main focus of sales is in Europe, control of product costs will become increasingly important for our ability to sustain gross margin at competitive levels, especially during periods of an appreciating dollar. We therefore are continuing to allocate substantial management and financial resources to our sourcing organization in order to continuously improve the quality of cooperation with supply factories. In addition, we will attempt to further streamline our supply base and focus on core suppliers in order to reduce complexity and realize efficiencies.

Additionally, we control currency risk through hedging contracts which cover up to 90% of our seasonal purchasing volume one year in advance. In addition to forward contracts, which are arranged primarily for shorter periods, we will continue to employ various forms of currency options in order to manage our currency exposure. The currency impact of such contracts, which have their effect at the time of the physical transaction, is reflected in cost of sales and consequently influences gross margin.

Income before Taxes increased to DM 444 million, or 9.4% of net sales for 1996, from DM 296 million, or 8.5% of net sales, for 1995. Starting from a significantly higher gross profit base, the following factors influenced income before taxes:

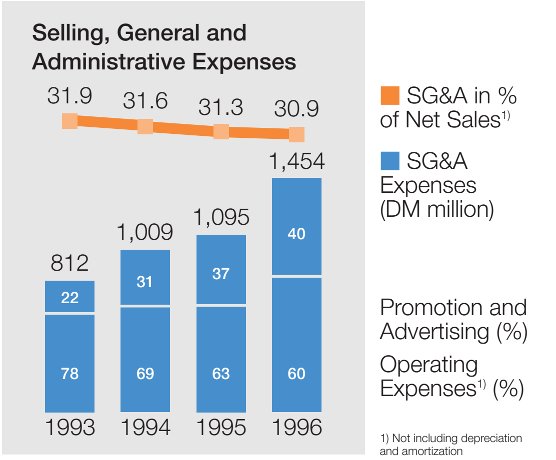
- **Selling, General and Administrative Expenses** (SG&A) not including depreciation and amortization amounted to DM 1,454 million in 1996, an increase of 32.8% over 1995. However, SG&A expenses decreased as a percentage of net sales by 40 basis points to 30.9% despite significantly higher promotion and advertising spending related to major sports events in 1996 (12.3% of net sales in 1996 compared to 11.7% of net sales in 1995). SG&A expenses other than promotion and advertising decreased as a percentage of net sales by 100 basis points (18.6% of net sales in 1996 compared to 19.6% in 1995). A major focus in the medium-term will be to continue tight control of operating expenses without jeopardizing the quality of service to our customers. For example, it was decided to outsource the distribution of apparel in the U.S. to UPS Worldwide Logistics in 1996. During the first half of 1997 we will also commence a relationship with Caliber Logistics which will involve Caliber undertaking the distribution of our U.S. footwear from our facility in Spartanburg. We are confident that both of these relationships will yield benefits both in terms of cost savings and quality delivered to the trade.

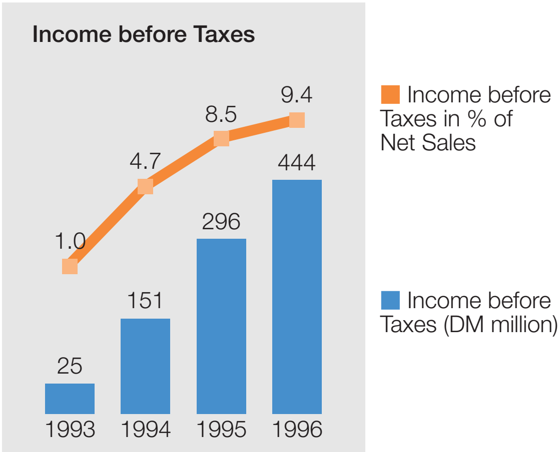
- **Depreciation and Amortization** increased from DM 51 million in 1995 to DM 62 million in 1996 reflecting both higher depreciation on equipment and additional goodwill amortization. The latter included DM 6 million from the purchase of the shareholdings in the Australian/New Zealand, South Korean and Singaporean subsidiaries and the full year effect of the acquisition of the outstanding minority interests in the North American subsidiary.

- **Royalty and Commission Income** decreased slightly from DM 100 million in 1995 to DM 97 million in 1996 reflecting the continued transformation of licensees/distributors into majority or wholly-owned sales subsidiaries. However, reconciling the special effect of transforming third party licensees/distributors into group companies, royalty income from remaining licensees/distributors increased by 8%.

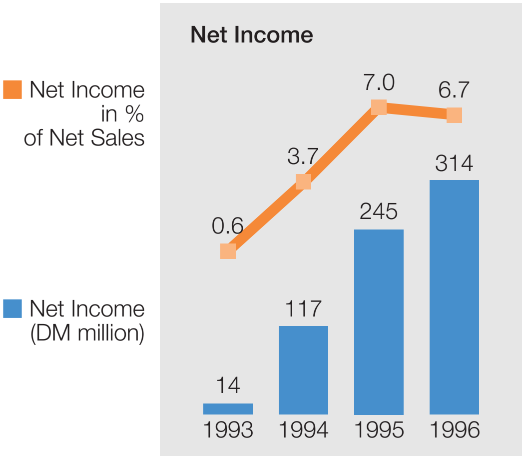
Net Financial Expenses declined substantially from DM 47 million in 1995 to DM 13 million in 1996 as (1) net interest expenses were reduced by DM 4 million due to lower interest rates in 1996 with net borrowings on average at similar levels in 1995 and 1996 and (2) currency effects led to net exchange gains of DM 21 million in 1996 on normal hedging activities while in 1995 net exchange losses of DM 9 million were incurred. Due to our operations in a multitude of currencies, we will generally either have exchange losses or gains on the movement of the major currencies versus the Deutsche Mark. A part of the currency effects result from hedging for future physical transactions, which have been reflected in net financial expenses, by restating the value of outstanding hedging contracts to the fair market value. Unrealized exchange gains on outstanding hedging contracts, which were included in net financial expenses, amounted to DM 8 million in 1996. In 1997, we will change the accounting treatment of hedging contracts. Unrealized gains and/or losses on outstanding hedging contracts will no longer be recorded in net financial expenses at each balance date but recorded upon the maturity of each hedging transaction as part of cost of sales.

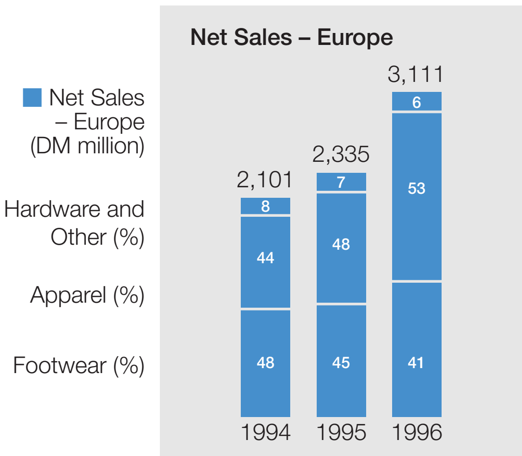
Net Income rose by 28% to DM 314 million despite significantly higher income taxes and minority interests. Net income relative to net sales decreased from 7.0% in 1995 to 6.7% in 1996 as a result of the negative impact from higher income taxes as compared to the previous fiscal year.





The increase in **Minority Interests** from DM 8 million in 1995 to DM 23 million in 1996 is due to new joint ventures in Italy and South Korea as well as the higher income achieved by existing joint ventures. In addition, Australia and New Zealand contributed significantly to minority interests during the first half of 1996 although both subsidiaries were consolidated on a 100% basis for the first time starting in July 1996.





Income Taxes increased to DM 107 million in 1996 up from DM 43 million. The phase-out of tax-loss carryforwards in the French and U.K. subsidiaries in 1996 and the increased taxable income in some subsidiaries in countries with higher tax rates such as Italy have led to an increase in the effective tax rate for the group (24.1% in 1996 compared to 14.5% in 1995). Taxable income was sheltered by tax-loss carryforwards at German operations and to a lesser extent in some other countries.

As of January 1, 1997 adidas had accumulated **Loss Carryforwards** of DM 667 million from operating losses mainly in years prior to 1993. Because of restrictions on DM 265 million of these loss carryforwards, the amount which can be used for tax purposes is DM 402 million as of this date, of which DM 317 million do not have time limitations regarding their usage. The largest amount of such carryforwards is in the German operations (DM 282 million).

PERFORMANCE OF REGIONS

Europe

General market conditions in 1996 for sporting goods in major European countries were characterized by moderate volume growth with the exception of a few markets like Spain and the U.K., which had above-average growth. In this overall climate of moderate market growth, we managed to increase net sales by 33% to DM 3,111 million, thereby gaining market share in major European markets. Major growth drivers included **Apparel** (+47%) in general, which reinforced the leadership position of adidas in branded sports apparel, and selected sports categories such as soccer, running and training for **Footwear**, which grew at 21%.

Top performing countries with double-digit growth rates included Germany (+22%), the U.K. (+65%), Spain (+54%), Sweden (+53%) and Norway (+44%). The new joint venture company in Italy also contributed considerably to the increase in net sales. Eastern European subsidiaries again generated good results; they drew upon their competitive advantage of adidas having been first to have full sales organizations in major markets such as Hungary, the Czech Republic, Poland and the former CIS countries. We intend to establish a wholly-owned subsidiary in the Slovak Republic in 1997 in order to leverage the size and potential of this market for adidas.

1996 was an important year for us not only in terms of major sports events (e.g. European Soccer Championships) but also in terms of signing new sports contracts such as the World Cup FRANCE '98 or upgrading the level of existing promotional contracts.

The introduction of Feet You Wear in key markets (Germany, France) in the second half of 1996 was well received, with approximately 200,000 units sold.

A focused advertising and promotion strategy, combined with a continuous adaptation of sales and distribution structures to the requirements of the trade, will be critical to our continued success in the home market.

North America

The North American market for branded athletic footwear grew at around 10% based on wholesale prices in 1996. Net sales of adidas in North America increased by 34% to DM 1,026 million in 1996 up from DM 767 million in 1995. The growth was primarily driven by apparel and selected footwear segments.

In **Footwear** net sales increased 18% to DM 582 million in 1996 compared to 495 million in 1995. The increase in footwear was primarily driven by the running and training categories. The running category performed particularly well (+74% in local currency), reflecting the strength of the running product line as well as the North American casual consumer's desire for an alternative to the training silhouette. The basketball category surpassed soccer as the number one sports category in terms of sales volume achieving a growth rate in local currency of 9% in 1996. In order to further strengthen our presence in the North American basketball market, we have added management resources and intensified promotional efforts, featuring promising NBA athletes such as Kobe Bryant (Los Angeles Lakers) and Antoine Walker (Boston Celtics).

Footwear featuring Feet You Wear technology was launched in limited quantities in North America in August 1996.

Net sales of **Apparel** increased by 62% to DM 437 million from DM 269 million in 1995, reflecting the continued popularity of the brand, in addition to the North American consumer's taste for branded apparel.

Asia/Pacific

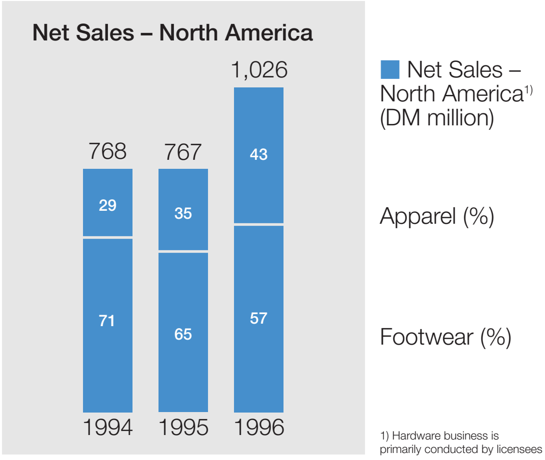
Overall favorable market conditions in the Asia/Pacific region encouraged our development in 1996 in this region. Net sales grew by 51%, from DM 307 million in 1995 to DM 464 million in 1996 as a result of positive developments at newly established joint ventures and wholly-owned subsidiaries. Our market position was revitalized in developing markets like Indonesia, Thailand and the Philippines. Larger subsidiaries such as Australia and Hong Kong continued to show good performance.

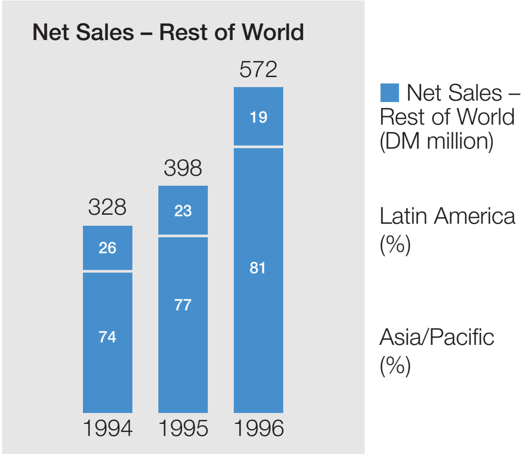
Our expansion strategy in Asia/Pacific is best illustrated by the fact that the number of majority-owned subsidiaries increased from 5 in 1994 to 12 in 1996.

In 1996, we assumed 100% control of our subsidiaries in Australia, our largest Asia/Pacific subsidiary, as well as in New Zealand by acquiring the outstanding shareholdings of 51% each from Pacific Dunlop. Effective October 1, 1996, we became a 51% shareholder in Jewoo Trading Co. Ltd., the distributor of adidas products in South Korea. Additionally, the wholly-owned sales subsidiary in Taiwan and the joint venture in India were operational at the end of 1996.

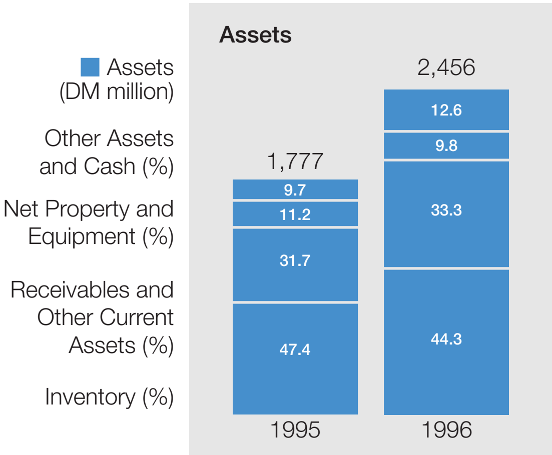
By sports category, sales were particularly strong for training, soccer and running, with **Footwear** growing at 35% and **Apparel** at 67%.

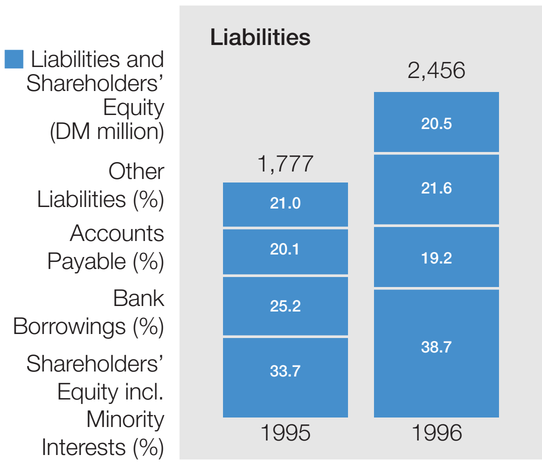
Net sales development in the major licensee country, Japan, continued to be strong.





The major focus in Asia/Pacific will be on further strengthening the brand image and on integrating new operations. This will allow us to exploit cost synergies and to introduce adidas standards in terms of promotion spending, marketing control and purchasing, allowing us to fully participate in the growth opportunities in this region.





Latin America

Net sales increased by 19% to DM 108 million in 1996. The growth was primarily generated by Argentina, Uruguay and the new subsidiary Chile, which now also services Peru. Also contributing to the increase in net sales were export sales from a wholly-owned subsidiary in Panama to those Latin American countries without established adidas organizations. Large markets in Brazil and Mexico remained flat. **Footwear** continued to be the main contributor to sales volume in Latin America.

During the last three years, the focus in the Latin America region has been on improving the brand image and quality of products. In order to accomplish this, new subsidiaries and joint ventures were established in the major countries in order to increase the level of imported products from our sourcing organizations. As a result, imported products represented approximately 25% of total sales in 1996 compared to only 6% in 1993.

In the medium-term, we will strive to improve the quality of locally manufactured products of licensees. We have, therefore, committed additional resources in terms of personnel and technology support during 1996.

BALANCE SHEET AND CASH FLOW

As of December 31, 1996 **Current Assets** consisting of inventory, receivables and other current assets (not including cash and cash equivalents) represented 78% of the total asset base of adidas. Due to the seasonality of the business, working capital fluctuated within a range of approximately 20% during the course of 1996, with the peak reached at the end of the third quarter.

Compared to December 31, 1995 **Inventories** increased by 29% to DM 1,088 million thus growing relatively less quickly than did our forward order book ("backlog"). Inventory turnover improved from 2.76 in 1995 to 2.93 in 1996. During 1996, we have also initiated a project with a software and management consultancy to replace the existing order forecasting and processing system in order to continue to improve lead times and inventory management.

Receivables and Other Current Assets as of December 31, 1996 amounted to DM 818 million, compared to DM 563 million at December 31, 1995, an increase of 45% which is below the fourth quarter sales growth of 51%.

Net Property and Equipment increased from DM 199 million in 1995 to DM 241 million in 1996 reflecting higher capital expenditures. Net additions to property and equipment were DM 79 million (of which DM 13 million resulted from additions due to newly consolidated companies) in 1996 as compared to DM 50 million in 1995. The major focus is on improving operational efficiencies with better EDP systems, enhancing product testing and development capabilities at the Scheinfeld Global Technology Center, modernizing warehousing and establishing the Atlanta House for the Olympic Summer Games 1996, which already serves as a base for promotional activities in the U.S.

Purchase of Major Investments included in 1996:

- 51% outstanding majority shareholding in Australian and New Zealand subsidiaries from Pacific Dunlop effective as of July 1, 1996

- 51% shareholding in Jewoo Trading Co. Ltd., the distributor of adidas sporting goods in South Korea, from Dutch company Hagemeyer N.V. effective as of October 1, 1996

The increase in **Intangibles and Other Assets** from DM 132 million in 1995 to DM 225 million in 1996 primarily reflects goodwill of DM 83 million in relation to the above purchases.

The **Net Borrowings to Shareholders' Equity Ratio** decreased from 71% in 1995 to 38% in 1996 due to:

- a decline in net borrowings from DM 407 million at the end of 1995 to DM 340 million at the end of 1996 resulting from (1) an increase in net cash provided by operations from DM 131 million in 1995 to DM 201 million in 1996, which was more than sufficient to finance the purchase of shareholdings in subsidiaries/ joint ventures and capital expenditures for property and equipment and (2) the net cash position assumed from Jewoo Trading Co. Ltd., and

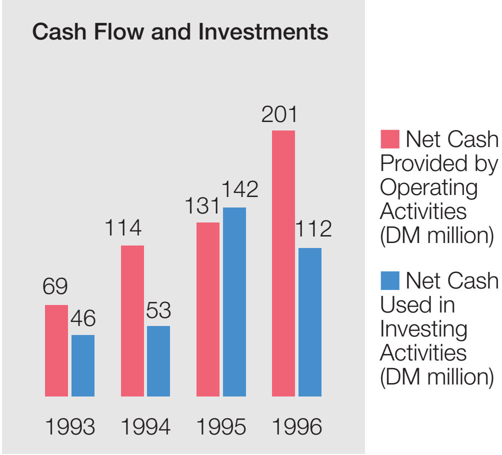
- an enlarged equity base from continued net income growth in 1996.

The cash assumed from Jewoo Trading Co. Ltd. is invested with maturities ranging from less than three months up to more than twelve months and is reflected under asset categories according to the maturity structure.

Debt Financing at the end of fiscal year 1996 was primarily in the short-term range. Short-term borrowings consist of bank borrowings and discounted trade bills, typically with maturities of less than 3 months. As of December 31, 1996, major borrowings were in DEM (31.0%), GBP (18.3%) and FRF (10.1%). Long-term bank borrowings were reduced from DM 19 million to DM 5 million, which is in line with the repayment schedule.

Month-end weighted average interest rates on borrowings ranged from 4.8% to 6.2% and from 6.5% to 7.3% for the years ended December 31, 1996, and 1995, respectively.

adidas has cash credit lines of approximately DM 2.1 billion (of which, on December 31, 1996, we had allocated DM 128 million to be available for the issuance of letters of credit) and separate lines for the issuance of letters of credit of approximately DM 730 million, which are used primarily to support our sourcing activities in Asia. As of December 31, 1996 unused cash credit lines amounted to approximately DM 1.5 billion.



In order to protect our future financing capabilities and the applicable interest rates, during 1996, we converted uncommitted short-term lines of approximately DM 250 million into committed medium-term credit lines and also arranged interest caps for a total amount of DM 100 million. Both the credit facility and the caps run until the year 2000 with the caps providing protection against an increase of the average borrowing rate above 6.25%, up to a maximum of 9.75%, calculated against a basket of currencies reflecting our typical borrowings.

OUTLOOK

Backlog Analysis

Orders on hand for our top 12 subsidiaries at the end of 1996 amounted to DM 1,964 million, which represents an increase of 46% or DM 620 million in absolute terms compared to the end of 1995. The growth in orders on hand would have been 33% or DM 485 million after reconciling for the inclusion of new subsidiaries. The increase in volume was led by the U.K. followed by North America, Germany, Spain, Australia and Norway, which all showed backlog growth of more than 25% compared to 1995. 75% of the increase in orders on hand is related to **Apparel** (+53%), with the remainder attributable to **Footwear** (+17%).

Key Strategic Issues

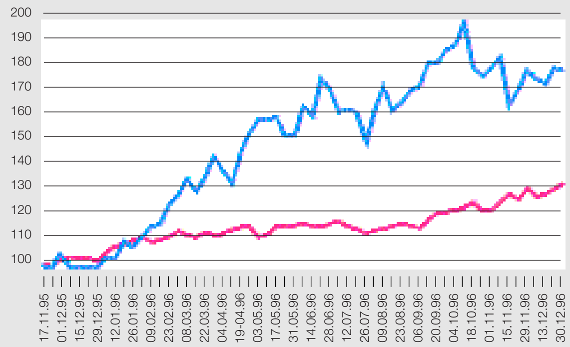
adidas operates in an industry that will witness increasing competitive pressure in the medium-term. These competitive pressures result from a variety of factors, in particular from the surge in costs to secure attractive promotional contracts. In order to be prepared, we will, during 1997, realign our corporate structure to respond best to market demands. This new structure will focus the group-wide brand and promotional activities to achieve maximum efficiencies. In addition, we will continuously review all opportunities to improve operational efficiencies throughout the value-added chain, continue the shift from licensees to our own sales organizations, expand the introduction of Feet You Wear lines and strive for leadership in customer service.

1996 saw excellent performances in all major European and in the U.S. stock markets. The diminishing fear of inflation combined with the need to spur GDP growth in Europe and the U.S. led central banks to sustain low interest rate levels, which created a favorable macroeconomic environment for stock markets. Special effects such as record transaction volumes from mergers and takeovers in the U.S. and Europe, and continued privatization and corporate restructurings in Europe have increasingly attracted funds from institutional investors into stock markets.

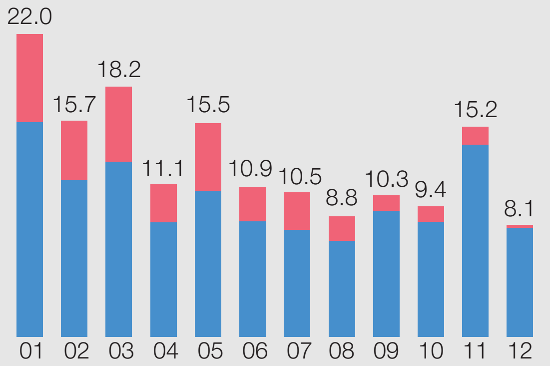
Within this overall positive framework of international capital markets in 1996, the adidas share has outperformed its relevant benchmark indices. For example, at the end of 1996, the adidas share has increased its value by 75% since flotation whilst the DAX-30, the German stock market index comprising the 30 largest German blue chip companies, appreciated 31% for the same period. The case for investing in the adidas share is well understood by the financial community. This is perhaps best illustrated by the extensive analyst coverage of adidas by major investment banks and research houses as well as by the number of major institutional investors who are among our shareholders.

Based on the financial performance in 1996, adidas is proposing to the Annual General Meeting of Shareholders a net dividend for 1996 of DM 1.10 per share, which represents a payout ratio of 16% relative to net income.

The adidas Share
Relative Share Price Performance Since Flotation



Average Monthly Trading Volume
All Stock Exchanges (01/96 – 12/96)

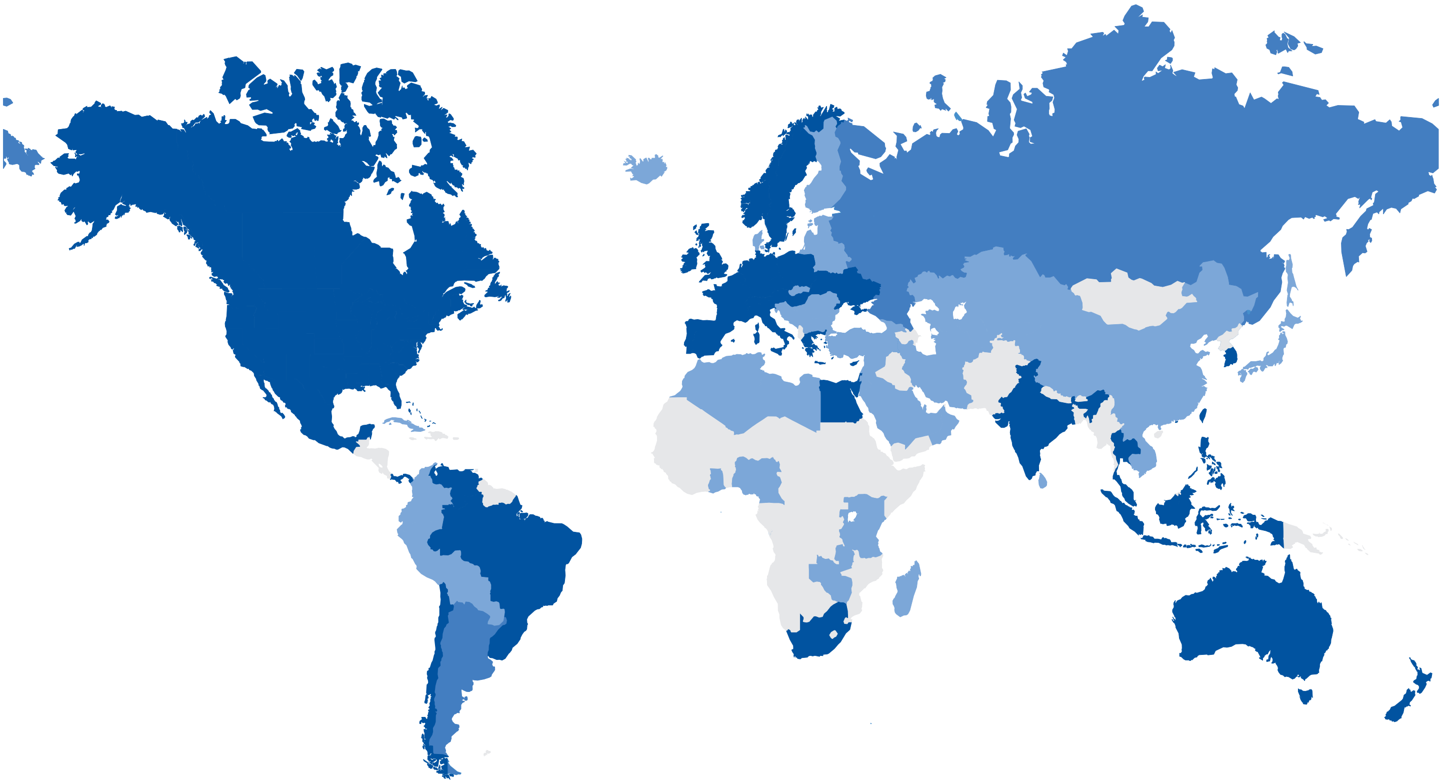


Key Per Share Data
(in DM, except for number of shares)

	1995	1996
Year End Price	75.50	133.00
High	78.50	148.00
Low	70.25	76.00
Net Income	5.40	6.93
Dividend	0.25	1.10
Cash Flow[1]	2.89	4.42
Number of Shares Outstanding (m)	45.349	45.349

1) Net Cash Provided by Operating Activities

THE WORLD OF ADIDAS



■ Subsidiaries / Joint Ventures ■ Licensees / Distributors ■ Combination

ADIDAS AG AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

(INTERNATIONAL ACCOUNTING STANDARDS)

The consolidated financial statements of adidas AG according to German GAAP
in the German language may be obtained from the Company.

ADIDAS AG AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		At December 31,	
(in thousands of DM)	Note	1996	1995
Assets			
Cash and cash equivalents	(17)	83,976	40,835
Inventories	(4)	1,088,048	843,027
Receivables and other current assets	(5)	817,807	562,828
Total current assets		**1,989,831**	**1,446,690**
Property and equipment, net	(6)	241,091	198,632
Intangible and other assets	(7)	224,625	132,001
Total assets	**(16)**	**2,455,547**	**1,777,323**

Liabilities and shareholders' equity			
Short-term borrowings and current portion of long-term liabilities	(8)	465,940	428,875
Accounts payable		529,340	358,451
Other current liabilities	(9)	439,120	316,314
Total current liabilities		**1,434,400**	**1,103,640**
Long-term bank borrowings	(10)	4,941	19,144
Deferred taxes		3,376	2,762
Other long-term liabilities	(13)	62,818	54,621
Minority interests		45,684	20,570
Shareholders' equity	(11)	904,328	576,586
Total liabilities and shareholders' equity		**2,455,547**	**1,777,323**

See accompanying notes to the consolidated financial statements

ADIDAS AG AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

(in thousands of DM)	Note	1996	1995	1994
		Year ended December 31,		
Net sales	(16)	4,709,432	3,500,240	3,196,365
Cost of sales		2,832,797	2,110,899	2,055,099
Gross profit		**1,876,635**	**1,389,341**	**1,141,266**
Selling, general and administrative expenses		1,454,298	1,095,096	1,009,158
Depreciation and amortization	(2), (6)	62,120	51,418	42,164
Income from operations		**360,217**	**242,827**	**89,944**
Royalty and commission income		96,802	100,245	97,063
Financial expenses, net	(14)	12,614	46,987	36,130
Income before taxes		**444,405**	**296,085**	**150,877**
Income taxes	(15)	106,755	42,853	30,612
Net income before minority interests		**337,650**	**253,232**	**120,265**
Minority interests		(23,581)	(8,318)	(2,948)
Net income		**314,069**	**244,914**	**117,317**

See accompanying notes to the consolidated financial statements

ADIDAS AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
(in thousands of DM)	1996	1995	1994
Operating activities:			
Income before taxes and minority interests	444,405	296,085	150,877
Adjustments for:			
Depreciation and amortization	64,474	52,584	43,008
Unrealized foreign exchange (gains) losses, net	(15,895)	1,460	2,997
Interest income	(9,109)	(9,310)	(7,330)
Interest expense	43,108	47,247	38,130
(Gains) losses on sales of property and equipment	(320)	(613)	444
Operating profit before working capital changes	**526,663**	**387,453**	**228,126**
Increase in receivables and other current assets	(149,129)	(61,592)	(52,310)
Increase in inventories	(185,997)	(127,373)	(67,573)
Increase in accounts payable and other current liabilities	102,730	20,651	71,101
Cash provided by operations	**294,267**	**219,139**	**179,344**
Interest paid	(48,181)	(46,771)	(38,460)
Income taxes paid	(45,572)	(41,387)	(26,464)
Net cash provided by operating activities	**200,514**	**130,981**	**114,420**
Investing activities:			
Purchase of investments (mainly goodwill)	(81,133)	(105,860)	(20,803)
Purchase of property and equipment	(73,907)	(58,446)	(39,966)
Proceeds from sale of property and equipment	10,358	9,791	5,922
(Increase) decrease in other long-term assets	(17,861)	3,143	(5,473)
Acquisition of subsidiaries net of cash acquired (Note 17)	41,347	0	0
Interest received	9,109	9,310	7,330
Net cash used in investing activities	**(112,087)**	**(142,062)**	**(52,990)**
Financing activities:			
Decrease in long-term bank borrowings, net	(14,837)	(148,156)	(73,525)
Dividends of adidas AG (Note 11)	(11,338)	0	0
Dividends to minority shareholders	(9,032)	(4,280)	(1,121)
Increase in short-term borrowings, net	(10,692)	167,261	11,505
Net cash provided by (used in) financing activities	**(45,899)**	**14,825**	**(63,141)**
Effect of exchange rates on cash	**613**	**(1,588)**	**(1,676)**
Net change in cash and cash equivalents	43,141	2,156	(3,387)
Cash and cash equivalents at beginning of year	40,835	38,679	42,066
Cash and cash equivalents at end of year	**83,976**	**40,835**	**38,679**

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

adidas AG, a German stock corporation, and its subsidiaries design, develop and market a broad range of athletic and active lifestyle products, consisting of athletic footwear, apparel and accessories primarily under the tradename *adidas* and also under the tradename *erima*. The Company's headquarters are located in Herzogenaurach, Federal Republic of Germany.

1. General

The accompanying consolidated financial statements of adidas AG and its subsidiaries (collectively the "Company") are prepared in accordance with accounting principles generally accepted by the International Accounting Standards Committee ("International Accounting Standards") and comply with the Company's significant accounting policies described herein.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below. As compared to the previous year, these principles have been applied consistently in all material respects.

Principles of consolidation:
The consolidated financial statements include the accounts of adidas AG and its significant direct and indirect subsidiaries. The Company's investments in other companies are accounted for at cost. All significant intercompany transactions and accounts are eliminated in consolidation.
Consolidation of equity is made in compliance with the book value method by offsetting the initial investments in subsidiaries against the relevant equity portion held by the parent company as at acquisition date.
A schedule of the shareholdings of adidas AG is shown in attachment I to these notes.

Goodwill and intangible assets:
Goodwill and intangible assets are valued at cost less accumulated amortization. Goodwill resulting from the excess of the acquisition cost over the fair value of the net assets of businesses acquired in purchase transactions and intangible assets are amortized over their expected useful economic lives up to 20 years. Goodwill and intangible asset amortization expense of DM 20 million, DM 17 million and DM 11 million for the years ended December 31, 1996, 1995 and 1994, respectively, is included in depreciation and amortization.
Goodwill primarily relates to the Company's acquisitions in the United States, Australia/New Zealand and South Korea as described in Note 3.

Research and development:

Research costs are expensed as incurred. Development costs are also expensed as incurred and are not capitalized due to the short product life cycle of the fashion industry. These costs are also not significant to the Company's financial position.

The Company spent approximately DM 37.4 million and DM 35.3 million on product research and development in 1996 and 1995, respectively.

Currency translation:

Assets and liabilities of the Company's non-Deutsche-Marks functional currency subsidiaries are translated into Deutsche Marks at closing exchange rates at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the year. All cumulative differences resulting from changes in exchange rates are included in shareholders' equity.

A summary of exchange rates used to translate the financial statements of the Company's subsidiaries to Deutsche Marks for major currencies in which the Company operates is as follows:

	Average rate for the year ended December 31,			Year-end spot rate at December 31,	
	1996	1995	1994	1996	1995
1 USD	1.5035	1.4377	1.6218	1.5548	1.4335
100 FRF	29.4103	28.7151	29.2380	29.6380	29.2530
1 GBP	2.3487	2.2787	2.4816	2.6267	2.2135
100 ESP	1.1878	1.1493	1.2112	1.1866	1.1791
1 CHF	1.2183	1.2088	1.1871	1.1500	1.2454

Realized and unrealized gains and losses arising from forward contracts, options and interest rate caps are recognized in financial expenses (Note 14) and cost of sales, respectively. Gains and losses related to qualifying hedges of firm commitments are deferred.

Inventories:

Finished goods are valued at the lower of cost or net realizable value. Costs are determined using a standard valuation method which approximates the first-in, first-out method or the average cost method. The lower of cost or net realizable value allowances are computed consistently throughout the Company based on the age and expected future sales of the items on hand.

Property and equipment and depreciation:

Property and equipment are stated at cost. Depreciation is computed on a declining balance or straight-line basis based on useful lives ranging from 2 to 50 years as follows:

	Depreciation Rates
Buildings	2% to 10%
Leasehold improvements	5% to 20%
Equipment, machinery and furniture and fittings	10% to 50%

The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Recognition of revenues:

Revenues are recognized when title passes based on the terms of the sale. Sales are recorded net of returns, discounts and allowances.

Advertising and promotional expenditures:

The Company recognizes advertising expenses as incurred or the first time the advertising takes place. Promotional expenses are recorded in the period incurred or expensed ratably over the terms of the agreements.

Income taxes:

Income taxes are computed in accordance with accounting principles generally accepted in the countries in which the Company operates.

The Company recognized deferred tax liabilities for differences between the financial reporting and tax basis of its assets and liabilities.

Deferred tax assets including assets relating to net operating loss carryforwards are recognized only to the extent that there is a reasonable expectation of their realization in the period when they arose.

3. Acquisitions and divestitures

In 1994 and 1995, the Company acquired the remaining minority interest of adidas North America, Inc. The purchase costs in excess of the proportionate share of the acquired net assets totalling DM 113 million were allocated to goodwill of adidas AG.

At the annual general meeting of the Company on July 26, 1995, the Company's shareholders approved, effective January 1, 1995, the merger of adidas International Holding GmbH (aIH), a company controlled by Sogedim S.A., Belgium, into the Company. The net liabilities of DM 83 million assumed by the Company were accounted for in 1995 in a manner similar to a dividend paid (see Note 11).

Effective July 1, 1996, adidas assumed full ownership over its former joint venture companies adidas Australia and adidas New Zealand through the acquisition of the remaining interest. The purchase price totalled DM 77 million. The purchase costs in excess of the proportionate shares of the acquired net assets of DM 75 million were allocated to goodwill of adidas AG.

Effective October 1, 1996, the Company acquired 51% of the shares of its former licensee and distributor in South Korea. The purchase costs (USD 16.5 million) in excess of the proportionate share of the acquired net assets of Jewoo Trading Co. Ltd. (in the future adidas Korea) of DM 8 million were allocated to goodwill of adidas AG.

Additionally in 1996 the Company increased its presence through new subsidiaries in Chile, India, Israel, Egypt, Taiwan, France and Ukraine.

4. Inventories

Inventories by major classification are as follows:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Finished goods and merchandise	1,071,798	827,423
Work-in-process	6,270	3,720
Raw materials	9,980	11,884
	1,088,048	**843,027**

Inventories include reserves for the excess of cost over the net realizable value of certain finished goods and merchandise inventories based on changing trends in the industry and excess stock. These reserves aggregated approximately DM 141 million and DM 122 million as of December 31, 1996 and 1995, respectively.

5. Receivables and other current assets

Receivables, net of allowances for doubtful accounts, and other current assets consist of the following:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Trade accounts receivable, gross	713,167	523,706
less: allowance for doubtful accounts	62,620	60,073
Trade accounts receivable, net	**650,547**	**463,633**
Receivables from unconsolidated affiliates	93	4,398
Prepaid and other current assets	142,990	94,797
Cash deposits	24,177	–
	817,807	**562,828**

Prepaid and other current assets are mainly comprised of refundable taxes, debit balances in accounts payable, security deposits and prepaid expenses mainly for promotion agreements. Cash deposits refer to Jewoo Trading Co. Ltd., Korea (see Note 17).

6. Property and equipment, net

Property and equipment consist of the following:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Land, land rights and buildings	228,574	197,604
Technical equipment and machinery	58,672	45,303
Other equipment, furniture and fittings	223,050	174,135
	510,296	**417,042**
less: allowances for depreciation	276,825	238,784
	233,471	**178,258**
Construction in progress, net	7,620	20,374
	241,091	**198,632**

A reconciliation of the carrying amounts of property and equipment is shown in attachment II to these notes. Depreciation expenses were DM 45 million, DM 36 million and DM 32 million for the years ended December 31, 1996, 1995 and 1994, respectively.

7. Intangible and other assets

Intangible and other assets consist of the following:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Goodwill (net of accumulated amortization of DM 34,664 and DM 17,922 at December 31, 1996 and 1995, respectively)	185,331	115,990
Trademarks and similar rights and licenses to such rights (net of accumulated amortization of DM 25,042 and DM 23,599 at December 31, 1996 and 1995, respectively)	8,838	9,940
Goodwill and intangible assets, net	**194,169**	**125,930**
Cash deposits	22,858	–
Investments, carried at cost	2,580	938
Long-term receivables and other assets	5,018	5,133
	224,625	**132,001**

Cash deposits with maturities exceeding 12 months refer to Jewoo Trading Co. Ltd., Korea (see Note 17).

8. Short-term borrowings

Short-term borrowings consist of bank borrowings and discounted trade bills, typically with maturities of less than 3 months.

As of December 31, 1996, principal borrowings were in DM (31.0%), GBP (18.3%) and FRF (10.1%).

Month-end weighted average interest rates on borrowings ranged from 4.8% to 6.2% and from 6.5% to 7.3% for the years ended December 31, 1996 and 1995, respectively.

The Company has cash credit lines of approximately DM 2.1 billion (of which, on December 31, 1996, the Company had allocated DM 128 million to be available for the issuance of letters of credit) and separate lines for the issuance of letters of credit of approximately DM 730 million, which are used primarily to support the Company's sourcing activities in Asia. As of December 31, 1996, unused cash credit lines amounted to approximately DM 1.5 billion.

DM 33 million is secured by cash deposits (DM 20 million) and mortgage (DM 13 million), respectively.

To protect its financial capabilities, the Company converted uncommitted short-term borrowings in an amount of approximately DM 250 million into committed medium-term credit lines in 1996. The facility, which carries a commitment fee of 0.09% p.a. and provides for agreed maximum margins on drawings under the facility, if any, initially runs till August 31, 2000, but contains a provision for an annual extension. The Company can cancel the agreement once per year, for the first time on September 30, 1997.

9. Other current liabilities

Other current liabilities consist of the following:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Income taxes payable	90,790	32,560
Amounts due to unconsolidated affiliates	864	2,269
Other accrued liabilities:		
Outstanding invoices	43,294	46,964
Payroll, commissions and employee benefits	72,597	63,121
Restructuring	16,297	19,145
Marketing	54,790*)	41,023
Taxes, other than income taxes	30,735	26,037
Returns, allowances, warranty	30,238	21,417
Interest	382	5,455
Other	99,133	58,323
Total other accrued liabilities	**347,466**	**281,485**
	439,120	**316,314**

*) Sales related returns and allowances were classified under returns, allowances, warranty; previous year comparative figures have been reclassified accordingly

Other current liabilities mainly consist of credit balances in accounts receivable, provisions for anticipated losses from pending purchase and other transactions and provisions for risks from pending law suits, as well as liabilities of DM 26 million resulting from the purchase of 51% of the shares of Jewoo Trading Co. Ltd. in South Korea.

10. Long-term bank borrowings

Long-term bank borrowings consist of the following:

(in DM 000)	Dec. 31, 1996	Dec. 31, 1995
Unsecured French Franc notes due 1998	10,400	15,691
Secured British Pound Sterling notes due 1998	–	13,281
	10,400	**28,972**
less: current portion of long-term bank borrowings	5,459	9,828
	4,941	**19,144**

Interest on the majority of this debt varies with changes in the market rates. The monthly weighted average interest rates ranged from 5.5% to 7.2% and from 7.6% to 8.0% for the years ended December 31, 1996 and 1995, respectively.

Maturities of long-term bank borrowings for the succeeding five years are as follows (in thousands):

1997	DM 5,459
1998	DM 4,941
1999 – 2001	DM –

11. Shareholders' equity

By resolution of a meeting of the shareholders on October 20, 1995, the shareholders of the Company approved the adoption of new articles of association for adidas AG. Such new articles of association had the effect of reducing the existing par value of common shares from DM 50 to DM 5 per share and increasing the authorized and issued share capital and common shares from DM 147,800,000 to DM 226,746,000 and 2,956,000 shares to 45,349,200 shares, respectively. In addition, the articles of association authorized the Board of Directors through September 1, 2000 to increase the nominal value of the share capital, subject to the approval of the Supervisory Board, by a maximum amount of:

a) DM 83,700,000 for cash consideration with the right of existing shareholders to subscribe for the shares;
b) DM 22,600,000 for cash consideration which, with the consent of the Supervisory Board, shareholders can be excluded from the subscription of shares; and
c) DM 7,000,000 for cash consideration or contribution-in-kind for the purpose of granting the right to subscribe shares to key management.

Further, the articles of association removed certain restrictions on the transferability of the Company's common shares. These resolutions were entered into the trade register on October 25, 1995.

Sogedim S.A., the Company's former principal shareholder, no longer owns a majority of the shares, but still holds more than 25% of the Company's common shares.

The following is a summary of the consolidated statement of shareholders' equity for the years ended December 31, 1996, 1995 and 1994:

(in DM 000)	Share capital	Capital surplus	Retained earnings (including foreign currency translation adjustments)[1]	Total
Balance at January 1, 1994	**147,800**	**93,727**	**82,962**	**324,489**
Net effect on equity of changes in companies included in consolidation	–	–	(506)	(506)
Net income	–	–	117,317	117,317
Other – net, primarily translation adjustments	–	–	(18,268)	(18,268)
Balance at December 31, 1994	**147,800**	**93,727**	**181,505**	**423,032**
Net effect on equity of alH merger	–	–	(83,427)	(83,427)
Net effect on equity of changes in companies included in consolidation	–	–	(451)	(451)
Share capital increase	78,946	(78,946)	–	–
Net income	–	–	244,914	244,914
Other – net, primarily translation adjustments	–	–	(7,482)	(7,482)
Balance at December 31, 1995	**226,746**	**14,781**	**335,059**	**576,586**
Net effect on equity of changes in companies included in consolidation	–	–	84	84
Net income	–	–	314,069	314,069
Dividend payment	–	–	(11,338)	(11,338)
Other – net, primarily translation adjustments	–	–	24,927	24,927
Balance at December 31, 1996	**226,746**	**14,781**	**662,801**	**904,328**

[1] Amounts related to foreign currency translation adjustments are included in Retained earnings as it is not practicable to determine the cumulative effects of these adjustments

At the annual general meeting of the Company held on May 30, 1996, the Company's shareholders approved the distribution of a dividend of DM 0.25/share.

Earnings available for dividend distributions are determined by reference to the retained earnings of adidas AG calculated under German commercial law.
The Board of Directors will recommend to the annual general meeting that the unappropriated earnings of adidas AG at December 31, 1996 should be appropriated as follows (in thousands):

Dividend of DM 1.10 per ordinary share	DM 49,884
The remaining balance is to be carried forward to the new year	DM 349,459
Unappropriated earnings as of December 31, 1996	**DM 399,343**

12. Leasing arrangements

The Company leases space for its offices, warehouses and equipment under leases expiring from one to nine years. Rent expense aggregated DM 61 million, DM 49 million and DM 53 million for the years ended December 31, 1996, 1995 and 1994, respectively. Amounts of future minimum lease payments under significant non-cancellable operating leases for the succeeding five years 1997 through 2001 are approximately DM 51 million, DM 33 million, DM 23 million, DM 14 million and DM 9 million, respectively. Amounts of future minimum lease payments after 2001 are approximately DM 13 million.
Additionally, the Company conducts a portion of its operations from leased facilities in France. The lease, which is for fifteen years expiring in 2004, is classified as a capital lease. The value of facilities under this capital lease, net of accumulated depreciation, of approximately DM 5 million and DM 5 million at December 31, 1996 and 1995, respectively, is included in land, land rights, and buildings. The future minimum lease payments under this capital lease, which are payable through the year 2004, amounted to approximately DM 3 million at December 31, 1996.

13. Employee benefit plans

The Company sponsors and/or contributes to various pension plans, primarily in Germany. The Company's plans cover substantially all German employees. The liabilities related to these plans of approximately DM 38 million and DM 27 million at December 31, 1996 and 1995, respectively, are included in other long-term liabilities. The aggregate amounts vested in Germany under these plans were DM 10 million and DM 9 million at December 31, 1996 and 1995, respectively. Additionally, the Company borrowed approximately DM 17 million at December 31, 1996 and 1995, respectively, from its pension trust fund in Germany. This amount is also included in other long-term liabilities. As of January 1, 1996, this amount bears interest at the average Deutsche Bundesbank public bond rate of 5.46% as fixed at the beginning of the year. In 1995, the amount had an interest rate at the German discount rate plus 2%. The Company's plans include both defined contribution plans and defined benefit plans as described below.

The Company sponsors and contributes to a defined benefit plan in Germany. The employee benefits of this plan are based on years of service. Pension costs are generally funded currently, subject to German regulatory funding limitations. The pension accruals of adidas AG were calculated actuarially using the projected unit credit method in accordance with International Accounting Standards. Measurement of the projected benefit obligation was based on a discount rate of 7% and 7.5% in 1996 and 1995, respectively, and an expected compensation growth rate between 2.2% and 3%. Additionally, the Company sponsors and contributes to a defined contribution plan in Germany for certain employees. The Company's contributions to the plan are determined annually and are allocated to an employee based on years of service and the employee's compensation. The actuarial valuations of the plans described herein are made at the end of each reporting period. The actuarial valuations of the plans are dated November 25, 1996 and December 12, 1996.

Additionally, the Company sponsors and/or contributes to various other plans outside of Germany which are not significant.

Pension expense totalled DM 13 million, DM 14 million and DM 8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

14. Financial instruments

The Company uses derivative financial instruments to reduce exposure to market risks resulting from fluctuations in currency exchange and interest rates. The Company does not enter into financial instruments for trading or speculative purposes.

Management of foreign exchange risk:

The Company is subject to currency exposure due to a high share of sourcing from suppliers in the Far East which invoice in USD, and the majority of its sales in European countries.

It is the Company's policy to hedge currency risks due to future operations when it becomes exposed. Up to and including 1996, such hedging occurred when the Company communicated its prices for a new selling season to its customers. Reacting to the appreciation of the USD primarily versus the Continental European currencies and the Japanese Yen in recent months, the Company has modified its hedging policy to permit the hedging for a period up to a maximum of two years.

In principle, the Company manages its currency exposures centrally from the headquarters in Herzogenaurach.

The Company uses forward contracts, primarily for the shorter maturities, and currency options in the management of its currency risks.

	December 31, 1996	
	Notional	Fair
(in DM millions)	amounts	value
Forward contracts	224.0	(0.3)
Currency options	680.2	10.1
	904.2	**9.8**

Deferred gains and losses on forward contracts are not significant.

Management of interest rate risks:

Since the Company's product sourcing is principally from outside suppliers, most of its financing concerns inventories and receivables. Taking advantage of lower short-term rates of most major currencies, the Company has concentrated its borrowings in short maturities, but it has reduced its exposure with regard to possible future interest rate increases with the purchase of interest rate caps for a basket of currencies in a structure which approximates the currency composition of its worldwide borrowings. These contracts protect the Company's borrowings in a notional amount of DM 100 million against a rise of the weighted average interest rate above 6.25%, up to a limit of 9.75%. If interest rates rise above the upper rate limit, the protection ends at this upper rate limit.

	December 31, 1996	
	Notional	Fair
(in DM millions)	amounts	value
Interest rate caps	100.0	0.5

Fair value of financial instruments:

The carrying amount of cash, cash equivalents and borrowings approximates fair value due to the short-term maturities of these instruments. The fair value of forward exchange contracts and currency options were determined on the basis of the market conditions on the reporting date. The fair value of the interest rate caps on the reporting date was assessed by the financial institutions which these caps had been arranged with.

Credit risk:

The Company arranges its currency and interest rate hedges, and it invests its cash with major banks of a high credit standing throughout the world, and in high quality money-market instruments. The Company has not incurred any related losses.

Financial expenses:

Financial expenses consist of the following:

	Year ended December 31,		
(in DM 000)	1996	1995	1994
Interest income	9,063	9,216	7,066
Interest expense	43,108	47,247	38,130
Interest expense, net	**34,045**	**38,031**	**31,064**
Income from investments	46	94	264
Other – net, primarily net exchange (gains) losses	(21,385)	9,050	5,330
	12,614	**46,987**	**36,130**

The Company's operations in a multitude of currencies resulted in net exchange gains in 1996, a year in which many of the major currencies gained strength as compared to the Deutsche Mark, while the years 1995 and 1994 were characterized by a weakening of major currencies as compared to the Deutsche Mark.

15. Income taxes

The Company computes its income tax liabilities in accordance with International Accounting Standards No. 12. The Company's corporate statutory tax rates were 48.375% (45% plus 7.5% surtax thereon), 48.375% and 45% for the years ended December 31, 1996, 1995 and 1994, respectively. In addition, the Company's statutory trade tax rate was 14%. The statutory trade tax is deductible for corporate tax purposes. The Company's effective tax rates were 24.0%, 14.5% and 20.3% for the years ended December 31, 1996, 1995 and 1994, respectively. The differences between statutory and effective tax rates result primarily from earnings in jurisdictions taxed at rates different from statutory German rates and the benefits of prior year operating loss carryforwards of adidas AG realized in the current years.

During the period ended December 31, 1996, the Company realized net deferred tax assets previously unrecognized, principally from net operating loss carryforwards (approximately DM 114 million).

The cumulative amounts of unremitted earnings of international subsidiaries are expected to be required for use in the international operations. At December 31, 1996, little or no tax liability would result upon remittance of these earnings.

The Company netted the tax effect of certain temporary differences between the book value of the Company's assets and liabilities and the related tax bases of those assets and liabilities including the effect of the operating loss carryforwards as of December 31, 1996 and 1995 (Note 2).

The Company had unrecognized deferred tax assets from operating loss carryforwards of approximately DM 284 million and DM 370 million at December 31, 1996 and 1995, respectively. The Company's utilization of approximately DM 118 million of such deferred taxes is substantially limited, primarily in the US due to a change in ownership of adidas AG in 1993. The deferred tax assets from operating loss carryforwards of adidas AG of approximately DM 151 million at December 31, 1996 have an unlimited carryforward period.

16. Segmental information

The Company operates predominantly in one industry segment, that being the design, wholesale and marketing of athletic and active lifestyle products. Information about the Company's operations by geographic markets is presented below. Revenues are classified on the basis of the Company's geographic reporting structure. Sales between geographic regions are at cost plus a sourcing fee. Inter-geographic assets were eliminated to arrive at the consolidated amounts.

(in DM 000)	Europe	America	Latin America	Asia/ Pacific	Total
Year ended December 31, 1996:					
Total revenues	3,563,043	1,029,448	109,480	2,205,985	6,907,956
less: inter-geographic revenues	(452,030)	(3,452)	(1,055)	(1,741,987)	(2,198,524)
Revenues from third parties	**3,111,013**	**1,025,996**	**108,425**	**463,998**	**4,709,432**
Total assets	**1,599,750**	**417,806**	**84,413**	**353,578**	**2,455,547**
Year ended December 31, 1995:					
Total revenues	2,709,113	774,402	98,334	1,555,125	5,136,974
less: inter-geographic revenues	(373,637)	(7,109)	(7,514)	(1,248,474)	(1,636,734)
Revenues from third parties	**2,335,476**	**767,293**	**90,820**	**306,651**	**3,500,240**
Total assets	**1,242,558**	**325,302**	**56,569**	**152,894**	**1,777,323**
Year ended December 31, 1994:					
Total revenues	2,376,947	771,839	85,176	1,436,626	4,670,588
less: inter-geographic revenues	(276,230)	(4,010)	(324)	(1,193,659)	(1,474,223)
Revenues from third parties	**2,100,717**	**767,829**	**84,852**	**242,967**	**3,196,365**
Total assets	**930,875**	**337,445**	**49,444**	**124,178**	**1,441,942**

Due to the Company's internal structure, specifically where certain central activities are established and cross-charges between geographic segments result, the information regarding segment results is not meaningful and, therefore, is not included.

17. Cash flow statement

Effective October 1, 1996, the Company acquired 51% of the shares of Jewoo Trading Co. Ltd. in South Korea. The fair value of assets acquired and liabilities assumed were as follows:

(in DM 000)	
Cash	41,347
Inventories	14,049
Receivables and other current assets	67,774
Property, plant and equipment	13,186
Intangibles and other assets	15,005
Minority interests	(11,510)
Accounts payable and other liabilities	(78,954)
Short-term borrowings	(35,177)
Total acquisition cost	**25,720**
less: cash of newly consolidated subsidiaries	(41,347)
less: purchase price not yet paid	(25,720)
Cash flow of newly consolidated subsidiaries net of cash acquired	**(41,347)**

Cash and cash equivalents represent cash and short-term, highly liquid investments purchased with maturities of three months or less.

The increase in cash and cash equivalents from DM 41 million at the end of 1995 to DM 84 million at the end of 1996 is primarily due to the inclusion of the new joint venture company Jewoo Trading Co. Ltd. (in future adidas Korea), which held cash of DM 30 million at the end of 1996. Furthermore, Jewoo Trading Co. Ltd. held cash with maturities of 12 months or less in the amount of DM 24 million, which is included in other current assets (see Note 5), and cash with maturities exceeding 12 months in the amount of DM 23 million, which is included in other long-term assets (see Note 7). Totally, DM 50 million of these DM 77 million was pledged mainly in support of credit line arrangements.

18. Commitments and contingencies

As of December 31, 1996, the Company has bills discounted in the amount of approximately DM 9 million and is contingently liable for guarantees of indebtedness for liabilities due to banks in the amount of approximately DM 5 million.

The Company has other financial commitments for promotion and advertising contracts, together with fixed asset investment commitments for the succeeding five years 1997 through 2001 of approximately DM 164 million, DM 131 million, DM 100 million, DM 82 million and DM 56 million, respectively. Amounts of future payments after 2001 are approximately DM 62 million. These commitments have remaining terms of up to 8 years from December 31, 1996.

The Company is currently engaged in various lawsuits resulting from the normal course of business. Although it is reasonably possible that some of the matters could be decided unfavorably against the Company, in the opinion of management, the outcome of the pending lawsuits will not result in a significant impact on the consolidated financial position as of December 31, 1996.

19. Related parties

Robert Louis-Dreyfus and Christian Tourres, members of the Board of Directors of adidas AG, have indirect influence on the football club Olympique de Marseille. Robert Louis-Dreyfus is also the president of this club. The Company has entered into promotion contracts with said club. The promotion contracts are similar to those entered with other clubs.

20. Subsequent events

The Company will realign its corporate structure in 1997. In the future, adidas International B.V. will be responsible for international license business of the adidas brand and international promotion activities.

Herzogenaurach, February 19, 1997

The Board of Directors of adidas AG

AUDITORS' REPORT

To the Board of Directors and the Supervisory Board
adidas AG
Herzogenaurach, Germany

We have audited the accompanying consolidated balance sheets of adidas AG and subsidiaries (the "Company") as of December 31, 1996 and 1995, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of adidas AG and subsidiaries at December 31, 1996 and 1995, and the related consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1996 in accordance with International Accounting Standards.

Frankfurt am Main, February 19, 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dieter Kuhn	Dr. Bert Böttcher
Wirtschaftsprüfer	Wirtschaftsprüfer

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

as at December 31, 1996

Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	Share in capital in %
Germany				
1 erima Sportbekleidungs GmbH, Reutlingen	DEM	16,466	directly	100
2 adidas Versicherungs-Vermittlungs GmbH, Herzogenaurach	DEM	50	directly	100
Europe				
3 adidas Sarragan France S.a.r.l., Landersheim (France)	FRF	311,768	directly	100
4 SOFAG-Sporting S.A., Paris (France)	FRF	(13,181)	3	100
5 Corse Sports Distribution S.a.r.l. Ajaccio (France)	FRF	0	3	100
6 adidas Sarragan Sports E.u.r.l. Pont Sainte Marie (France)	FRF	7,267	3	100
7 adidas Espana S.A. Zaragoza (Spain)	ESP	2,185,771	directly	100
8 adidas Portugal Lda. Lisbon (Portugal)	PTE	557,346	directly	51
9 adidas Sport GmbH Lindau (Switzerland)	CHF	17,205	directly	100
10 Sarragan S.A. Fribourg (Switzerland)	CHF	853	directly	100
11 Poytrad Handels AG i. Liqu. [9] Lucerne (Switzerland)	CHF	(40)	10	100
12 erima France S.a.r.l. Schiltigheim (France)	FRF	(3,789)	1	100
13 Le Coq Sportif International S.A. Schiltigheim (France)	FRF	(2,201)	directly	100
14 adidas Austria AG Klagenfurt (Austria)	ATS	176,202	directly 9	95.89 4.11
15 adidas Benelux B.V. Etten-leur (Netherlands)	NLG	26,401	directly	50
16 adidas Belgium N.V. Zellik (Belgium)	BEF	84,414	15	100

as at December 31, 1996

Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	Share in capital in %
17 BIG L.A. N.V.*) Houthalen (Belgium)	BEF		16	50
18 adidas International B.V. Amsterdam (Netherlands)	NLG	(13,674)	directly 3	99 1
19 adidas Budapest Kft. 1) Budapest (Hungary)	HUF	1,314,451	directly	85
20 Predator Kft. 1) Budapest (Hungary)	HUF		19	100
21 A.T.P. Kft. 1) Budapest (Hungary)	HUF		19	100
22 Questra Kft. 1) Budapest (Hungary)	HUF		19	100
23 adidas (UK) Ltd. 2) Stockport (Great Britain)	GBP	28,176	directly	100
24 adidas (ILKLEY) Ltd. 2) Stockport (Great Britain)	GBP		23	100
25 Larasport (U.K.) Ltd. 2) Stockport (Great Britain)	GBP		23	100
26 Sarragan (U.K.) Ltd. 2) Stockport (Great Britain)	GBP		23	100
27 Trefoil Trading (U.K.) Ltd. 2) Stockport (Great Britain)	GBP		23	100
28 Three Stripes (U.K.) Ltd. 2) Stockport (Great Britain)	GBP		23	100
29 adidas (Ireland) Ltd. 3) Dublin (Ireland)	IEP	2,950	directly	100
30 Fortstewart Ltd. 3) Dublin (Ireland)	IEP		29	100
31 Three Stripes Export Ltd. 3) Dublin (Ireland)	IEP		29	100
32 adidas Norge A/S Gjovik (Norway)	NOK	88,177	directly	100
33 adidas Sverige AB Hägersten (Sweden)	SEK	35,009	directly	100
34 adidas Ukraine Kiev (Ukraine)	UAH	(8)	directly	100

as at December 31, 1996 Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
35 adidas Poland Sp. z. o. o. Warsaw (Poland)	PLZ	17,911	directly	100
36 adidas CR s.r.o. Prague (Czech Republic)	CSK	169,915	directly	100
37 adidas Moscow Ltd. Moscow (Russia)	RUR	18,886,188	directly	100
38 adidas Hellas S.A. Thessaloniki (Greece)	GRD	947,964	directly	50
39 adidas Italia S.r.l. Monza (Italy)	ITL	18,998,000	directly	50
40 adidas Middle East SAL Beirut (Lebanon)	USD	2,093	3	100
41 adidas Israel Ltd. Tel Aviv (Israel)	USD	544	directly	100
America				
42 adidas North America Inc. [4)] Portland, Oregon (USA)	USD	65,302	directly	100
43 adidas America Inc. [4)] Spartanburg, South Carolina (USA)	USD		42	100
44 adidas Distribution Center Inc. [4)] Lansing, Michigan (USA)	USD		43	100
45 adidas (Canada) Ltd. [4)] Toronto (Canada)	CAD		42	100
46 Sports Inc. [4)] Portland, Oregon (USA)	USD		42	100
47 adidas Retail Outlets Inc. [4)] Portland, Oregon (USA)	USD		43	100
48 adidas Sales Inc. [4)] Portland, Oregon (USA)	USD		43	100
49 Sarragan Holding Inc. (December 31, 1995) [9)] Princeton, New Jersey (USA)	USD	585	directly	100
50 LXZA Inc. [5) 9)] (former LCS America Inc.) Spartanburg, South Carolina (USA)	USD	46	directly	100

as at December 31, 1996

Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
51 LXZDO Inc. [5][9] (former LCS Design Outlets Inc.) Spartanburg, South Carolina (USA)	USD		50	100
Latin America				
52 adidas de Mexico S.A. de C.V. [6] Mexico-City (Mexico)	MXP	39,795	directly	100
53 adidas Industrial S.A. de C.V. [6] Mexico-City (Mexico)	MXP		directly	100
54 adidas do Brasil Ltda. Sao Paulo (Brazil)	BRL	9,692	directly 9	12.17 87.83
55 adidas Latin America S.A. Panama-City (Panama)	USD	3,166	directly	100
56 3 Stripes S.A. (adidas Uruguay) Montevideo (Uruguay)	UYU	2,478	directly	100
57 adidas Corp. de Venezuela [7] Caracas (Venezuela)	VEB	459,439	directly	100
58 adidas Margarita S.A. [7] Porlamar, Marg. (Venezuela)	VEB		57	100
59 adidas Argentina S.A. Buenos Aires (Argentina)	ARS	381	directly	51
60 adidas Chile Ltda. Santiago de Chile (Chile)	CLP	316,613	directly 2	99 1
Africa				
61 adidas (South Africa) (Pty) Ltd. Cape Town (South Africa)	ZAR	20,838	directly	100
62 adidas Egypt Ltd. Cairo (Egypt)	USD	273	directly	100
Asia				
63 adidas Hong Kong Ltd. (Hong Kong)	HKD	81,100	directly	100
64 adidas Asia/Pacific Ltd. (Hong Kong)	USD	35,495	directly	100

as at December 31, 1996 Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
65 adidas China Holding Co. Ltd. [9] (Hong Kong)	HKD	(179)	directly	50
66 adidas Singapore Pte. Ltd. (Singapore)	SGD	52	directly	100
67 adidas Malaysia Sdn. Bdn. Kuala Lumpur (Malaysia)	MYR	7,778	directly	60
68 adidas (Thailand) Co., Ltd. Bangkok (Thailand)	THB	129,853	directly	50
69 adidas Taiwan Ltd. Taipei (Taiwan)	TWD	44,418	directly	100
70 adidas Philippines Inc. Manila (Philippines)	PHP	78,338	directly	100
71 Jewoo Trading Co. Ltd. (in future adidas Korea Ltd.) Seoul (Korea)	KRW	17,542,000	directly	51
72 P.T. Trigaris Sportindo (adidas Indonesia) Jakarta (Indonesia)	IDR	4,163,030	(indirectly via P.T. Sinar Adi Surya)	70
73 adidas India Private Ltd. [8] New Delhi (India)	INR	(25,300)	directly 18	99 1
74 adidas India Trading Private Ltd. [8] New Delhi (India)	INR		73	80
Australia				
75 adidas Australia Pty. Ltd. Mulgrave (Australia)	AUD	24,937	directly	100
76 adidas New Zealand Pty. Ltd. Auckland (New Zealand)	NZD	1,337	directly	100

[1] Sub-group Hungary
[2] Sub-group UK
[3] Sub-group Ireland
[4] Sub-group USA
[5] Sub-group LCS America
[6] Sub-group Mexico
[7] Sub-group Venezuela
[8] Sub-group India

[9] Five companies, that have not been included in the consolidated financial statements of adidas AG due to their insignificance, are marked with 9).

[*] Newly founded associated company; due to its insignificance no equity valuation was made.

ADIDAS GROUP

STATEMENT OF MOVEMENTS

OF PROPERTY AND EQUIPMENT

(in thousands of DM)

	Acquisition and production costs				
	Balance on Jan. 1, 1996	Currency effect	Change in companies included in consolidation	Additions	Transfers
Property and equipment					
Land, land rights and buildings	197,604	5,222	14,506	6,263	10,180
Technical equipment and machinery	45,303	1,304	53	3,706	8,975
Other equipment, furniture and fittings	174,135	6,766	3,396	50,222	4,119
Construction in progress	20,374	1,538	0	13,716	(24,047)
	437,416	**14,830**	**17,955**	**73,907**	**(773)**

		Accumulated depreciation	Book value		
Disposals	Balance on Dec. 31, 1996	Balance on Dec. 31, 1996	Net book value Dec. 31, 1996	Net book value Dec. 31, 1995	Depreciation for the period
5,201	228,574	93,567	135,007	113,898	6,964
669	58,672	38,563	20,109	8,175	3,457
15,588	223,050	144,695	78,355	56,185	31,219
3,961	7,620	0	7,620	20,374	2,875
25,419	**517,916**	**276,825**	**241,091**	**198,632**	**44,515**

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