adidas-Salomon Annual Report 1999

adidas-Salomon

adidas-Salomon

"To be the best portfolio of sports brands in the world"

adidas

Athletic footwear and apparel for all-season categories such as running, soccer, basketball, tennis, training, workout, etc.

Bonfire

Snowboarding apparel

Erima

Team equipment for soccer and other team sports

Mavic

Cycling components: wheels, rims, gearshifts

Salomon

Winter sports products: skis, snowboards, bindings and boots; summer sports products: in-line skates and hiking boots

Taylor Made

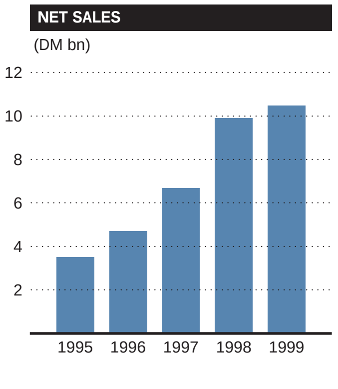
Golf equipment: clubs, balls, accessories

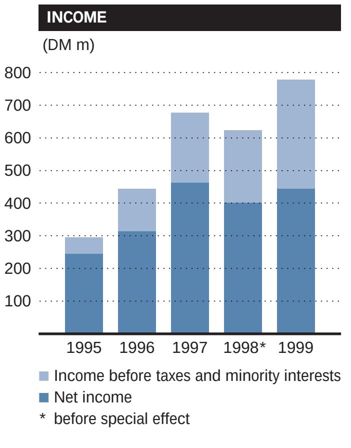
	1999 EURO m	1999 DM m	1998 DM m	Change in %
Net sales	5,354	**10,471**	9,907	+5.7
Gross profit	2,352	**4,600**	4,154	+10.7
Operating profit	482	**942**	814	+15.7
Income before taxes and minority interests	398	**779**	624	+24.9
Net income	228	**445**	401	+11.1
Shareholders' equity	680	**1,330**	906	+46.8
	EURO	DM	DM	
Earnings per share	5.02	**9.82**	8.84	+11.1
		%	%	
Gross margin		**43.9**	41.9	+2.0 PP
Operating margin		**9.0**	8.2	+0.8 PP
Profit margin		**4.3**	4.0	+0.3 PP
Return on capital employed		**20.7**	20.5	+0.2 PP

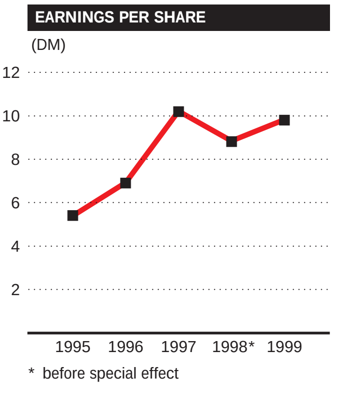
1999: Key Points in Brief

Income before taxes at record level, significant increase in profit contribution from Salomon and Taylor Made, strong sales growth

- Income before taxes up 25% to all-time high of DM 779 million
- Earnings per share at DM 9.82 – an improvement of 11% compared to previous year (before special effect in 1998)
- Operating profit contribution from Salomon and Taylor Made increased by DM 80 million or 163% – due to innovative products and successful integration
- Net sales grew by 6% to DM 10.5 billion







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PRESIDENT'S LETTER

Dear Shareholder:

1999 was a highly successful year for adidas-Salomon. Despite a tough market environment, we achieved a strong gross margin, delivered our best ever operating profit and drove income before taxes to a record level. Integration of the former Salomon group brands positively impacted our results, the start-up of adidas Japan has exceeded our expectations, Asia is performing well, and Europe is showing an upward trend. Only in North America, which represents around one third of our sales, do we see our sales softening. Here, our business is being negatively impacted by an adverse market situation.

Although we can be content with our 1999 results, we need to improve them further. We have to set our sights even higher if we want to establish ourselves as the world's best sporting goods company. We are in a position to achieve above-average sales growth with innovative products and efficient structures. This can only be leveraged through to an even stronger bottom-line improvement if we further strengthen cost control within the Group. In order to further enhance shareholder value we need to focus on what we do best: developing and marketing top-quality sporting goods.

Our aim is to shape our company into a high-performance organization with a focus on innovative sports products. To this end, at the beginning of 2000, we decided to implement a growth and efficiency program which supports our objective to achieve a 15% annual growth in earnings between 2001 and 2003.

For the adidas brand, for example, focusing on our own strengths means streamlining the product range, cutting the number of products by 20%, pushing products with strong margins, eliminating the weaker ones. This reduces complexity in all areas of the organization, from design to product development, from sourcing to warehousing. And it sets free energies that will allow us to concentrate more strongly on winning products.

These will be products featuring new technologies and exciting new designs. For instance, prior to the European Soccer Championship we will be introducing a new Predator® soccer boot with exchangeable studs. For the Olympic Games in Sydney we will be presenting a sprint shoe incorporating state-of-the-art carbon technology that has been developed by Salomon for adidas. In the design sector, we are moving to new designs, working together with external design studios and developing footwear concepts that will generate new impetus in categories with strong sales potential.

Focusing on our core business also means further enhancing the innovative strength of the Salomon and Taylor Made brands. In the hardware sector, it is vital that we remain at the leading edge, convincing customers that with our new ideas they can improve their performance and thus further increase their enjoyment of sport.

Our clear focus on the essentials is also reflected in our brand policy. After intensive discussions, and extensive tests and market research, we decided not to pursue any further the idea of a new brand for the leisurewear market. Our market research showed quite clearly that this market potential can be leveraged with significantly less effort and risk by further differentiating our existing brands. That is where our strength lies!

On the other hand, we have decided to sell, by way of a management buyout, the "erima" brand, which with sales of just under DM 40 million contributes only a very small share of our consolidated net sales. The "Mavic" brand will remain within the Group but will be incorporated under the "Salomon" brand in all respects. This will lower costs, streamline production and reduce the number of locations.

While our strategy clearly underlines our commitment to growth, our efficiency has to be further increased. Expenses need to be kept under tighter control in future. An increase in expenses beyond the volume of sales growth, while offset by the improved gross margin in 1999, is not acceptable in the long term.

Therefore, we have initiated a number of projects to increase efficiency, cut costs, and thus meet the requirements of a high-performance organization. This includes projects to improve supply chain efficiency, reorganize our logistics system in Europe, restructure and rationalize our organization, primarily in the marketing sector, further combine activities between the brands, and increasingly utilize the internet, not only for sales and marketing, but in order to strengthen contact with the suppliers and the buyers of our products.

With these measures, we intend to reduce our operating expenses as a percentage of sales in the near future by up to two percentage points.

After the record levels reached in 1999, we will use the year 2000 to further strengthen our investment in the future – in the future of a company that operates efficiently, achieves market success through innovative products and builds on its core strengths, thus remaining true to its heritage.

The growth and efficiency program involves additional expenses. This is likely to have a corresponding impact on net income in 2000. However, the measures initiated, supported by an anticipated recovery of the American market, will help to steer the company onto a steeper growth track in sales and earnings from 2001 onwards. Without a doubt, the measures to be effected in 2000 represent an investment in a successful and exciting future.

Yours,

Robert Louis-Dreyfus

INNOVATION

When it comes to showcasing our brands, there's one common element that stands out: innovative technology. adidas, Salomon, Taylor Made and Mavic have all made strides this year with products that break ground in the sporting goods industry. This significant competitive edge has been achieved through on-going product research and development.

Innovation: The **Cornerstone** of our **Brands**

Today's leading products form the basis for the innovative products of tomorrow. If we look back to 1954 when Adi Dassler first invented shoes with screw-in studs, and we compare them to shoes we have today, such as the fifth generation Predator® with its Exchangeable TRAXION® outsole, it's clear that a good idea will always remain a good idea. But to remain successful, the implementation must constantly evolve to meet consumers' rising demands.

A good example of the innovative strength of our brands is Salomon. Salomon went from making bindings to producing skis and in-line skates and has lately taken another market by storm: snowboarding. Salomon snowboards are so popular because Salomon is constantly developing boards that ideally meet the needs of this sport. Now enjoying the status of cult products, with their new technology Salomon snowboards are more fun to ride than other boards.

adidas, Salomon, Taylor Made and Mavic: dynamic brands in a dynamic industry. With this kind of commitment to creating exciting, innovative products, one can only imagine what lies ahead. One thing is certain, though. With our dedication, our innovative spirit and our honest commitment to sport, we are ideally positioned to remain at the leading edge.

MANAGEMENT DISCUSSION AND ANALYSIS

adidas-Salomon

In a persistently difficult market environment adidas-Salomon was able to further increase consolidated net sales by 6%. Although partly offset by an increase in operating expenses, in particular for marketing and promotion activities, gross margin improvements led to a significant improvement in the operating profit. The financial result also improved substantially, taking income before taxes up 25% to a record level of DM 779 million. A corresponding improvement of earnings per share was prevented only by an increased tax rate and higher minority interests.

Moderate growth in sporting goods markets

Development of the world's sporting goods markets in 1999 was mixed. While Europe and Asia achieved moderate growth, with Asia appearing to have overcome the impact of the economic and currency crises, the North American market continued to contract. The USA, the world's largest sporting goods market, remained impacted by excess capacities at retail, shifts in consumer demand and a resulting decline in sales.

Net sales above DM 10 billion for the first time

In this difficult environment, adidas-Salomon increased consolidated net sales by 6% to DM 10.5 billion. The Salomon brand reported the highest increase, up 25%. Taylor Made recorded a strong increase of 11%, while the adidas brand showed an improvement of 3.5%. Due to the first-time inclusion of net sales of adidas Japan, Region Asia was the main driver of this development.

Decline in licensee sales

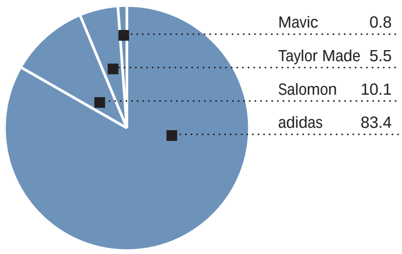
Net licensee sales in 1999 decreased significantly, declining by 29% year-over-year to DM 938 million. This decline is due to the expiry of the license agreement in Japan at the beginning of the year, and the inclusion of sales of the newly built-up adidas Japan in consolidated net sales for the first time in 1999. Sales under product licenses increased by 11% to DM 340 million.

Footwear again largest product division

Footwear again showed solid growth in 1999. Net sales of Footwear within the adidas-Salomon Group reached DM 4.3 billion, up DM 341 million or 8.5% on the previous year.

NET SALES BY BRANDS

(%)



Difference to 100% due to HQ/Consolidation

NET SALES BY BRANDS AND REGIONS

(growth year-over-year in %)

	Europe	North America	Asia
adidas	–4	–1	+82
Salomon	+18	+21	+54
Taylor Made	+11	+11	+10
Total	–2	+2	+70

The contribution of the Footwear division to total net sales of the Group increased by 1.1 percentage points to 41.5%. This means Footwear is now again the largest product division within the adidas-Salomon Group.

Decline in Apparel sales

Apparel sales, in contrast, were impacted by changing consumer preferences. Total Apparel sales reached DM 4.3 billion, which represents a decrease of 0.5% compared to 1998. Apparel contributed 40.9% of total net sales of the Group in 1999, down 2.6 percentage points on the previous year.

Increase in Hardware sales

As the products of the Salomon and Taylor Made brands are primarily included in the Hardware division, which has changed slightly compared to the prior year, and as both brands also recorded strong sales growth, this division showed a correspondingly strong increase, growing by 15.1% to DM 1.8 billion.

Strongest sales growth in Asia

In terms of regional performance, Asia delivered the highest growth rates. The increase of 70.3% to DM 1.3 billion was driven primarily, although not exclusively, by the first-time inclusion of the sales of adidas Japan. Even excluding adidas Japan, net sales in Region Asia grew by 15.6%. This development is an indication that most of the countries throughout Asia have largely recovered from the effects of the economic and currency crises.

adidas-Salomon was also able to achieve significant growth in sales in Latin America. Net sales in this region totaled DM 246 million, which is an increase of 12.5%.

North America achieved only modest sales growth of 1.9% in 1999, after having delivered the highest growth rate the previous year. Product sales under the adidas brand name were very strong in the first half of the year but declined in the second half to record an overall decrease of 1% for the year. In a difficult overall market for athletic footwear and particularly for sports apparel, the adidas brand managed to maintain its overall market share.

Sales performance of the Taylor Made and Salomon brands in North America was strong. Taylor Made recorded an 11% increase in sales, proving that, in golf in particular, innovative products sell well even in a flat market. Salomon increased sales by 21%, becoming the Group's fastest growing brand in the American market.

Growth in Asia, North America and Latin America was sufficient to more than offset a slight decline in sales in Europe. Despite an upward trend over the course of the year, sales under the adidas brand name in Europe experienced a year-over-year decline of just under 4%. Strong growth in France and the Benelux countries was not able to offset decreases in the U.K., Germany and Spain. The picture in the first half of the year was very different from the second half. In contrast to North America though, Region Europe showed a clear upward trend, and in the fourth quarter even recorded significant sales growth.

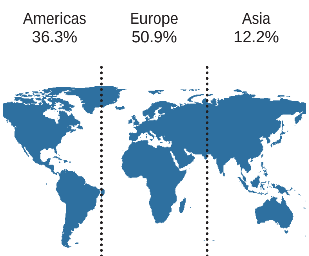
The Salomon and Taylor Made brands performed very solidly in Europe. Taylor Made profited from a positive overall market development, increasing sales by 11%. Salomon achieved excellent growth rates with both summer and winter products, recording an 18% increase in sales for the full year.

NET SALES BY DIVISION

	Share of net sales in %	Change year-over-year in %
Footwear	41.5	+8.5
Apparel	40.9	−0.5
Hardware	17.4	+15.3

Difference to 100% due to HQ/Consolidation

NET SALES BY REGION



Difference to 100% due to HQ/Consolidation

Gross profit grew more strongly than sales

Gross profit, with an increase of 10.7%, grew at a much stronger rate than sales. Gross margin improved by 2 percentage points to 43.9%. This is the best margin that adidas-Salomon has ever achieved.

The improvement is due to various factors: Sourcing prices were again lowered slightly. adidas Japan contributed an above-average margin – with sales of the newly built-up Group-owned organization included in consolidated net sales for the first time. In particular, the margin was also positively impacted by currency factors. US Dollar requirements for 1999 had been hedged at a comparably low level, while the expense incurred in this respect was largely charged to the previous year. Taylor Made contributed a significantly improved margin through the introduction of new products.

Best operating profit in the history of the Group

Operating profit rose by 16% to the record level of DM 942 million. Amortization of goodwill has been taken out of the operating profit and included in the non-operating result. This change makes the true operating core of the business significantly more visible in the operating result than has been the case in the past. (For comparison purposes, the prior year's result has also been stripped of goodwill amortization.) Measured in terms of volume, the adidas brand was the main contributor to this positive performance (DM 839 million, up 4%), while Salomon (DM 61 million, up 487%) and Taylor Made (DM 68 million, up 72%) delivered the highest growth rates. More detailed information on sales and performance of the individual brands is presented in the segmental reporting.

At the same time, operating expenses, which comprise selling, general and administrative expenses (SG&A) and depreciation and amortization (excluding goodwill), increased by a total of 9.5% to DM 3.7 billion. As a percentage of net sales, this represents an increase of 1.2 percentage points to 34.9%.

Advertising and promotional expenses represented 13.5% of net sales (compared to 12.9% in 1998). This development is related to several agreements which had been signed the previous year and in 1999 drove this expenditure position well beyond the medium-term goal of around 12%.

Depreciation and amortization (excluding goodwill amortization) at DM 124 million was 19% above the previous year's level. This represents 1.2% of net sales.

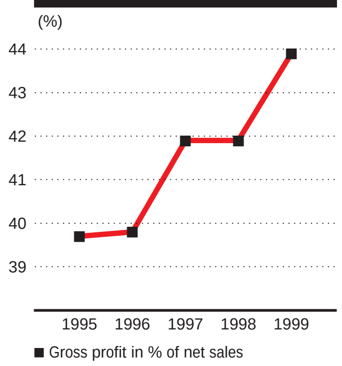
Amortization of goodwill unchanged

Amortization of the goodwill relating to the acquisition of the Salomon group remained unchanged at DM 57 million – thus representing the largest part of goodwill amortization, which totaled DM 76 million.

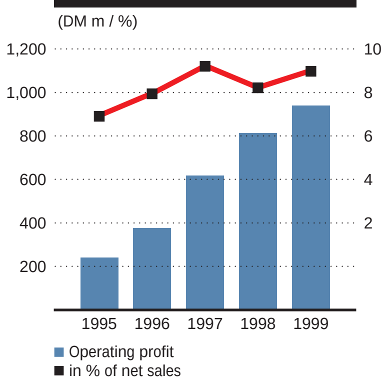
Decline in royalty and commission income

Royalty and commission income decreased, more or less in line with licensee sales, by 22.4% to DM 68 million. The main reason for this development was the loss of royalties in Japan as a result of the expiry of the licensee agreement there. The impact of this change on the Group's result, however, was fully offset by the operating profit contribution of the subsidiary built up in Japan in 1999 which was included in the consolidated results for the first time.

GROSS PROFIT



OPERATING PROFIT



The companies contributing to the result in 1999 otherwise remained the same as in 1998. Excluding the contribution from Japan from the previous year's figures, royalty and commission income remained virtually unchanged.

Significant improvement of financial result

Compared to the previous year (minus DM 224 million), the financial result at minus DM 164 million improved significantly in 1999, due to the non-recurrence of special effects. In 1998, substantial expenses had been incurred in connection with the instruments used for currency hedging activities which secured a favorable rate for US Dollar requirements in 1999. Additionally, the Russian crisis had necessitated one-time provisions and allowances in 1998. These burdens did not recur in 1999.

During 1999, net borrowings were reduced slightly. But a strong US Dollar led to an increase in the DM value of US Dollar denominated loans and a corresponding increase in the interest burden for dollar-denominated financing. Despite this development, in aggregate, these factors led to a significant improvement of the financial result.

Extraordinary income neutral on results

In 1999, as in the prior year, extraordinary income was recorded. This amounted to DM 9 million (1998: DM 24 million) although it had no impact on income before taxes as offsetting expenses of the same amount were included in the selling, general and administrative expenses. The expenses and extraordinary income were directly related to a special reward and incentive plan for Management which is sponsored by two individual shareholders.

Income before taxes at record level

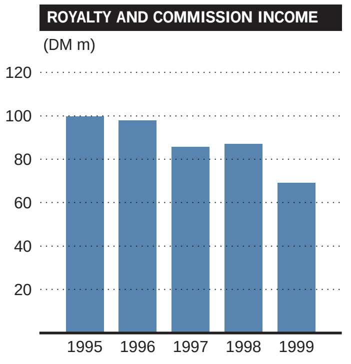
The significant improvement of the operating profit and financial result drove income before taxes to a new all-time high. DM 779 million represents an increase of DM 155 million or 25% year-over-year and, additionally, an improvement compared to the record result of 1997. This is the best result the Group has ever achieved.

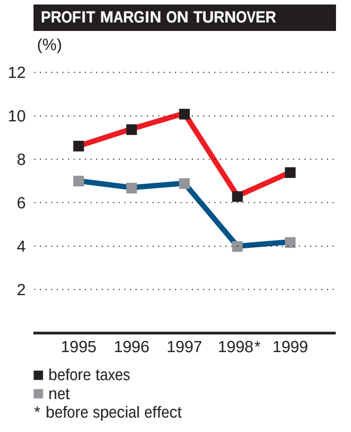
Earnings per share improved, higher dividend proposed

Net income totaled DM 445 million, representing an increase of DM 45 million or 11%. The significant improvement of income before taxes is not fully reflected in net income due to an overproportional increase in tax expenses and in minority interests. The tax rate rose by 5.4 percentage points to 38.4%. The main reasons for this increase: The tax burden in 1998 was reduced as a result of various one-off effects, which did not lead to similar reductions in the 1999 fiscal year. Additionally, changes in German tax legislation introduced in March 1999 resulted in an unavoidable increase in the tax rate compared to the greatly reduced level of 1998.

Earnings per share in 1999 reached DM 9.82, representing a year-over-year improvement (before special effect in 1998) of DM 0.98 or 11%.

The Executive Board proposes a dividend of DM 1.80 per share. This represents a total payout of approximately DM 82 million. The tax situation permits a full tax credit for German domestic shareholders with unlimited tax liability. With this proposal, the Executive Board remains within the previously identified payout ratio of between 15% and 20% of consolidated net income. The dividend paid for 1998 was DM 1.65.





Total assets increased, new financing instruments used, equity ratio significantly improved

Total assets of the adidas-Salomon Group in 1999 increased by DM 746 million or 12%. On the assets side, trade accounts receivable showed an overproportional increase of 29%, which was related to growth in business volume, partly of adidas Japan, but also resulted in part from higher currency exchange rates. If the exchange rates of the Deutsche Mark had remained unchanged in 1999, trade accounts receivable would have shown an increase of only 17%.

Year-end inventories in 1999 were 7% up compared to the prior year. This increase is slightly higher than the growth in order backlog but is in line with the Group's objective to maintain a close correlation between inventories and order backlogs. Changes in currency ratios also impacted inventories. If the exchange rates of the Deutsche Mark had remained unchanged in 1999, inventories would have been reduced by around 2%. Current assets rose by 14% in total.

Fixed assets increased by 16%, impacted by the expansion of the new "World of Sports" headquarters in Herzogenaurach and by investments in state-of-the-art IT technology. These investments partly served to handle the "Year 2000 issue" but were also needed in order to harmonize and accelerate the implementation of systems and achieve savings in logistics expenses.

As a result of the reformulation of the equity covenant in the medium-term credit agreements, borrowings under these agreements are now reported under long-term borrowings.

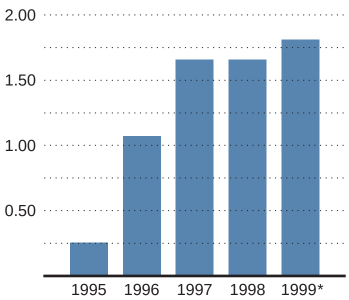
As at December 31, 1999, credit lines amounted to a total of DM 7.0 billion. This amount includes committed medium-term credit lines and other longer-term financing arrangements in a total of DM 2.9 billion. These credit lines have maturities between 2001 and 2008. More than half of these lines have maturities from the end of 2003 or later. The total of long-term financing facilities increased by DM 600 million in 1999. In the majority of cases, adidas-Salomon takes up short-term loans, in order to take advantage of the generally lower short-term interest rates. Interest rate caps for the protection against interest rate risk amounted to DM 2.9 billion at the end of 1999. Since the beginning of 2000, adidas-Salomon has arranged additional caps with maturities in 2005 and 2006, to replace caps expiring in 2000 and 2001.

At the beginning of 1999, adidas-Salomon had commenced a Treasury Notes Program in Belgium in the amount of Euro 150 million. Substantial investor interest in this program subsequently led to the volume being doubled. In January 2000, adidas-Salomon additionally set up a Commercial Paper Program in Germany in the amount of Euro 750 million, which was highly successful from the start. The introduction of a Medium-Term Notes Program is planned for the end of the year 2000. All these activities serve to diversify further the financing instruments used.

The equity base was considerably strengthened in 1999. Equity rose by 47% to DM 1.3 billion as the major share of net income was retained within the Group and was thus used to strengthen the equity base. The equity ratio rose by 4.6 percentage points to 19.0%. Financial leverage, the ratio of net borrowings to equity, decreased by 123 percentage points to 234%.

DIVIDEND

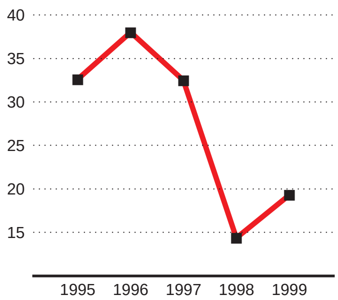
(DM per share)



* proposal

EQUITY RATIO

(in % of total assets)



Increase in investments

Investments in property and equipment within the Group totaled DM 198 million (1998: DM 233 million). Of this, DM 36 million was related to completion of the first phase and further expansion of the “World of Sports”. DM 23 million was invested in expansion and improvement of the IT infrastructure. Salomon and Taylor Made invested DM 44 million in new machinery and production facilities, including DM 17 million relating to a production facility for the newly launched golf balls.

Positive cash flow utilized to reduce borrowings

Net cash provided by operating activities in the amount of DM 642 million exceeded investments by DM 381 million. After deduction of the dividend payment, it was, for the most part, utilized in reducing net borrowings. Outstanding net borrowings decreased accordingly, from DM 3.2 billion at the end of 1998 to DM 3.1 billion at the end of 1999. This decrease would have been approximately DM 170 million higher if it had not been for the negative impact that the weaker exchange rate for the Deutsche Mark had on the valuation of outstanding US Dollar bank loans.

Management of currency risk

adidas-Salomon is exposed to risk resulting from fluctuations in currency exchange rates, as a high share of product is sourced from suppliers invoicing in US Dollars, while the majority of sales are invoiced in markets with other local currencies, particularly European currencies and the Japanese Yen. Currency management policies are established by the Treasury Committee which is mainly composed of members of senior management. The Group hedges currency risks and, on a selective basis, also risks relating to foreign-currency items in the balance sheet, through the use of currency options and forward contracts, typically with maturities up to 12 months. Gains and losses resulting from the hedging of future operations are recorded at the time of the operation, whereas the results of hedging of balance sheet items are recorded immediately. All outstanding hedges are valued at regular intervals on a mark-to-market basis.

Increase in number of employees

The average headcount of adidas-Salomon in 1999 was 12,433 employees. This represents an increase of 772 compared to 1998. The number of employees working for the adidas and Salomon brands increased by 4% in both cases. The strong sales growth of Taylor Made led to a greater increase in the headcount of this brand.

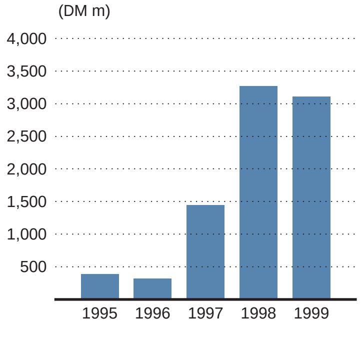
Strategic intentions are reflected in the structure of the workforce. The number of employees working in the design and development sectors increased more strongly than, for instance, in Headquarter functions.

Risk management system expanded

The adidas-Salomon Group operates a methodical and systematic management reporting process that provides the Executive Board with latest information concerning financial results in relation to budgets and prior year figures. Corporate performance in the short-term period is outlined in the annual budget process. Additionally, the forecasted full-year result is analyzed on a monthly basis with a view to possible budget variances.

Expansion of the reporting system in 2000 will guarantee formal communication of risks. In addition, the strategic mid-term plan charting corporate performance for the next three years will take into account potential risks for the Group. With the development of a risk management handbook, the areas of risk for the Group will be explicitly documented, including risk management tools and responsibilities.

NET BORROWINGS



Risks for the business of the adidas-Salomon Group are contained in the following sectors:

- possible shifts in brand preferences,
- economic, political or legal changes in the overall industry framework,
- a tougher competitive environment,
- changes in distribution structures, and
- changes in exchange rates, financing terms and tax guidelines.

With the above-stated initiatives, adidas-Salomon is addressing the requirements set forth in the German Law on Control and Transparency in the Corporate Sector (KonTraG) which was introduced in 1998.

Activities in Social and Environmental Affairs stepped up

The program to ensure that the adidas-Salomon brand values are real and the Standards of Engagement are adhered to in the factories making adidas-Salomon products progressed rapidly in 1999. Action plans were developed with suppliers for the continuous improvement of factories around the world. At factories where the management has proved to be uncooperative business relationships have been closed.

For the first time, independent external auditors have started checking the findings of internal audits, reducing even further the risk of unfair treatment of factory workers. Similar activities, which are required by the membership of the Fair Labor Association (FLA), will be conducted even more widely in 2000. The FLA is a collaboration between non-governmental organizations and companies, which adidas-Salomon joined in 1999.

adidas-Salomon has also completed the ‘Best Practice Standards’ which define the environmental requirements for product materials. These Standards focus on making sure that products do not present a risk to consumers or to the environment and are even more stringent than international legal requirements.

Changeover to Euro planned for 2002

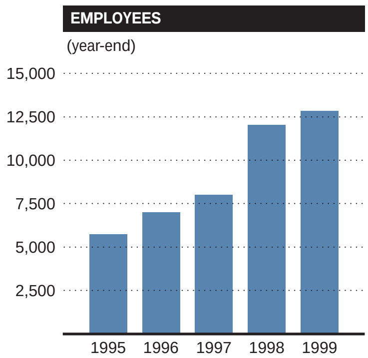
adidas-Salomon has decided to change pricing to Euro from the Spring/Summer 2002 season onwards. This timeline is based on the wishes of customers, the majority of whom want to see Euro-driven pricing and invoicing from the point in time at which consumers have access to Euro bank notes and coins, i.e. early 2002. Thus, the chosen changeover date reflects the Group’s customer orientation.

Preparations for conversion of the Group’s accounting systems in the individual countries in the Euro zone have already begun and, according to the current planning status, will be completed immediately after the 2001 year-end closing.

Y2K issue presented no problems

Preparations for addressing the “Year 2000 issue” were started in 1997 with the establishing of a Y2K Global Task Force. The task of this group was to ensure that adidas-Salomon itself, its customers, suppliers and other business partners would not be affected by the “Millennium Bug”.

The task force completed its work successfully. At the beginning of January 2000, all IT equipment, systems and applications were re-started and tested. All departments within the adidas-Salomon organization participated in the test process, and all results were positive. This means no serious Y2K errors were encountered within the organization, or within the environment on which it has direct influence.

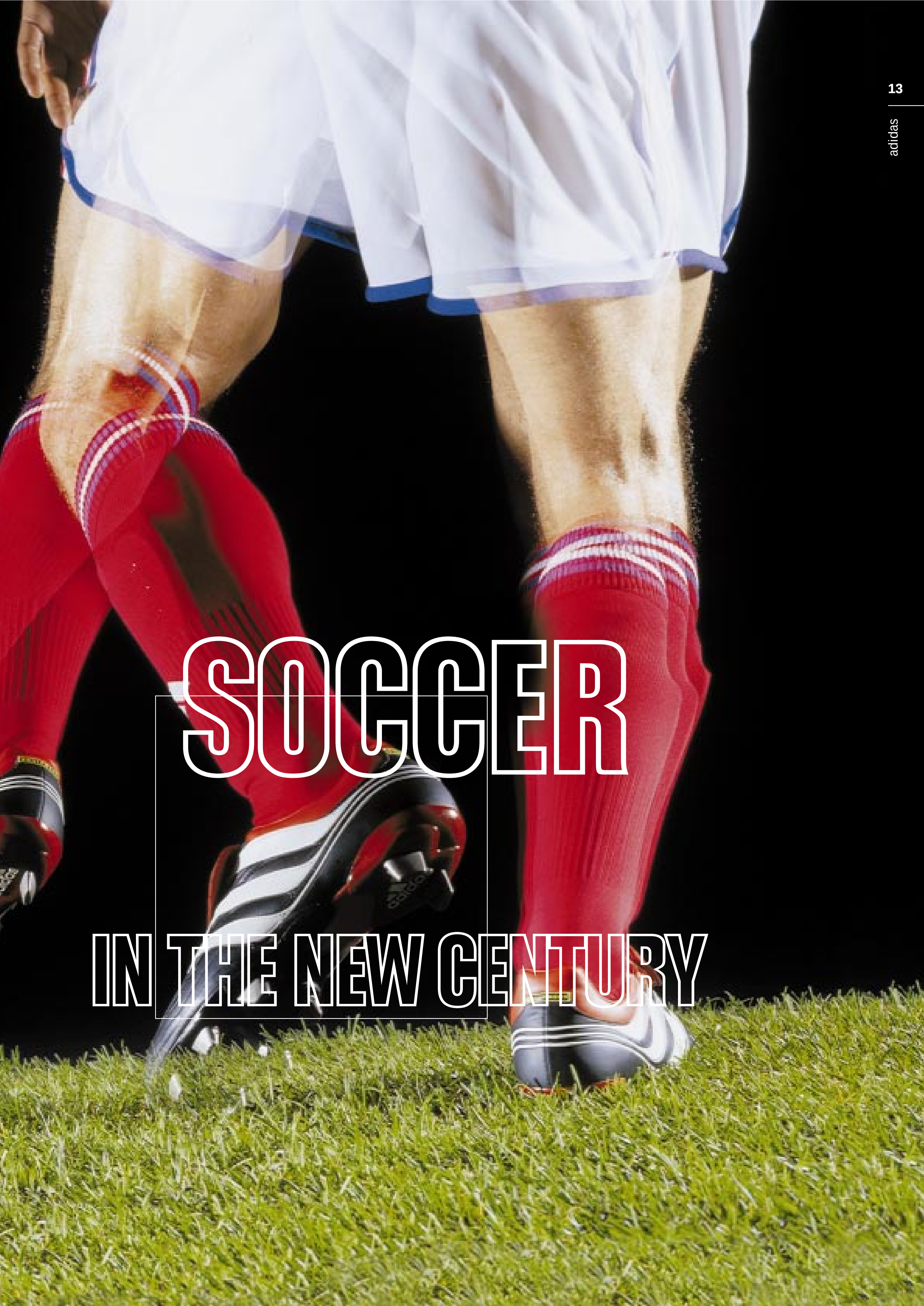


Expanding the boundaries of soccer, as with all sports, is what keeps it alive for the players and for the fans. Everyone wants faster, more accurate and more exciting play. At this year's Euro 2000™ championship, the first major sporting event of the new millennium and the highlight of the year in soccer, their wish can be granted – due in great part to several technological innovations from adidas.

Soccer in the **New Century**

Eight of the sixteen teams taking part in the tournament, as well as the match officials, will step onto the pitch in ClimaLite apparel, the adidas line of advanced moisture-wicking fabrics. Furthermore, all goals will be scored with the official matchball, the adidas EQUIPMENT Terrestra Silverstream. And some of the world's most talented players will be equipped with adidas' new star, the EQUIPMENT Predator® Precision shoe.

This soccer shoe, the most advanced in the world today, is further proof of adidas' dedication to soccer which goes back to the very beginnings of the company. The new shoe combines Predator® technology, the Exchangeable TRAXION® outsole and the adidas footwear philosophy of manufacturing shoes to fit exactly the shape of the human foot. Exchangeable TRAXION®, patented by adidas, is designed for soft ground and features eight exchangeable magnesium TRAXION® studs and two fixed center studs. With this design, the outsole can be customized, which is truly a revolution in soccer shoes. Some of the world's top players have helped to develop and test the new shoe. Their verdict? The best yet.



SOCCER
IN THE NEW CENTURY

adidas

Sales and operating profit of the adidas brand in 1999 showed moderate growth. A slight decline in sales in Europe was offset by strong double-digit growth in Asia, driven by the first-time inclusion of sales of adidas Japan. In North America, the positive sales performance of the first six months did not continue into the second half of the year, and at year-end net sales were slightly down on the prior year. The operating profit was positively impacted by currency hedging which secured favorable rates for 1999 requirements, with related expenses already mainly charged to income in the prior year. For 2000, it is expected that sales in Europe will grow again, Asia will record strong increases, but North America will experience a significant decline.

New record in sales and operating profit

In 1999, adidas increased net sales by 3.5% to DM 8.7 billion. Measured against the growth rates of the previous three years, this represents a modest increase. But measured against the difficult market conditions, particularly in North America, the growth rate underlines the strength of the adidas brand.

Footwear sales generated stronger growth rates than total net sales, increasing by 7% to DM 4.2 billion. Sales of Apparel declined slightly, by 0.4% to DM 4.3 billion. With an increase of 7%, Hardware sales also grew at a stronger rate than total net sales to reach DM 300 million.

The gross margin of the adidas brand improved by 1.9 percentage points to 44.0%. This improvement is due to several factors: favorable exchange rates for US Dollar requirements, strengthened control over sourcing costs, and an above-average margin in Japan, where adidas now has its own sales subsidiary.

The margin improvement was largely offset by increased operating expenses. In particular, marketing and promotional expenditures, up 12%, increased at an above-average rate compared to the previous year. Agreements entered into in 1998 drove marketing and promotional expenses as a percentage of net sales to 14% and

AT A GLANCE

	1999	Change year-over-year
Net sales	DM 8.7 bn	+3.5%
Gross margin	44.0%	+1.9 PP
Operating profit	DM 839 m	+4%
Orders*		+2%

* at end of year

thus beyond the 12% level which constitutes the medium-term objective. However, marketing and promotion has to be seen as an investment into the adidas brand, safeguarding future market success. Total operating expenses in 1999 were 9% up on the previous year.

Nevertheless, operating profit increased by 4%, growing at a somewhat stronger rate than net sales to reach the record level of DM 839 million. This is the best result that the adidas brand has ever achieved.

Strongest sales growth in Asia/Pacific

Asia/Pacific showed the strongest sales growth amongst the regions in 1999. The increase of 82% to DM 979 million was largely driven by the first-time inclusion of sales of adidas Japan. However, even without adidas Japan, net sales in the region grew by 5%, following the broad-based economic recovery especially in the second half of the year.

Sales in South Korea, China, India, New Zealand, the Philippines, Singapore and Taiwan all grew by more than 20%. The promotional contract with the All Blacks, New Zealand's national rugby team, significantly contributed to positive sales development in New Zealand during the second half of 1999.

Other markets such as Hong Kong, Malaysia and Thailand are stabilizing after the Asian currency crisis.

Gross margin improved

Gross margin in Asia improved by 4.5 percentage points to 44.9%, mainly resulting from the first-time inclusion of adidas Japan. For all other countries, margins could be maintained by adjusting pricing, product mix and distribution strategies to the changed market environment.

With net sales growing and the margin improving, the operating contribution also increased strongly, underlining the growing importance of the Asian markets.

Positive outlook for 2000

The outlook for the adidas brand in the Asia/Pacific region for the year 2000 remains very promising. Investment into the brand since the Asian crisis has continued, and strategic orientation has been redefined. Additionally, the Sydney Olympics in 2000 will stimulate enthusiasm for sport throughout the entire region. Further roll-outs of new merchandising tools, harmonization of the product ranges and optimized distribution concepts will help to strengthen or regain market share in the individual countries in the region.

Substantial investments in the infrastructure in Australia are expected to support its growth in the coming years.

On the basis of a solid performance in 1999 in Japan, the most important market in this part of the world, adidas is expected to continue to grow in 2000. Activities will focus on brand repositioning and the preparations for the Soccer World Cup in 2002.

The key marketing objective for the coming years remains to become one of the leading sports brands in all markets in the Asia/Pacific region. By continuing marketing investments in key areas and categories, it should be possible in the near future to achieve a strong number two position in the majority of these markets.

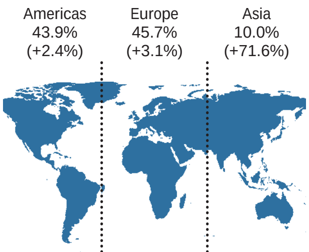
ASIA/PACIFIC

	1999	Change year-over-year
Net sales	DM 979 m	+82%
Gross margin	44.9%	+4.5 PP
Orders*		+15%

* at end of year

FOOTWEAR NET SALES

(in brackets: change year-over-year)



Difference to 100% due to HQ/Consolidation

Europe back on a growth track

1999 proved to be a year of continuous sales performance improvement in Europe and delivered the best operating result in the history of the adidas brand. While sales declined in the first two quarters, by 9% and 10% respectively, the third quarter already reached the previous year's level. In the fourth quarter, sales then showed growth of 10%. Consequently, sales for the full year were only 3.7% below the previous year. Footwear and Apparel in 1999 showed contrasting developments.

Footwear sales continued to grow

Footwear sales in 1999 were again up on the previous year, showing an increase of 3.1%, despite a perceptible trend also in Europe toward brown shoes. According to the figures available, the adidas brand managed to increase its share of the total footwear market in 1999 by about 1 percentage point to around 26%. While adidas has always been the undisputed market leader in Germany, in 1999 the brand recaptured market leadership in Switzerland as well.

Decline in Apparel sales

Apparel sales in 1999 showed a decrease of 8%. Apparel proved to be difficult, as products with the three stripes had followed a fashion trend, particularly in the U.K. and Spain. In 1998, this trend broke off, declining still further in 1999. However, order intake indicates that an improvement is to be expected for the year 2000. At the end of 1999, order growth rates for Apparel reached the same level as Footwear again for the first time in 1999. Nevertheless, it cannot be ignored that Apparel has come under tougher competitive pressure as more and more brands from the leisure fashion sector enter the market for sports-oriented customers.

Sales growth in Benelux, France, Italy and Austria

While markets in Europe are continuing to grow together, this region still represents a conglomerate of many individual markets showing a mixed development picture. adidas achieved growth primarily in markets where the brand previously had relatively small market shares, growing by 18% in the Benelux countries, 11% in France and 6% in Italy.

Austria profited from the fact that, for the first time, adidas offered the same range in Austria as in Germany, achieving sales growth of 18%.

In Germany and the U.K., the strongest markets for the adidas brand in Europe, sales declined by 6% and 16% respectively. Spain was down by 14%. In all these countries, the decline in what is regarded as fashion-oriented Apparel was significantly more pronounced than the decline in Footwear.

Markets in Eastern Europe were characterized by unrest. Russia stabilized in the aftermath of the economic crisis, but only at a low level. The financial crisis in Russia significantly impacted the economies of the bordering countries, thus also indirectly affecting demand for sporting goods. Strong currency fluctuations impacted sales performance in countries such as the Ukraine. Additionally, the war in Kosovo led to general instability in the Balkan countries.

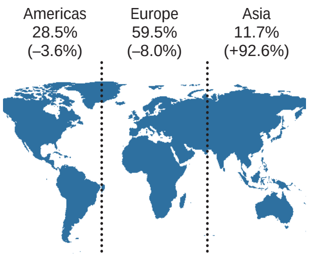
EUROPE

	1999	Change year-over-year
Net sales	DM 4.6 bn	–4%
Gross margin	42.1%	+0.8 PP
Orders*		+8%

* at end of year

APPAREL NET SALES

(in brackets: change year-over-year)



Difference to 100% due to HQ/Consolidation

Improvement in gross margin and operating contribution

The gross margin in Europe improved by 0.8 percentage points to 42.1%. This was primarily due to favorable exchange rates for the US Dollar and successful, stepped-up inventory clearance activities. At the same time, cost-cutting measures led to a reduction in operating expenses, causing the operating contribution to improve. This meant that, for Europe, 1999 was the most successful year ever.

Control over the brand further strengthened

In the context of increasing Europeanization, adidas' objective is to achieve best possible control over the brand. To this end, wholly-owned sales organizations or joint ventures have been established in recent years in markets formerly serviced by licensees. This policy was further underlined with the founding of a joint venture in Turkey. In 2000, a joint venture in Finland with the former distributor in Finland will commence operational activities. This partner has a majority shareholding in one of the biggest retailer customers of the adidas brand in Finland.

Increase in sales anticipated for 2000

Based on the 1999 year-end order situation, which showed a year-over-year improvement of 8%, one-digit sales growth in Europe is expected for the year 2000. Order figures are showing a positive trend in most key countries, led by Spain and France with growth of over 30%.

The year 2000 is also highlighted by major sports events which are expected to have a positive impact on sales figures. The European Soccer Championship, for example, will provide a strong platform for underlining adidas' leadership position in this sport, with new products, a balanced product line and, of course, corresponding support through marketing activities.

Tough retail environment impeded growth in North America

In 1999, adidas was confronted with a difficult retail environment in North America. Over the last few years, sports retailers expanded floor space much faster than demand would appear to have justified. Accordingly, some companies have experienced severe financial problems in the meantime, which has led to two of them going out of business, while others have reduced the number of shops drastically.

For sporting goods companies, contracting distribution channels create short-term difficulties as retailers need to sell off their excess inventories and tend to order less new product – a situation that has led to decreasing sales figures already. But, for the medium term, the current consolidation will lead to a much healthier retail environment and, most likely, spur renewed growth for sporting goods companies.

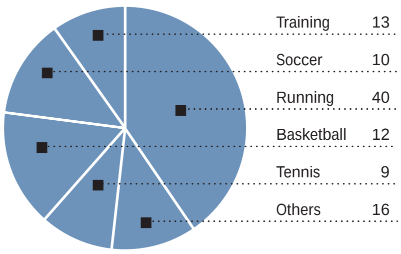
NORTH AMERICA

	1999	Change year-over-year
Net sales	DM 2.8 bn	–1%
Gross margin	38.6%	+0.1 PP
Orders*		–9%

* at end of year

FOOTWEAR NET SALES

(by categories, in %)



In this difficult environment, sales declined for the first time since 1993, although this was not the indication provided by the performance picture in the first half year. In the first six months, sales increased by 10%, mainly due to the fact that business performance in the USA was still strong. In the first half of the year, the adidas brand outperformed most of the major competitors and the overall market. From the third quarter on, however, adidas was also impacted by the difficulties of the American market. Sales and orders slowed. As a result, annual net sales for the region decreased by 9% in the third quarter and by 13% in the fourth quarter. In total, 1999 sales in North America reached DM 2.8 billion, down 1% compared to the prior year.

Apparel sales declined

The negative impact on sales in the North American markets came exclusively from Apparel. Textile sales declined by 5% to DM 1.2 billion, reflecting the shift in consumer demand away from sports-related apparel to leisure and casual-oriented styles.

Footwear sales increased further

In net sales of Footwear, an increase of 2% to DM 1.6 billion could be maintained. As the market for athletic footwear grew at about the same rate, the adidas market share could also be maintained at the previous year's level of between 12% and 13%.

Gross margin improved, operating contribution deteriorated

Although sales in North America fell below the prior year, the gross margin increased by 0.1 percentage points to an all-time high of 38.6%. Despite increases in clearance sales, adidas was still able to command favorable prices from North American customers, which is a clear indication of the enduring strength of the brand. Stringent management of production and material costs also contributed to improved margins.

However, operating expenses could not be adjusted fast enough to compensate for slowing demand, resulting in a deterioration of the operating contribution in North America.

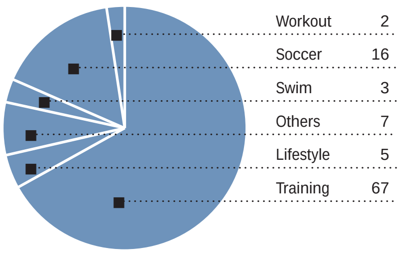
Involvement in true American sports

In 1999, adidas maintained its policy of promoting teams and individual athletes in true American sports such as baseball, football and basketball. The relationship with the World Series Champion New York Yankees continues to establish adidas as a leader in the professional sports sector. Associations with four National Football League (NFL) teams and agreements with several premier college programs rich in sports tradition improve the brand's visibility.

A high level of involvement continues to be maintained in soccer as well. The adidas-sponsored Women's World Cup event enhanced the brand name significantly in this sector. Increased media exposure was also provided through the "Training For Sport" campaign.

APPAREL NET SALES

(by categories, in %)



Outlook for North America expected to improve

Based on the order situation, sales in the first half of 2000 are expected to remain on the decline. Demand for Apparel, in particular, continues to slow.

In the second half of the year 2000, business is expected to improve again. It is anticipated that sales in the second half will reach the previous year's level. This is supported by indications that the Fall/Winter ranges, containing many new designs, have met with positive customer response.

Latin America recovered well

At the beginning of 1999, the shock waves that had rocked the financial markets in Asia and Russia in 1998 also reached Latin America. The devaluation of the Brazilian Real in January had a significant impact on the entire continent, affecting economies throughout the region. Most severely affected were the subsidiaries in Brazil, Uruguay and Argentina, although the latter still managed to increase its net sales by 53%.

Apparel sales grew more strongly than Footwear

Overall, the net sales of adidas subsidiaries in the region increased by 13% to DM 246 million, with Apparel growing by 44% and Footwear by 8%. These very different growth rates reflect the fact that growing the Apparel business has been a major focal point in further development of the adidas brand. The product management and sales force in this division were strengthened in 1999. Accordingly, the Apparel share of total net sales increased from 18% to 23%. Comparison with the Group average indicates that there is still considerable potential for further growth in the Apparel category.

Control over the brand strengthened

These efforts to achieve sustainable growth are accompanied by an ongoing commitment to strengthen control over the brand in Latin America. The establishment of a wholly-owned adidas subsidiary in Colombia marks the commitment to this policy, as does the take-over of sales activities in Central America and the Caribbean, which had formerly been serviced by a distributor.

A growing number of adidas-owned retail stores will help gauge market sentiment and convey a consistent brand message throughout the region. In addition, substantial efforts will continue to be focused on the presentation of the brand at independent retailers.

LATIN AMERICA	1999	Change year-over-year
Net sales	DM 246 m	+13%
Gross margin	40.0%	+1.0 PP

The ski that's a sensation in the half-pipe

1080

Salomon's leading position in winter sports is founded on the innovative spirit of the brand. Salomon's philosophy is to continuously develop new exciting and innovative products and establish them in the market. The latest example: This year's release of the Teneighty was a big event for free-ride junkies. It's an incredibly versatile ski, designed to pull spectacular tricks and mix with snowboarders in the half-pipe. It has a twin tip to facilitate landing backwards and forwards with total confidence.

Defining a Generation of
Alpine Sports Equipment

Salomon snowboards took the slopes and the pipes by storm, becoming established in the market much faster than anticipated. Known and recognized for their high level of quality and excellent performance characteristics, it took only three years for Salomon snowboards to achieve an extremely solid reputation in the snowboarding scene.

The story behind this success story is the philosophy followed by Salomon in its approach to the development of new products. The riders asked for a new generation of technical, high-quality, innovative equipment. Salomon responded – at the very highest functional level. The Salomon pro riders are directly involved in product development. This communication and co-operation between the snowboard pros and Salomon's development team results in products that exactly meet snowboarders' needs: Salomon boards are simply more fun to ride than other boards.

Salomon boards are amongst the most solid in the market. Salomon also designs and makes cutting-edge snowboarding boots and binding systems, offering all snowboard enthusiasts equipment that guarantees utmost functionality in all conditions, and allowing all riders to constantly push the limits of their performance.

At the forefront of snowboarding is the PM 153 Daniel Franck®. This pro model is powerful and progressive, the ultimate board for precision handling in parks and pipes. The full Isowood core gives its deck a completely new lightweight, responsive feel. This professional board is wrapped in Salomon's unique Unibody Monocoque for strength and durability.

PM 153 Daniel Franck®:
the board-of-the-art

Salomon

1999 was a very successful year for the Salomon brand. Net sales increased by 25%. Growth came from all parts of the world, with Asia showing the strongest growth rates. Salomon improved sales of winter sports products by nearly 20%. Sales growth of summer products was even twice as high – indicating that the market has accepted all innovative product lines very well. The growth in sales has been leveraged fully to the bottom line. The operating result increased fivefold to DM 61 million, reflecting the impact of the integration measures.

Strong improvements for summer and winter product sales

Net sales of products under the Salomon brand name increased by 25% to DM 1.1 billion in 1999. Sales in winter sports increased by 19% to DM 810 million. In the winter product sector, the strongest improvements were achieved in the Snowboard and Alpine Ski categories. Sales of Snowboards increased by 68% to DM 130 million. Alpine Ski equipment (skis, bindings, boots and snowblades) grew 16%, due largely to the success of several high-end products like the X-Scream, the new short racing skis Superaxe 2V and 3V and the Teneighty freestyle ski.

Sales in summer products grew by nearly 50%

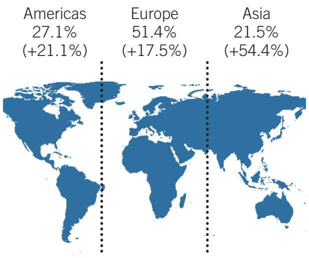
Summer products enjoyed another strong year, increasing sales by 48% to DM 255 million. With In-Line Skate sales growing 109% to DM 89 million, Salomon now holds the number two position in the high-end segment of this market. As a result of this improvement and a healthy 29% increase in the Hiking/Footwear category, summer products now comprise 24% of the total Salomon sales. It is the medium-term goal of Salomon to create a nearly equal split between summer and winter products in order to decrease the impact of the seasonality of the business on sales and earnings.

AT A GLANCE

	1999	Change year-over-year
Net sales	DM 1.1 bn	+25%
Gross margin	39.6%	+0.6 PP
Operating profit	DM 61 m	+487%

NET SALES, BY REGION

(in brackets: change year-over-year)



Asia showed strongest growth

Net sales grew by 54% in Asia, by 21% in North America and by 18% in Europe. In Asia and in North America, however, the strong currencies partly contributed to these impressive figures, particularly in the fourth quarter. Europe continues to be the most important market for Salomon, accounting for 51% of net sales. 27% of net sales are achieved in North America, 22% in Asia.

Gross profit grew faster than sales

The gross profit improved by 28% to DM 424 million. The gross margin was again increased, by 0.6 percentage points to 39.6%, primarily due to the improved margins of the recently introduced product lines.

Operating profit at record level

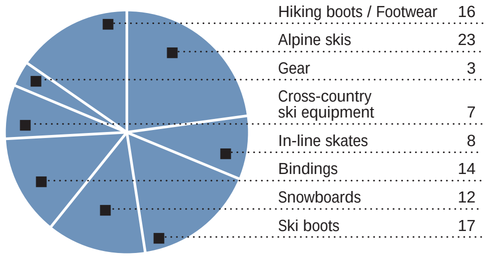
The operating profit of the Salomon brand increased fivefold to DM 61 million, as operating expenses (up 13%) increased at a lower rate compared to net sales and gross profit. Keeping expense growth confined to this rate is largely the result of the measures undertaken to integrate the Salomon brand into the Group. adidas-Salomon reported on these steps in detail in the Annual Report for 1998. These measures, be it the integration of sales organizations, the integration of sourcing activities, or the restructuring of Salomon from a separate business into an integrated Group business, have all now been implemented.

Sales and profitability improvements expected for 2000

It is currently anticipated that net sales of Salomon brand products will continue to grow in the year 2000. The gross margin is also expected to show further improvement. It is expected that the operating profit for the Salomon brand will continue to improve, despite increased operating expenses relating to the building up of the European sales organization as outlined in the growth and efficiency program.

NET SALES, BY PRODUCTS

(%)



The Wood Behind **Taylor Made**

Taylor Made is the brand that created high-performance steel metalwoods over twenty years ago. The best professional players in the world and amateurs of all skill levels quickly recognized the superior performance of the Taylor Made metalwood. The result is that today wood clubs made of actual wood have become all but invisible in the marketplace.

Taylor Made is the brand that created high-performance **steel metalwoods** over twenty years ago.

GOLF

Taylor Made is again demonstrating its club design leadership. The SuperSteel line of metalwoods makes use of a new, very high-strength steel alloy which allows the new SuperSteel clubs to be 20% larger, better performing and superior feeling.

The benefits of SuperSteel are not confined to metal-woods only. The newly launched SuperSteel irons make use of the same strong steel featuring a thinner face and a lower center of gravity. The result: ease of play and superior feel.

Both the SuperSteel irons and metalwoods use the latest generation of Taylor Made's proprietary Bubble shaft. Invented, designed and refined by Taylor Made to work with the SuperSteel clubheads, the Bubble shaft has been called the most sophisticated shaft in golf.

The Taylor Made range is complemented with the Fire-Sole metalwoods and irons. The Titanium FireSole metal-woods are for those demanding very high performance and the ultimate in technology. Tour-proven, they con-tinue to be among the top-selling woods in the market. FireSole irons feature titanium, tungsten and steel con-struction used to optimize performance for the different segments of the iron set.

Taylor Made has also pioneered a new type of golf club that is gaining more and more notoriety. This is called the Rescue club. It's a club with unique size and appear-ance to be used as a replacement for long irons or fair-way woods. It has the power of a fairway wood, the accuracy of an iron, and an unmatched level of versa-tility. Constructed of strong, yet light titanium along with a high-density tungsten sole, the Rescue has an extremely low center of gravity. This easy-to-play club has received rave reviews by the golf media and has become widely used on the professional tours. The Rescue club carries on Taylor Made's tradition of innova-tion driven by performance technology.

Since their launch, Taylor Made's patented InerGel golf balls have taken more market share than any other new golf ball entrant. This resilient material enables the balls to produce a unique combination of driver distance, iron spin control and feel around the green.

The **InerGel** golf ball

Taylor Made

In 1999, the golf industry recovered from the disappointments of 1998. With stabilization of the Asian economy, weather conditions again more conducive to playing golf in the United States, and a generally expanding interest in the game, global market sales in 1999 grew. Taylor Made was at the forefront of this industry recovery following the slump in sales and earnings in 1998. The largest introduction of new products in the brand's history produced a solid turnaround in earnings for 1999.

Sales up 11%

Taylor Made's new technologies under the "FireSole" name in Metalwoods and Irons and the introduction of the "Nubbins" putter line and the "InerGel" golf balls enabled the brand to reverse the previous year's decline in sales and earnings as well as expand its market share in key product categories. Taylor Made significantly exceeded the 1998 sales levels in the last three quarters of 1999 after increased investments in development, manufacturing and logistics.

The majority of the sales growth was generated in the USA. Net sales in North America, representing 74% of total sales, grew by 11%. This is the same rate as was achieved in Europe. Asia grew by 10%.

In Europe, which contributes 14% of total sales, Taylor Made shifted its distribution from independent distributors to a fully Taylor Made-controlled organization.

In Asia, which represents 12% of the Taylor Made business, an improvement in the overall economic climate had a positive impact on sales. Sales in Japan also profited from the strong Yen.

Gross margin improved

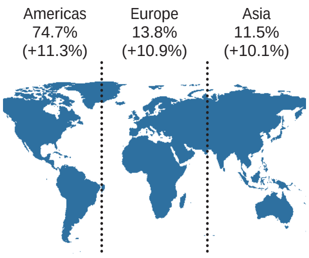
The gross profit of Taylor Made increased by 25% to reach DM 288 million. Gross margin rose by 5.4 percentage points to 50.1%. This improvement was driven by the increased demand for Taylor Made's new products and technologies. In 1998, in contrast, a general slowdown in demand and high inventories had led to significant price discounts, greatly depressing gross margins.

AT A GLANCE

	1999	Change year-over-year
Net sales	DM 571 m	+11%
Gross margin	50.1%	+5.4 PP
Operating profit	DM 68 m	+72%

NET SALES, BY REGION

(in brackets: change year-over-year)



In addition, the shift of club component production to lower-cost production sources in Southeast Asia also contributed to gross margin improvement.

Gross margin improved in each of the principal market regions for the Taylor Made brand during 1999, with the largest gain in gross margin percentage being realized in the important Japanese market.

Operating expenses reflect focus on repositioning

Operating expenses increased at a rate of 16%, growing slightly faster than net sales. This increase was driven by the need to reposition the Taylor Made brand.

First, Taylor Made expanded its marketing activities during 1999 to support the introduction of the wide array of new products and technologies launched during the year.

Second, total operating expenses were adversely affected in 1999 by the cost of integration of the European sales and marketing efforts. The European integration resulted in increases in logistics, sales and bad debt expenses. However, by the end of 1999 the efficiencies targeted with this integration were already being seen and should result in more efficient and more economical operations in 2000.

Third, in the United States, Taylor Made increased its investment in management and technical personnel during the latter half of 1999 to service the increase in sales and to position the brand to achieve further sales growth in 2000.

Strong increase in operating profit

The improved gross margin more than offset increased expenses. As a result, the operating profit of the Taylor Made brand rose by 72% to DM 68 million.

Taylor Made and adidas Golf business unified

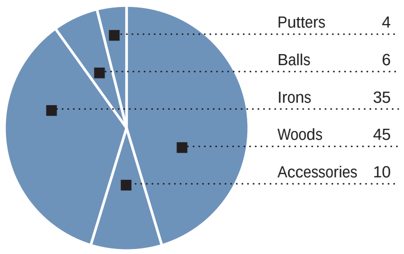
The creation of a Global Business Unit "Taylor Made-adidas Golf" was completed in 1999 with the installation of a new management team and organizational structure in Carlsbad, California. Strategic planning and product design as well as development and marketing direction are now centralized, combining Taylor Made and adidas Golf into one organization. Taylor Made-adidas Golf is responsible for all golf products in the Golf category of the adidas-Salomon Group.

Growth expected for 2000

As a result of the organizational changes described, Taylor Made-adidas Golf is now positioned to compete in all major golf product categories. The centralization of strategy and management will allow better use of the strengths and consistent image of its brands in each of the major regional markets.

NET SALES, BY PRODUCTS

(%)



INNOVATION AND REVOLUTIONARY TECHNOLOGY

Mavic Keeps the **Lead**

1999 was, indeed, a year of innovation and revolutionary technology for Mavic. Since the introduction of the Cosmic in 1994, Mavic has been at the forefront of producing complete wheelsets. In spite of increased competition and the fact that many new high-tech wheels have arrived on the market, Mavic is still the one that other brands reference.

Mavic's success can be attributed to three key factors: innovation, innovation, innovation. Cycling Today magazine in Great Britain credited Mavic for having three of the top twenty innovations of the century: the aluminium rim, the 501 hub and the Mektronic gearshift.

The new wheel for mountain biking fans, the Crossmax UST is a further example of Mavic's innovative power. It is lightweight, solid and tubeless. This is why Bicycling Magazine in the U.S. described the Crossmax UST tubeless wheel as "the greatest bicycle innovation since the introduction of suspension".

In addition, there are new wheelsets for the road as well:

- The Ksyrium SSC – a comfortable, lightweight wheel with improved aerodynamics, which has already seen great success during the Tour de France.
- The Cosmic Carbon SSC – engineered for the rising demands of top-level racing.
- The Cosmos – a high-performance wheel with a highly competitive price.

Innovation and Revolutionary **Technology**

Mavic

1999 was a difficult year for the bicycle and bike component industry. As a result of its cost-cutting program, however, Mavic again posted a positive operating result. The introduction of new Wheels led to an improved second half of the year in terms of sales and orders.

Sales in USA and Europe declined

Net sales of the Mavic brand decreased by 16% to DM 86 million. This was a result of continued erosion of the mountain-bike market, high inventories at the beginning of the year and the tarnished image of the sport in the wake of doping scandals in professional cycling. In North America and Europe, sales deteriorated at a similar rate, declining in both regions by 18%. As Europe accounts for 78% and North America for 18% of total net sales of the Mavic brand respectively, the decline could not be offset by the strong growth of 43% in Asia. Asia represents only 4% of product sales under the Mavic brand name.

Gross margin improved

Gross profit declined, at a somewhat slower pace than sales, by 14% to DM 31 million. In particular, the new products that were introduced in the second half of the year helped to improve the gross margin by 1.1 percentage points to 36.3%.

Positive operating result

Despite the decline in net sales and gross profit, Mavic achieved a positive operating result for the second year in a row. In an effort to streamline costs, operating expenses were decreased by more than 12%, resulting in an operating profit of DM 1 million, which was DM 1 million less than in the previous year. Mavic also managed to maintain tight control over inventories and receivables.

New range of products improves outlook for 2000

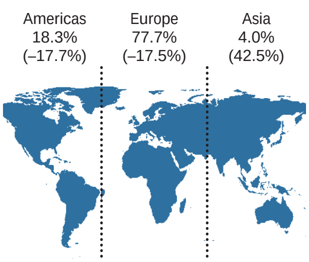
Increased orders indicate that Mavic sales will improve in 2000 as the introduction of the new, innovative Wheel products gains momentum. Rims remain a core category for Mavic in 2000, and sales of the Mektronic gearshift will continue to improve with the introduction of whole groups (gears, pedal shafts, gearshifts and brakes) for road racing.

AT A GLANCE

	1999	Change year-over-year
Net sales	DM 86 m	–16%
Gross margin	36.3%	+1.1 PP
Operating profit	DM 1 m	–36%

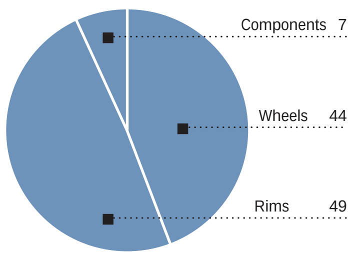
NET SALES, BY REGION

(in brackets: change year-over-year)



NET SALES, BY PRODUCTS

(%)



The adidas-Salomon Share

Despite record earnings, 1999 proved to be a year of extremely unstable development for the adidas-Salomon share. In common with all sporting goods industry stocks, adidas-Salomon lacked the favors of the financial markets. In the course of the year it lost a fifth of its value. Even the announcement of a proposed dividend payment increase to DM 1.80 per share did nothing to change this.

Sporting goods industry stocks weak

Few competitors in the footwear and apparel industries were able to achieve share price increases in 1999. The S&P Footwear Index, which reports a composite of the Group's footwear competitors in the United States, for example declined by more than 20% in the course of the year. Industry factors which hampered the share price performance were all related to North America. They included a strengthening US Dollar and disappointing prospects for the North American market resulting from shifts in demand and the declining retail environment there.

Volatile adidas-Salomon share price development

The adidas-Salomon share had a tough 1999 that was characterized by a series of ups and downs based on good current financial results and a market perception that the outlook for the sporting goods industry may be poor. Investors ultimately adopted a generally negative view of the share.

The adidas-Salomon share closed the year at Euro 75. This represents a decline of Euro 16 or 18% compared to the end of 1998. Share price development at the beginning of 2000 continued this downward trend.

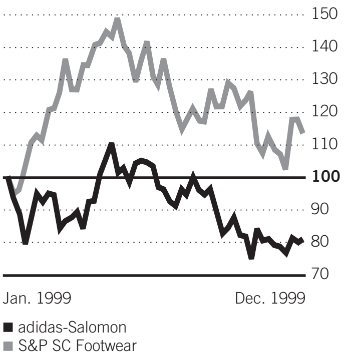
Market capitalization at the end of the year stood at Euro 3.4 billion (previous year: Euro 4.2 billion).

Stock options program approved

In 1999, the Annual Shareholders' Meeting approved the introduction of a Stock Option Program for upper and middle management. More than 400 employees at senior and middle management level are entitled to participate in the program that has been built on the understanding of linking management decisions more closely to shareholder value. The program includes demanding exercise criteria so that management will only be able to profit from the options if the stock price has increased by more than the long-term average of the stock market. For details see Note 29.

SHARE PRICE VS. INDUSTRY INDEX

(Indexed, January 8 = 100)



KEY PER SHARE DATA

(in €, except for number of shares)

	1999	1998
Year end price	**74.55**	93.30
High	103.00	168.30
Low	68.35	77.20
Dividend*	**0.92**	0.84
Net income**	**5.02**	4.52
Cash flow***	**7.24**	2.64
Number of shares outstanding (m)	**45.35**	45.35

* 1999: Dividend proposal
** 1998: before special effect
*** Net cash provided from operating activities

Financial information expanded on the internet

Financial information on the internet greatly increased in 1999. Investors and all other interested parties can find current share prices, current annual and quarterly reports, presentations and press releases as well as other detailed financial information at <www.adidas.de/ investor relations>. Via the internet, conference calls on the quarterly results are also open for everybody to listen in. This ensures that all important information is available to individual investors at the same time and to the same extent as it is to professionals from the finance community. The internet offering will be further expanded in 2000 to include new services.

Proposed dividend increase to DM 1.80

The adidas-Salomon Executive Board will propose an increased dividend of DM 1.80 (Euro 0.92) per share to the Annual General Meeting of Shareholders on May 11. This represents a total payout of approximately DM 82 million. In this way, shareholders participate directly in the financial success achieved in 1999.

The proposal represents a total payout ratio of 18%. With this proposal, the Executive Board remains within the scope defined by adidas-Salomon's previously formulated policy to maintain a payout ratio of between 15% and 20% of consolidated net income.

Contrary to the previous year, adidas-Salomon AG's tax situation permits a full tax credit for German domestic shareholders with unlimited tax liability.

FINANCIAL CALENDAR 2000

March 2	1999 results Analyst Conference/ Conference Call Press Conference
May 4	Q1 2000 results Conference Call
May 11	Annual General Meeting
May 12	Payment of dividend
August 7	Q2 2000 results Analyst Conference/ Conference Call Press Conference
November 2	Q3 2000 results Conference Call

Outlook

Sporting goods markets expected to grow in Asia and Europe, but sluggish in North America

adidas-Salomon anticipates that development of the world's sporting goods markets in 2000 will be mixed. The highest growth rates are expected for Asia. Following a broad-based recovery from the economic and currency crises, it is expected that there will be a significant upturn in consumption in the private sector, and thus also growth in demand for sporting goods.

There is consensus among economic research institutes that gross national product and consumption in the private sector in Europe are likely to increase by between 2% and 3%, differing slightly from country to country. This will create positive conditions for moderate growth in Europe's sporting goods industry.

Prospects for the sporting goods industry are felt to be less positive in North America, although economic growth and a further increase in consumption is also forecast for this region. However, the industry is still suffering from the excessive expansion of retail chains, out of line with market developments, which did not culminate in the first consolidations, insolvencies and store closures until the beginning of 2000.

Salomon, Taylor Made and Mavic expected to show higher growth than adidas

In this environment, adidas-Salomon expects the adidas brand to achieve sales growth only in Asia and Europe – showing a double-digit increase in Asia, and low single-digit growth in Europe. In North America, sales in the first half of the year are expected to show a low double-digit percentage decrease. adidas-Salomon expects sales in the second half to remain virtually unchanged compared to the previous year.

Overall product sales under the adidas brand name in the year 2000 are expected to exceed the 1999 level only marginally.

Stronger growth is anticipated for Salomon, Taylor Made and Mavic. The focus of growth for the Salomon brand will be in Europe and Asia. Taylor Made is hoping to achieve stronger increases in the USA, the world's biggest golf market. Mavic expects sales and growth to continue to be driven predominantly by European markets.

NET SALES GROWTH

adidas	→
Salomon	↑
Taylor Made	↑
Mavic	↑

Margin pressure from strong US Dollar

adidas-Salomon expects that the gross margin will come under pressure in 2000, due to a significant strengthening of the US Dollar. It is difficult to predict the extent to which this pressure can be compensated. However, it is expected that sourcing prices will remain stable, a changed product mix will have a positive impact on the margin, and the Salomon and Mavic brands will be able to achieve margin improvements.

Growth and efficiency program will affect operating profit

The year 2000 will be marked by a repositioning of the Group and preparations for a new phase of growth in its global business. The Group intends to

- reorganize management structures in order to create clear and simple structures, allowing more transparent responsibilities and faster decision-making,
- increase the flexibility, speed and cost efficiency of the global sourcing organization,
- improve presence on the internet and accelerate development of e-commerce,
- streamline the product range, with the aim to reduce complexity and revitalize the market with innovative products,
- expand significantly the sales and marketing activities of the Taylor Made and Salomon brands, in order to create the conditions for increasing success in the marketplace.

The related expenditures in an anticipated volume of approximately DM 75 million will impact the operating profit.

Adverse impact might also be forthcoming from the US Dollar. A strengthening US Dollar impacts virtually all items in the income statement. As forecasts relating to currency exchange rates carry a major element of uncertainty, this factor cannot be determined beyond general terms.

While adidas-Salomon will continue in 2000 to pursue the cost control measures initiated in 1999, overall it has to be anticipated that 2000 will close with a significant deterioration of the operating profit compared to the prior year.

Non-operating income expected to stay practically unchanged

From the current viewpoint, neither a deterioration nor a significant improvement is to be expected in the non-operating components of the result. An increase in royalties will be partly offset by growth in minority interests. A reduction of borrowings in itself leads to a lower level of interest expense but may easily be impacted by interest rate increases in an environment of rising interest rates.

Net income expected to be down

Net income is expected to be impacted by a deterioration of operating profit and a higher tax rate. adidas-Salomon will experience a relative increase in the tax burden, as amortization of goodwill resulting from the Salomon acquisition, which remains at a constant level each year, is not tax-deductible. This means that as the operating profit falls, the tax rate increases. Furthermore, it is expected that income from some countries with low tax rates will decrease, and that income from some countries with relatively high tax rates will increase.

adidas-Salomon expects that net income, and thus earnings per share, in 2000 will be approximately 20% below the level of the year 1999.

EXPECTATIONS 2000	
Net sales	↗
Gross margin	→
Operating profit	↓
Non-operating result	→
IBT	↓
Tax rate	↑
Net income	↓

Capital expenditure geared to stronger growth

adidas-Salomon intends to use the year 2000 to reposition the company, increase efficiency and create the necessary conditions for a new growth phase. This intention has been the source for setting up the growth and efficiency program. This intention has also been the guiding principle for the investment plans. All capital expenditure is to either improve the cost structure, increase the efficiency of doing business or increase sales.

For 2000, adidas-Salomon is planning to invest a total volume of just under DM 300 million. Investment activity will focus on

- setting up of own retail stores in the USA, including expansion of the chain of factory outlets,
- acquisition and renovation of new headquarters for adidas and Salomon North America in Portland, Oregon, bringing together the activities which are currently spread over several leased locations,
- IT hardware and software to improve the efficiency of the information flow, and
- restructuring of the production facilities of the Salomon and Mavic brands.

adidas-Salomon expects net cash provided by operating activities to be in excess of the investment volume again in 2000. The surplus amount is to be used for further reduction of net borrowings.

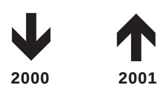
Growing profits from 2001 onwards

Improved cost efficiency helps to boost profits in the medium term. However, also in the medium-term perspective, adidas-Salomon considers sales growth to be a much more reliable way of increasing profits. For this reason, adidas-Salomon is deploying more resources and employees in order to develop new products, offer attractive designs and, wherever possible, introduce innovative technologies into the marketplace.

All these elements, including the growth and efficiency program, will put in place the conditions for the Group's business to grow more strongly again. On this basis, it is expected that from 2001 onwards every single percent of sales growth will be reflected in a higher percentage improvement of the result. For the years 2001 to 2003, Management aims to achieve 15% annual growth in earnings.

PROFITS

Expectations



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 Executive Board. In five joint meetings with the Executive Board and in seven meetings of the General Committee of the Supervisory Board, the prospects of the adidas-Salomon 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 Association, the Supervisory Board acted in an advisory role in essential individual matters.

Examination of financial statements

As in the prior year, consolidated financial statements were prepared in compliance with International Accounting Standards (IAS). Under the provisions of § 292a of the German Commercial Code (HGB), these financial statements exempt the Company from drawing up consolidated financial statements in accordance with the requirements of German Commercial Law. The auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, have audited the consolidated financial statements and Group management report, and also the financial statements and management report of adidas-Salomon AG, and issued unqualified opinions thereon. The financial statements, the management reports as well as the reports of the auditors have been presented to the Supervisory Board.

The Supervisory Board has examined the consolidated financial statements, the financial statements of adidas-Salomon AG, the management reports and the proposal submitted by the Executive Board 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 submitted by the Executive Board for the year ending December 31, 1999 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 Executive Board with respect to the appropriation of retained earnings has been approved.

The auditors attended the annual financial statements meeting of the Supervisory Board on March 8, 1999 and the meetings on May 19, August 2 and November 3 at which the quarterly financial statements for 1999 were presented.

Chronology of discussions and resolutions

At the Supervisory Board meeting on March 8, 1999, the Supervisory Board discussed the business situation of the Company in the past and current financial year. Additionally, prior to and during this meeting, one of the main points of discussion related to the stock option plan for the management of adidas-Salomon AG as well as for the Managing Directors/Senior Vice Presidents of its affiliated companies domestically and abroad. The discussions included determination of the volume, the exercise criteria, the group of beneficiaries and the exercise price. Following completion of these discussions, a proposal was drawn up which was presented to the Shareholders' Meeting in May for approval.

At its meeting on May 19, 1999, the Supervisory Board discussed and approved the results for the first quarter of 1999. Furthermore, the Supervisory Board members discussed the project “Merger of Salomon Gesellschaft m.b.H. into adidas-Salomon AG”, with a focus on cost savings and improvement of the market share of the Salomon brand in Germany.

As the Company and its domestic affiliates together had more than 2,000 employees, the Supervisory Board was to be composed pursuant to the German Co-determination Act (MitbestG). Accordingly, the Shareholders’ Meeting on May 20 elected six Supervisory Board members representing the shareholders. Prior to the Meeting, the employees had elected six Supervisory Board members representing the employees.

At the constituent meeting of the now co-determined Supervisory Board on May 20, 1999, the Chairman and his deputies, the members of the General Committee and the Mediation Committee were elected pursuant to § 27 Para. 3 MitbestG. Additionally, a Labor Director was appointed pursuant to § 33 MitbestG.

At its meeting on August 2, 1999, the Supervisory Board discussed and approved the financial statements for the first half year of 1999. At the same meeting, the Supervisory Board discussed the benefits and disadvantages of introducing a new leisure brand, paying particular attention to the question concerning the opportunities such a brand would present in order to be able to participate in the growing leisurewear market. The Supervisory Board also reviewed the current status of the reconfiguration and refurbishing measures being carried out at the “World of Sports”, the new global headquarters in Herzogenaurach. Additionally, the Supervisory Board gained insight into the positioning of the Salomon brand in the sporting goods market.

On November 3, 1999, the Supervisory Board convened for its fifth meeting in the year under review. At this meeting, Herbert Hainer was appointed as additional Deputy Chairman of the Executive Board. The Supervisory Board members reviewed in detail the Company’s business situation at the end of the third quarter of 1999 and again discussed the introduction of a new leisurewear brand, also paying particular attention to possible negative impact on the adidas brand that pronounced closeness to a leisure brand might entail.

Committee activities

In 1999, the General Committee of the Supervisory Board convened for seven meetings, at which the members primarily dealt with personnel matters relating to the Executive Board, and also prepared agenda items for the respective Supervisory Board meeting.

It was not necessary for the Mediation Committee to meet in 1999.

Personnel changes on the Executive Board

Jan Valdmaa and Dean Hawkins resigned as members of the Executive Board effective January 5 and 31, 2000, respectively, tendering their resignation by way of letter addressed to the Supervisory Board.

The Supervisory Board would like to thank Jan Valdmaa and Dean Hawkins for the energy and commitment they displayed in their respective functions.

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

Herzogenaurach, March 2, 2000

The Supervisory Board
Henri Filho
(Chairman)

SUPERVISORY BOARD AND EXECUTIVE BOARD

Supervisory Board

Henri Filho,
Paris, France
(Chairman)

Dr. Hans Friderichs,
Mainz, Germany
(Deputy Chairman)

Fritz Kammerer,
Fürth, Germany *)
(Deputy Chairman
since May 20, 1999)

Sabine Bauer,
Erlangen, Germany *)
since May 20, 1999

Ulrich Becker,
Puschendorf, Germany *)
since May 20, 1999

Gerold Brandt,
Gräfelfing, Germany

David Bromilow,
Bangkok, Thailand

Peter Göbel,
Herzogenaurach, Germany *)
from March 4, 1999
until May 20, 1999

Hans-Dieter Hippmann,
Scheinfeld, Germany *)
until March 31, 1999

Herbert Müller,
Nuremberg, Germany *)
since May 20, 1999

Peter Nolan,
Los Angeles, USA
until March 5, 1999

Serge Okun,
Lungern, Switzerland
until May 20, 1999

Dr. Thomas Russell,
Sarasota, USA

Charles Thomas Scott,
London, UK

Heidi Thaler-Veh,
Uffenheim, Germany *)

Klaus Weiß,
Bergkamen, Germany *)
since May 20, 1999

*) Employee representatives

Executive Board

Robert Louis-Dreyfus,
Davos, Switzerland
(Chairman)

Christian Tourres,
Lungern, Switzerland
(Deputy Chairman)

Herbert Hainer,
Herzogenaurach, Germany
(Deputy Chairman since
November 3, 1999)

Glenn Bennett,
Portland, USA

Dean Hawkins,
Richmond, UK
until January 31, 2000

Manfred Ihle,
Frankfurt/Main, Germany

Michel Perraudin,
Nuremberg, Germany

Erich Stamminger,
Nuremberg, Germany

Jan Valdmaa,
Münchaurach, Germany
until January 5, 2000

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
(INTERNATIONAL ACCOUNTING STANDARDS)

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in DM 000)

		December 31,	
	(Note)	**1999**	**1998**
Cash and cash equivalents	(26)	135,164	101,388
Accounts receivable	(4)	2,020,131	1,567,883
Inventories	(5)	2,044,319	1,905,968
Other current assets	(6)	393,947	439,334
Total current assets		**4,593,561**	**4,014,573**
Property and equipment, net	(7)	555,840	496,304
Goodwill, net	(8)	1,243,114	1,315,100
Other intangible assets, net	(9)	143,555	106,755
Deferred tax assets	(23)	262,764	219,793
Other non current assets	(10)	217,459	117,278
Total non current assets		**2,422,732**	**2,255,230**
Total assets		**7,016,293**	**6,269,803**
Short-term borrowings	(11)	346,351	2,855,757
Accounts payable		954,056	731,829
Income taxes	(23)	192,085	187,458
Accrued liabilities and provisions	(12)	768,154	687,561
Other current liabilities	(13)	188,697	192,841
Total current liabilities		**2,449,343**	**4,655,446**
Long-term borrowings	(11)	2,903,237	484,467
Pensions and similar obligations	(14)	156,988	107,126
Deferred tax liabilities	(23)	23,262	5,154
Other non current liabilities	(15)	29,533	36,601
Total non current liabilities		**3,113,020**	**633,348**
Minority interests	(16)	124,049	75,052
Shareholders' equity	(17)	1,329,881	905,957
Total liabilities and shareholders' equity		**7,016,293**	**6,269,803**

The accompanying notes are an integral part of these consolidated financial statements.

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(in DM 000)

		Year ended December 31,	
	(Note)	**1999**	**1998**
Net sales	(25)	10,471,414	9,907,118
Cost of sales		5,871,173	5,753,198
Gross profit		**4,600,241**	**4,153,920**
Selling, general and administrative expenses		3,534,682	3,235,652
Depreciation and amortization (excl. goodwill)	(7, 9)	123,734	103,899
Operating profit	(20)	**941,825**	**814,369**
Goodwill amortization	(8)	76,301	77,507
Royalty and commission income		67,845	87,419
Financial expenses, net	(22)	164,037	224,278
Extraordinary income	(29)	9,499	23,742
Income before taxes		**778,831**	**623,745**
Income taxes	(23)	299,171	205,573
Net income before minority interests		**479,660**	**418,172**
Minority interests	(16)	(34,275)	(17,318)
Net income before special effect		**445,385**	**400,854**
Acquired in-process research and development – expensed	(2)	0	(722,600)
Net income/(loss)		**445,385**	**(321,746)**
Net income/(loss) per ordinary share (in DM)	*(24)*	*9.82*	*(7.09)*
Net income before special effect per ordinary share (in DM)	*(24)*	*9.82*	*8.84*

The accompanying notes are an integral part of these consolidated financial statements.

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in DM 000)

	Year ended December 31,	
	1999	**1998**
Operating activities:		
Income before taxes and minority interests	778,831	623,745
Adjustments for:		
Depreciation and amortization (incl. goodwill)	233,142	222,220
Unrealized foreign exchange gains, net	(43,000)	(6,143)
Interest income	(15,108)	(12,366)
Interest expense	166,115	177,307
Losses/(gains) on sales of property and equipment, net	4,607	(6,159)
Operating profit before working capital changes	**1,124,587**	**998,604**
Increase in receivables and other current assets	(242,076)	(202,926)
Increase in inventories	(7,197)	(83,286)
Increase/(decrease) in accounts payable and other current liabilities	230,068	(78,604)
Cash provided by operations	**1,105,382**	**633,788**
Interest paid	(165,787)	(169,707)
Income taxes paid	(297,241)	(229,604)
Net cash provided by operating activities	**642,354**	**234,477**
Investing activities:		
Purchase of goodwill and other intangible assets	(60,997)	(46,212)
Purchase of property and equipment	(198,221)	(189,785)
Proceeds from sale of property and equipment	35,424	27,977
Acquisition of Salomon net of cash acquired	0	(1,247,692)
Acquisition of GEV KG and GmbH net of cash acquired	0	(38,737)
Increase in investments and other non current assets	(51,903)	(46,613)
Interest received	15,108	12,366
Net cash used in investing activities	**(260,589)**	**(1,528,696)**
Financing activities:		
Increase in long-term borrowings, net	2,418,770	471,268
Dividends of adidas-Salomon AG	(74,826)	(74,826)
Dividends to minority shareholders	(1,078)	(10,886)
Capital contributions by minority shareholders	7,382	1,697
(Decrease)/increase in short-term borrowings, net	(2,703,424)	945,593
Net cash (used in)/provided by financing activities	**(353,176)**	**1,332,846**
Effect of exchange rates on cash	**5,187**	**(813)**
Net increase in cash and cash equivalents	33,776	37,814
Cash and cash equivalents at beginning of year	101,388	63,574
Cash and cash equivalents at end of period	**135,164**	**101,388**

The accompanying notes are an integral part of these consolidated financial statements.

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in DM 000)

	Share capital	Capital surplus	Currency translation differences	Retained earnings	Total
Balance at January 1, 1998	**226,746**	**14,781**	**39,844**	**1,120,030**	**1,401,401**
Net loss				(321,746)	**(321,746)**
Dividend payment				(74,826)	**(74,826)**
Currency translation			(98,872)		**(98,872)**
Balance at December 31, 1998	**226,746**	**14,781**	**(59,028)**	**723,458**	**905,957**
Net income				445,385	**445,385**
Dividend payment				(74,826)	**(74,826)**
Currency translation			57,908		**57,908**
Cumulative effect of the adoption of IAS 19 (revised 1998)				(4,543)	**(4,543)**
Share capital increase from reserves	314			(314)	**0**
Balance at December 31, 1999	**227,060**	**14,781**	**(1,120)**	**1,089,160**	**1,329,881**

The accompanying notes are an integral part of these consolidated financial statements.

adidas-Salomon AG AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

adidas-Salomon AG, a listed German stock corporation, and its subsidiaries design, develop, produce and market a broad range of athletic and active lifestyle products under the following brand names:

adidas branded products include footwear, apparel and hardware, such as bags and balls. The products are designed and developed by adidas and are almost exclusively manufactured by subcontractors on behalf of adidas.

SALOMON branded products include ski equipment (skis, boots and bindings) which are designed and manufactured in France and Italy. In recent years the business was expanded into summer activities such as hiking boots and in-line skates.

TAYLOR MADE develops and assembles or manufactures high-quality golf clubs, golf balls and golf equipment.

MAVIC products include rims and wheels for mountain bikes and road racing.

Other trademarks are **erima** and **BONFIRE**, under which apparel is marketed.

The Company's headquarters are located in Herzogenaurach, Federal Republic of Germany.

1. General

The accompanying consolidated financial statements of adidas-Salomon 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" – "IAS"). The Company applied all International Accounting Standards and Interpretations of the Standing Interpretations Committee "SIC" effective as at December 31, 1999 and 1998, respectively.

New accounting standards:
Several new International Accounting Standards were issued and existing International Accounting Standards were revised.

As per January 1, 2000 the Company will adopt:

IAS 22 (revised 1998)	"Business Combinations",
IAS 36	"Impairment of Assets",
IAS 37	"Provisions, Contingent Liabilities and Contingent Assets",
IAS 38	"Intangible Assets".

It is believed that these standards will not have a material impact on the Company's financial position, results of operations or cash flows and its reporting thereon.

The International Accounting Standards Board issued recently IAS 39 "Financial Instruments: Recognition and Measurement" which is mandatory for the financial year beginning on January 1, 2001. The Company is currently analyzing the impacts of this standard and it is believed that it will not have a material impact on the Company's results of operations.

German statutory reporting:
Since December 31, 1998 the Company does not prepare consolidated financial statements under accounting principles generally accepted in Germany (German GAAP) pursuant to the exemption in § 292a of the German Commercial Code (HGB), which was introduced in 1998.

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 except that IAS 19 (revised 1998) "Employee Benefits" has been applied as at January 1, 1999. The present value of the defined benefit obligation of the pension plans sponsored by adidas-Salomon AG has been calculated using a discount rate of 5.5%, compared to 6.25% as at December 31, 1998 under IAS 19 (revised 1993), which reflects the yield of high-quality corporate bonds in accordance with the provisions of the revised standard. The resulting increase of the provision for pensions of DM 7.7 million, less a deferred tax benefit of DM 3.2 million, has been offset against the opening balance of equity as at January 1, 1999 in accordance with IAS 8. Comparative information has not been restated.

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 1999 presentation.

Principles of consolidation:
The consolidated financial statements include the accounts of adidas-Salomon AG and its significant direct and indirect subsidiaries, which are prepared under uniform accounting principles and are audited by independent auditors.

A company is a subsidiary if adidas-Salomon AG controls directly or indirectly the financial and operating policies of the respective enterprise.

The number of consolidated companies evolved as follows for the years ended December 31, 1999 and 1998, respectively:

	1999	1998
January 1	**98**	**70**
Consolidation of the Salomon group	–	20
Newly founded/consolidated companies	3	10
Purchased companies	–	2
Divestments	(1)	–
Merged companies	(4)	(4)
December 31	**96**	**98**

Eleven subsidiaries have not been included in the consolidated financial statements in 1999 (1998: 8 subsidiaries), since they have no or little active business and are insignificant to the financial position. The shares in these companies are accounted for at the lower of cost or net realizable value.

A schedule of the shareholdings of adidas-Salomon AG is shown in attachment II to these notes.

Consolidation of equity is made in compliance with the book value method by offsetting the initial investments in subsidiaries against the relevant equity portion at fair value held by the parent company as at acquisition date.

All significant intercompany transactions and accounts are eliminated in consolidation.

Currency translation:
Assets and liabilities of the Company's non-Deutsche-Mark functional currency subsidiaries are translated into Deutsche Mark 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 from the translation of equity of foreign subsidiaries resulting from changes in exchange rates are included in a separate caption within shareholders' equity without affecting income.

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

	Average rate for the year ended December 31,		Spot rate at December 31,	
	1999	1998	1999	1998
1 USD	1.8359	1.7591	1.9469	1.6739
100 JPY	1.6151	1.3423	1.9039	1.4716
1 GBP	2.9706	2.9155	3.1459	2.7753
1 AUD	1.1845	1.1041	1.2682	1.0269
100 KRW	0.1547	0.1279	0.1721	0.1392
1 CAD	1.2356	1.1856	1.3389	1.0813
100 ESP	1.1755	1.1780	1.1755	1.1738
100 FRF	29.8164	29.8273	29.8164	29.8033
1,000 ITL	1.0101	1.0132	1.0101	1.0100

Effective January 1, 1999 the European Monetary Union commenced and the exchange rates between the participating currencies and the EURO were irrevocably fixed. One EURO equals 1.95583 Deutsche Mark.

In the individual financial statements of Group companies, monetary items denominated in a foreign currency are generally measured at closing exchange rates at the balance sheet date. The resulting currency gains and losses are recorded directly in income.

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

Receivables:
Receivables are stated at nominal amounts less allowances for doubtful accounts. These allowances are determined on the basis of individual risk assessment and past experience of losses.

Inventories:
Merchandise and 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. Costs of finished goods include cost of raw materials, direct labor and manufacturing overheads. 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:
Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a declining balance or straight-line basis on useful lives as follows:

	Years
Buildings	10–50
Leasehold improvements	5–20
Equipment, machinery and furniture and fittings	2–10

Expenditures for maintenance and repairs are expensed as incurred. Significant renewals and improvements are capitalized.

Impairment:
In the event that facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability would be performed. An exceptional write-down would be made if the carrying amount exceeds the recoverable amount.

Finance leases:
If under a lease agreement substantially all risks and rewards associated with an asset are transferred to the Company, the asset and the corresponding liability is recognized at the fair value of the asset or the lower net present value of the minimum lease payments.

Goodwill and identifiable intangible assets:
Acquired goodwill and intangible assets are valued at cost less accumulated amortization.

Goodwill is the excess of the purchase cost over the fair value of the identifiable assets and liabilities acquired. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities of that foreign entity are treated as assets of the reporting entity and are translated at exchange rates prevailing at the date of the initial consolidation.

Amortization is calculated on a straight-line basis with the following useful lives:

	Years
Goodwill	5–20
Patents, trademarks and concessions	5–10
Software	3–5

Expenditures for internally generated intangible assets are expensed as incurred.

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 sporting goods.

The Company spent approximately DM 151 million and DM 127 million on product research and development for the years ended December 31, 1999 and 1998, respectively.

The value of acquired in-process research and development, i.e. products and processes which have not reached technological and commercial feasibility at the date of the acquisition of the Salomon group, was assessed by independent experts. Since there is no basic difference between costs from own research and development projects and costs related to acquired research and development projects the total amount of DM 723 million was charged directly to income in 1998.

Liabilities and provisions:
Liabilities and provisions are carried at the expected settlement amount. Provisions are recognized, if it is probable that a loss has been incurred.

Pensions and similar obligations:
Provisions for pensions are determined using the “projected unit credit method” in accordance with IAS 19 (revised 1998).

Recognition of revenues:

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

Advertising and promotional expenditures:

Production costs for media campaigns are shown under prepaid expenses until the advertising takes place for the first time, after which they are expensed in full. Significant media buying costs (e.g. broadcasting fees) are expensed over the original duration of the campaign on a straight-line basis.

Promotional expenses, including one-time upfront payments for promotional contracts, are generally expensed pro rata over the term of the agreement.

Interest:

Interest is recognized as an expense as incurred.

Income taxes:

Current income taxes are computed in accordance with the rules for taxation established in the countries in which the Company operates.

The Company computes deferred taxes for all temporary differences between the carrying amount and the tax basis of its assets and liabilities and tax loss carryforwards.

Deferred tax assets arising from deductible temporary differences and tax loss carryforwards which exceed taxable temporary differences are only recognized to the extent that it is probable that the company concerned will generate sufficient taxable income to realize the associated benefit.

Derivative financial instruments:

Exchange gains and losses on outstanding forward currency contracts and currency options, which hedge anticipated future transactions, are deferred and recognized in income when the underlying transaction takes place. Exchange gains and losses on forward contracts and currency options which are discontinued or no longer serve as a hedge for an anticipated future transaction are charged to income as incurred.

Interest rate cap premiums are amortized over the useful life of the caps. Amortized cap premiums are included in interest expenses, as part of the financial result.

Use of estimates:

The preparation of financial statements in conformity with IAS requires management to make assumptions and estimates that affect reported amounts and related disclosures. Actual results could differ from those estimates.

3. Acquisitions/ Founding of subsidiaries

Effective December 22, 1997 the Company acquired 100% of the former Salomon family holding company, Sport Développement S.C.A., Metz-Tessy (France) (now adidas Salomon France S.A.) which owned 38.87% of the shares and 56.12% of the voting rights of Salomon S.A., Annecy (France). The remaining outstanding shares of Salomon S.A. were acquired during the first quarter of 1998 by adidas Salomon France S.A.

The Salomon group was consolidated for the first time as at January 1, 1998. The aggregate acquisition cost for the Salomon group was DM 2,365 million. The resulting goodwill of DM 1,137 million is amortized over an estimated useful life of 20 years.

Effective April 1, 1998 the Company acquired a 90% interest in GEV Grundstücksgesellschaft mbH & Co. KG, Herzogenaurach, a property investment company, which owns the property of the new headquarters of the Company in Herzogenaurach.

adidas Japan K.K., Tokyo, a wholly owned subsidiary, was founded on February 19, 1998. In the first quarter of 1999 this company took over the distribution of adidas branded products from the former independent distributor and licensee.

adidas International Trading B.V., Amsterdam (Netherlands), a wholly owned subsidiary, was founded on September 7, 1998. This company became operative effective January 1, 1999 and will assume full responsibility for European inventory management and global sourcing activities through its subsidiary adidas Salomon International Sourcing Ltd. (formerly adidas Asia/Pacific Ltd.), Hong Kong. In 1999 this company assumed responsibility for the inventory of the adidas brand in the United Kingdom. The transfer of inventories from subsidiaries in other European countries will follow in the course of 2000.

adidas Turkey, Istanbul, a joint venture with the former distributor and licensee in Turkey, was founded on November 3, 1998. On January 1, 1999, this joint venture started its operations.

adidas Suomi OY, Helsinki (Finland), a joint venture with the former distributor and licensee, was founded on July 27, 1999. Beginning January 1, 2000, this joint venture will start its operations.

4. Accounts receivable

Accounts receivable are as follows:

	December 31,	
(in DM 000)	**1999**	**1998**
Accounts receivable, gross	2,192,814	1,709,617
Less: allowance for doubtful accounts	172,683	141,734
Accounts receivable, net	**2,020,131**	**1,567,883**

5. Inventories

Inventories by major classification are as follows:

	December 31,	
(in DM 000)	**1999**	**1998**
Finished goods and merchandise on hand	1,601,168	1,471,973
Goods in transit and advanced payments	613,832	587,100
Raw materials	66,870	63,244
Work in progress	11,014	10,730
Inventories, gross	**2,292,884**	**2,133,047**
Less: allowance for obsolescence	248,565	227,079
Inventories, net	**2,044,319**	**1,905,968**

The allowance for obsolescence mainly relates to inventories on hand. Goods in transit relate mainly to shipments from suppliers in the Far East to subsidiaries in Europe and the Americas.

6. Other current assets

Other current assets consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Prepaid expenses – current portion	147,805	207,957
Taxes receivable	111,960	123,450
Premiums for derivative financial instruments – current portion	40,843	39,636
Security deposits	21,641	16,682
Receivables from affiliated companies	9,119	1,933
Sundry	69,511	54,569
Other current assets, gross	**400,879**	**444,227**
Less: allowances	6,932	4,893
Other current assets, net	**393,947**	**439,334**

Prepaid expenses relate mainly to promotion agreements.

7. Property and equipment

Property and equipment consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Land, land rights and buildings	368,026	346,912
Technical equipment and machinery	209,096	163,878
Other equipment, furniture and fittings	446,055	362,038
	1,023,177	**872,828**
Less: accumulated depreciation	515,304	408,977
	507,873	**463,851**
Advanced payments and construction in progress, net	47,967	32,453
Property and equipment, net	**555,840**	**496,304**

Depreciation expense is DM 128 million and DM 111 million for the years ended December 31, 1999 and 1998, respectively.

8. Goodwill

Goodwill primarily relates to the Company's acquisitions of the Salomon group and subsidiaries in the United States, Australia/New Zealand and Netherlands/Belgium.

	December 31,	
(in DM 000)	**1999**	**1998**
Goodwill	1,448,134	1,443,667
Thereof relating to the acquisition of the Salomon group	*1,137,092*	*1,136,002*
Less: accumulated amortization	205,020	128,567
Goodwill, net	**1,243,114**	**1,315,100**

Goodwill amortization expense is DM 76 million and DM 78 million for the years ended December 31, 1999 and 1998, respectively; thereof DM 57 million in each year is related to the acquisition of the Salomon group.

9. Other intangible assets

Other intangible assets consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Software, patents, trademarks and concessions, gross	211,900	156,451
Less: accumulated amortization	85,817	54,177
	126,083	**102,274**
Advanced payments, net	17,472	4,481
Other intangible assets, net	**143,555**	**106,755**

Intangible asset amortization expense is DM 29 million and DM 23 million for the years ended December 31, 1999 and 1998, respectively.

10. Other non current assets

Other non current assets consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Prepaid expenses – non current portion	170,041	98,977
Financial assets, net	23,914	5,541
Premiums for derivative financial instruments – non current portion	10,672	–
Cash deposits	2,452	2,974
Sundry	10,380	9,786
Other non current assets	**217,459**	**117,278**

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts (see note 27 and 18, respectively).

Financial assets include shares in unconsolidated affiliated companies of DM 6.9 million and DM 3.1 million as at December 31, 1999 and 1998, respectively. Further financial assets include investments which are related to a deferred compensation plan (see note 14).

Cash deposits with maturities exceeding 12 months relate to adidas Korea.

11. Borrowings and credit lines

Short-term borrowings consist of bank borrowings, discounted trade bills and Commercial Paper.

The Commercial Paper was issued under a EURO 300 million Belgian Treasury Notes Program. As at December 31, 1999, Commercial Paper is outstanding in the total amount of DM 131 million.

Principal borrowings as at December 31, 1999, are in EURO (47.4%) and USD (38.7%).

Month-end weighted average interest rates on borrowings in all currencies range from 3.8% to 4.9% and from 4.5% to 5.2% for the years ended December 31, 1999 and 1998, respectively.

As at December 31, 1999 the Company has credit lines in a total amount of DM 7.0 billion outstanding (1998: DM 7.0 billion); unused credit lines amount to approximately DM 3.9 billion (1998: DM 3.7 billion). In addition, the Company has separate lines for the issuance of letters of credit in an amount of approximately DM 1.3 billion (1998: DM 1.2 billion).

Short-term borrowings, even if they were backed by committed medium-term credit lines of adidas-Salomon AG, had been reported as short-term borrowings in 1998. Since 1999, all short-term borrowings which are backed by committed medium-term credit lines of the Company are included in long-term borrowings. The committed medium-term lines contain a negative-pledge clause and a minimum equity covenant. As at December 31, 1999, actual shareholders' equity is well above the amount of the minimum-equity covenant.

The amounts disclosed as long-term borrowings represent outstanding borrowings under the following arrangements:

	December 31,		
(in DM million)	**1999**	**1998**	**Maturity**
Committed medium-term lines of adidas-Salomon AG	2,455	–	Nov. 2001 to Nov. 2003
Long-term loan agreement of adidas-Salomon AG	100	–	March 2001 to Sep. 2008
Committed medium-term lines of Salomon S.A.	164	328	Nov. 2001 to March 2002
Private placement of adidas Salomon France S.A.	180	156	Nov. 2003 to Nov. 2004
Other	4	–	
	2,903	**484**	

The above agreements have aggregated expiration dates as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Between 1 and 2 years	180	–
Between 2 and 3 years	785	74
Between 3 and 4 years	1,710	253
Between 4 and 5 years	178	15
After 5 years	50	142
	2,903	**484**

Refer to note 19 for the protection against interest rate risks.

12. Accrued liabilities and provisions

Accrued liabilities and provisions consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Goods and services not yet invoiced	177,032	111,605
Marketing	132,817	96,943
Payroll, commissions and employee benefits	105,916	97,966
Returns, allowances, warranty	87,057	66,950
Restructuring	81,960	167,324
Taxes, other than income taxes	8,049	4,723
Other	175,323	142,050
Accrued liabilities and provisions	**768,154**	**687,561**

Provisions for marketing mainly consist of provisions for distribution, such as discounts, rebates and sales commissions, and promotion.

Restructuring provisions relate mainly to a restructuring plan in connection with the acquisition of the Salomon group, which focuses on the integration of the Salomon group into the adidas structure. The plan includes further key integration activities and will be substantially completed by the end of the year 2000.

Other accrued liabilities and provisions mainly include items not otherwise allocated and also anticipated losses from purchase and other transactions and contingent losses from pending lawsuits.

13. Other current liabilities

Other current liabilities consist of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Liabilities due to personnel	43,331	30,243
Tax liabilities other than income taxes	41,601	38,690
Liabilities due to social security	14,108	16,191
Interest liabilities	10,148	9,820
Liabilities due to affiliated companies	3,437	3,031
Deferred income	2,335	2,587
Sundry	73,737	92,279
Other current liabilities	**188,697**	**192,841**

14. Pensions and similar obligations

The Company sponsors and/or contributes to various pension plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country.

The provision for pensions and similar obligations consists of the following:

	December 31,	
(in DM 000)	**1999**	**1998**
Defined benefit plans	134,192	102,605
Thereof: adidas-Salomon AG	*106,125*	*81,075*
Similar obligations	22,796	4,521
Pensions and similar obligations	**156,988**	**107,126**

The actuarial valuations of defined benefit plans are made at the end of each reporting period. Similar obligations include mainly long-term liabilities under a deferred compensation plan. The funds withheld are invested by the Company on behalf of the employees in certain securities, which are presented under other non current assets (see note 10).

The expenses recognized for defined benefit and defined contribution plans are presented in selling, general and administrative expenses. Pension expenses are as follows:

	Year ended December 31,	
(in DM 000)	**1999**	**1998**
Defined benefit plans	31,604	13,940
Thereof: adidas-Salomon AG	*19,810*	*11,800*
Defined contribution plans	17,702	12,292
Pension expenses	**49,306**	**26,232**

In 1998 an additional voluntary retirement plan of Salomon S.A. was revised retrospectively with effect from January 1, 1998; as a result of this curtailment DM 19 million of the provision was released in the prior year.

Defined benefit plans:

The retirement plans of adidas-Salomon AG cover substantially all employees. They are financed internally through provisions, except one plan of adidas-Salomon AG, which is financed, subject to funding limitations in the German tax law, through a legally independent pension fund "Unterstützungseinrichtung der Firma adidas-Salomon AG e.V.". adidas-Salomon AG provides for the excess of the obligation arising from this plan over the amounts contributed to the fund pursuant to IAS 19 (revised 1998). Further adidas-Salomon AG has borrowed approximately DM 22 million and DM 21 million from this fund as at December 31, 1999 and 1998, which are included in the provision for pensions.

Additionally the Company sponsors various other defined benefit plans outside Germany, which are not significant. The disclosures below relate hence solely to the defined benefit plans of adidas-Salomon AG.

The provision for pensions of adidas-Salomon AG evolved as follows:

(in DM 000)	1999
Provision for pensions as at January 1	81,075
Cumulative adjustment due to the adoption of IAS 19 (revised 1998)	7,713
Restated provision for pensions as at January 1	**88,788**
Pension expense	19,810
Pensions paid	(2,473)
Provision for pensions as at December 31	**106,125**

Actuarial assumptions for the defined benefit plans of adidas-Salomon AG are as follows:

	December 31, 1999	January 1, 1999
Discount rate	6.0%	5.5%
Salary increases	1.7%–3.0%	1.7%–3.0%
Pension increases	1.7%–2.0%	1.7%–2.0%

Actuarial assumptions for employee turnover and mortality are based on empirical data, the latter on the 1998 version of the mortality tables of Dr. Heubeck as in the prior year.

The pension obligation of adidas-Salomon AG could be analyzed as follows:

(in DM 000)	December 31, 1999	January 1, 1999
Present value of the defined benefit obligation	98,346	88,788
Unrecognized actuarial gain	7,779	–
Provision for pensions	**106,125**	**88,788**

On the basis of the actuarial valuation as at December 31, 1999 it is not necessary to recognize the actuarial gain pursuant to IAS 19 para. 92 (revised 1998).

Pension expense attributable to the defined benefit plans of adidas-Salomon AG comprises:

(in DM 000)	Year ended December 31, 1999
Current service cost	7,855
Interest cost	4,870
Past service cost	8,086
Release of provision	(1,001)
Pension expense	**19,810**

Past service cost relates to plan amendments in 1999.

15. Other non current liabilities

Other non current liabilities include mainly obligations under finance leases (see note 18). Liabilities falling due after more than 5 years total DM 10 million and DM 21 million as at December 31, 1999 and 1998 respectively.

16. Minority interests

Minority interests are attributable to 11 subsidiaries as at December 31, 1999 and 1998, respectively (see attachment II to these notes).

These subsidiaries had been mainly set up together with former independent distributors and licensees for the adidas brand. Salomon-Taylor Made Japan K.K., Tokyo is a public company, which is listed on the Tokyo Stock Exchange since 1995.

Minority interests evolved as follows in the years ended December 31, 1999 and 1998, respectively:

(in DM 000)	1999	1998
Minority interests as at January 1	75,052	45,027
Translation differences	8,131	1,584
Changes in companies consolidated	–	21,219
Capital injections	7,424	1,298
Acquisition of minority interests	245	(508)
Share in net profit	34,275	17,318
Dividends	(1,078)	(10,886)
Minority interests as at December 31	**124,049**	**75,052**

17. Shareholders' equity

By resolution of the Shareholders' Meeting held on May 20, 1999, the shareholders of adidas-Salomon AG approved the conversion of the stock capital into no-par-value shares and into EURO. Additionally, in order to achieve even EURO amounts per share, the stock capital of adidas-Salomon AG was increased by EURO 160,563.11 (DM 314,034.15) out of reserves.

Thus, the stock capital now amounts to EURO 116,093,952.00 (DM 227,060,034.14) and is divided into 45,349,200 no-par-value shares. The theoretical value of each share thus sums up to EURO 2.56.

The corresponding changes to the Articles of Association were entered into the Commercial Register on August 27, 1999.

Authorized capital:
Pursuant to the current Articles of Association of adidas-Salomon AG, the Executive Board shall be entitled, subject to Supervisory Board approval, to increase the stock capital until September 1, 2000:

– by issuing new shares against contributions in cash once or several times by EURO 42,795,130.46 (DM 83,700,000.00) in total. The Executive Board, however, may exclude fractional shares from preemptive rights of shareholders (authorized capital I); and

– by issuing new shares against contributions in cash once or several times by EURO 11,555,196.52 (DM 22,600,000.00) in total and, subject to Supervisory Board approval, to exclude the preemptive rights of the shareholders, provided that the new shares are issued at a value not essentially below actual stock exchange value (authorized capital II); and

– by issuing new shares against contributions in cash or in kind once or several times by EURO 3,579,043.17 (DM 7,000,000.00) in total, for the purpose of granting shares or stock options to employees or Executive Board members as well as persons of the aforementioned kind who are employed by subsidiaries of adidas-Salomon AG. Preemptive rights of shareholders shall be excluded (authorized capital III).

By resolution of the Shareholders' Meeting on May 28, 1997 the shareholders approved the amendment of the authorized capital III as follows:

> "The Executive Board shall be entitled for the duration of two years effective from the entry of the new § 4 para. 4 of the Articles of Association with the Commercial Register, subject to Supervisory Board approval, to increase the stock capital by issuing new shares against contributions in cash or in kind once or several times by no more than DM 7,000,000 altogether. The Executive Board may, subject to Supervisory Board approval, exclude the preemptive rights of the shareholders."

By resolution of the Shareholders' Meeting on May 20, 1999, the shareholders decided to convert the above DM 7,000,000 into EURO 3,579,043.17.

However, these two resolutions have not yet been registered with the Commercial Register due to a pending action for rescission.

Contingent capital:

Furthermore, by resolution of the Shareholders' Meeting of May 20, 1999, the shareholders approved the creation of contingent capital in the amount of EURO 3,500,000 (DM 6,845,405.00) for the issuance of up to 1,367,187 stock options to members of the Executive Board, as well as to Managing Directors/Senior Vice Presidents of its affiliated companies as well as to further senior executives and executives of adidas-Salomon AG and of its affiliated companies (see note 29).

The corresponding change of the Articles of Association was entered into the Commercial Register on August 27, 1999.

Distributable profits and dividends:

Distributable profits to shareholders are determined by reference to the retained earnings of adidas-Salomon AG calculated under German Commercial Law.

The dividend for 1998 was DM 1.65 per share. The Executive Board of adidas-Salomon AG recommends a dividend of DM 1.80 for 1999, subject to approval of shareholders. The tax credit for domestic shareholders will be DM 0.77 per share for 1999, which results in a gross dividend of DM 2.57 per share (see note 23).

It is proposed accordingly that retained earnings of adidas-Salomon AG as at December 31, 1999 be appropriated as follows:

(in DM 000)	1999
Retained earnings of adidas-Salomon AG as at December 31	82,250
Less: dividend of DM 1.80 per ordinary share	81,629
Retained earnings carried forward	**621**

18. Leasing and service arrangements

Operating leases:

The Company leases offices, warehouses and equipment under leases expiring between one and eight years. Rent expenses aggregated DM 151 million and DM 125 million for the years ended December 31, 1999 and 1998, respectively.

Future minimum lease payments under non-cancellable operating leases are as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Within 1 year	114	82
Between 1 and 5 years	173	132
After 5 years	53	36
	340	**250**

Finance leases:

Additionally, the Company leases several premises for administration, warehousing, research and development as well as production, which are classified as finance leases.

The net carrying amount of these assets of DM 31 million and DM 35 million is included in land and buildings as at December 31, 1999 and 1998, respectively. Interest expense is DM 2 million and depreciation expense is DM 4 million for the year ended December 31, 1999.

The minimum lease payments under these contracts over their remaining terms up to 2008 and their net present value are as follows:

	December 31,	
(in DM 000)	**1999**	**1998**
Lease payments falling due:		
Within 1 year	4,400	4,717
Between 1 and 5 years	13,633	15,012
After 5 years	11,468	14,523
Total lease payments	**29,501**	**34,252**
Less: estimated amount representing interest	8,400	10,375
Obligation under finance leases	**21,101**	**23,877**
Thereof: current	*2,680*	*2,748*
non current	*18,421*	*21,129*

The non current portion of the obligation under finance leases includes amounts with terms of more than 5 years of DM 10 million and DM 12 million as at December 31, 1999 and 1998, respectively.

Service arrangements:

The Company out-sourced certain logistic and information technology functions, for which it has entered into long-term contracts. Financial commitments under these contracts mature as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Within 1 year	60	24
Between 1 and 5 years	172	68
After 5 years	–	–
	232	**92**

19. Financial instruments

The Company uses derivative financial instruments to reduce exposure to market risks resulting from fluctuation in currency exchange and interest rates.

Management of foreign exchange risk:

Currency management policies of the Group are established by a Treasury Committee, which is composed of members of the Company's senior management. Currency risk is generally managed from the Company's headquarters at Herzogenaurach, Germany.

The Company is subject to currency exposure, primarily due to an imbalance of its global cash flows caused by the high share of product sourcing from suppliers in the Far East, which invoice in USD, and the majority of sales being invoiced in European currencies.

It is the Company's policy to hedge identified currency risks arising from future operations when it becomes exposed. In addition the Company hedges balance sheet risk selectively.

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

In its hedging via options the Company purchased only standard USD call options in 1999. The Company's Treasury Committee has established rules for the resetting of option strike rates on a discretionary basis. In times of a falling USD, the policy authorizes Group Treasury to reset options to lower strike levels, if the strike improvements and the additional premium payments meet certain criteria. During the year 1999 the JPY strengthened significantly against the USD. The Company reset part of its USD call/JPY put options to sharply improved strike rates.

In 1999, the financial result includes DM 4.1 million of premium payments for discontinued currency options, of which the majority relates to the resets of JPY options.

In 1998 the Company had used USD call options which had been combined with a knock-out feature and the sale of USD put options to limit premium payments. Due to the sharp decline of the USD primarily in the third and fourth quarter of 1998, USD call options had been knocked out and USD put options had been reset or repurchased. The premiums incurred on the discontinued options in the amount of DM 61.7 million had been charged to the financial result and the hedges had been re-established at significantly lower strike rates. The corresponding benefit has been realized in 1999, as the Company has purchased the USD at an average rate of 1.71 versus the DM, which was significantly below the average rate for the year of DM 1.84 in the exchange markets.

In 1999, the Company incurred currency option premiums in a total amount of DM 46.8 million (1998: DM 89.2 million). The total amount of option premiums, which was charged to income in 1999, was DM 37.0 million (1998: DM 89.7 million). Option premiums in an amount of DM 35.4 million and DM 25.3 million were deferred as at December 31, 1999 and 1998, respectively.

Out of the whole amount of USD 1.0 billion (1998: USD 0.8 billion) of currency hedges outstanding on December 31, 1999, USD 0.9 billion (1998: USD 0.8 billion) was for USD purchases. Of the total amount USD 0.8 billion (1998: USD 0.6 billion) were hedges with currency options. Outstanding hedges as at December 31, 1999 were higher than at the end of 1998, as the Company had shifted from its hedging by selling seasons to a program for the continuous hedging of anticipated future operating cash flows with a hedging horizon of typically up to 12 months.

The notional amounts of the above instruments could be summarized as follows:

	December 31,	
(in USD million)	**1999**	**1998**
Currency options	832.0	622.0
Forward contracts	195.8	142.1
	1,027.8	**764.1**

The total amount of USD purchases against other currencies was USD 1.0 billion and USD 1.3 billion in the years ended December 31, 1999 and 1998, respectively.

The fair value and book value of the above instruments is as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Fair value		
Currency options	44.4	25.8
Forward contracts	3.5	(10.2)
	47.9	**15.6**
Book value		
Currency options	35.4	25.3
Forward contracts	(0.4)	(1.9)
	35.0	**23.4**
Unrecognized gain/(loss)	**12.9**	**(7.8)**

The book value of the currency options represents capitalized premiums paid.

Management of interest rate risks:

The Company is taking advantage of lower short-term interest rates, compared to the available longer-term rates of most leading currencies, but it has limited its exposure with regard to possible future interest rate increases with interest rate cap spreads for a basket of currencies in a structure which approximates the anticipated currency composition of its world-wide borrowings in the longer-term. These contracts protect the Company's borrowings in a notional amount of DM 2.9 billion (1998: DM 2.0 billion) against a rise of the weighted average interest rate above 5.6% (1998: 5.5%). Out of this amount, the protection ends for DM 2.0 billion (1998: DM 1.4 billion) at a weighted average rate of 8.4% (1998: 8.4%).

Supplementary information on interest rate caps is as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Notional amount	2,885.5	2,000.0
Fair value	23.6	1.6
Book value	16.1	14.4
Unrecognized gain/(loss)	**7.5**	**(12.8)**

As at December 31, 1999, the remaining life of these caps is up to 6.9 years (1998: 5.5 years), with a weighted average of 3.0 years (1998: 3.2 years). The interest rate caps expire as detailed below:

	December 31,	
(in DM million)	**1999**	**1998**
Within 1 year	600.0	–
Between 1 and 2 years	550.0	600.0
Between 2 and 3 years	450.0	550.0
Between 3 and 4 years	481.3	450.0
Between 4 and 5 years	350.2	300.0
Between 5 and 6 years	301.0	100.0
Between 6 and 7 years	153.0	–
	2,885.5	**2,000.0**

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 was determined on the basis of the market conditions on the reporting dates. The fair value of the interest rate caps on the reporting date was assessed by the financial institutions through which these caps had been arranged.

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.

20. Operating expenses

Operating expenses consist of expenses for selling, general and administrative purposes as well as depreciation and amortization. Compared with prior years expense for goodwill amortization is shown separately after operating profit in order to improve transparency. Prior year comparatives have been reclassified accordingly.

21. Cost by nature

Expenses are presented by function in the income statement. Supplementary information on the expenses by nature is detailed below.

Cost of materials:

The total costs of materials are DM 5,717 million and DM 5,637 million for the years ending December 31, 1999 and 1998, respectively.

Personnel expenses:

Personnel expenses are as follows:

	Year ended December 31,	
(in DM million)	**1999**	**1998**
Wages and salaries	941	866
Social security contributions	144	112
Pension expense	49	26
Personnel expenses	**1,134**	**1,004**

22. Financial result

Financial result consists of the following:

	Year ended December 31,	
(in DM 000)	**1999**	**1998**
Interest income	14,246	12,321
Interest expense	(166,115)	(177,307)
Interest expense, net	**(151,869)**	**(164,986)**
Income from investments	862	45
Write-down of investments	–	(11,546)
Option premiums regarding discontinued currency options	(4,100)	(61,741)
Other – net, primarily net exchange (losses)/gains	(8,930)	13,950
Financial result	**(164,037)**	**(224,278)**

Please refer also to note 19.

23. Income taxes

In general adidas-Salomon AG and its German subsidiaries are subject to a municipal trade tax of approximately 15% of taxable income, which is deductible in the determination of income for corporation tax purposes. The corporate tax rate for undistributed earnings is 40% (1998: 45%) plus a surcharge of 5.5% thereon. Upon distribution of domestic earnings, 10 percentage points and 15 percentage points in respect of earnings taxed at 40% and 45%, respectively of corporation tax and the attributable surcharge thereon are refunded to the Company. Shareholders who are subject to German income tax are further entitled to a tax credit of the remaining 30 percentage points of corporate income tax and the attributable surcharge paid by adidas-Salomon AG.

The Company uses the reduced rate for corporation tax on distributed earnings for the measurement of deferred tax assets and liabilities related to its German operations. The Company recognizes a deferred tax asset for corporate income tax refund receivable upon distribution of dividends pursuant to recommendations of German professional bodies on the application of IAS 12 (revised 1996).

Deferred taxes of the Company are attributable to the items detailed in the table below:

	December 31,	
(in DM 000)	**1999**	**1998**
Deferred tax assets		
Non current assets	28,438	26,102
Current assets	176,869	131,210
Accrued liabilities and provisions	140,999	154,755
Future benefit from dividend distributions	11,800	–
Accumulated tax loss carryforwards	139,929	132,011
	498,035	**444,078**
Valuation allowances	**(170,730)**	**(168,812)**
Deferred tax liabilities		
Non current assets	29,881	45,419
Current assets	11,221	12,649
Untaxed reserves	33,847	1,529
Accrued liabilities and provisions	12,854	1,030
	87,803	**60,627**
Deferred tax assets, net	**239,502**	**214,639**

Deferred tax assets are recognized only to the extent that the realization of the related benefit is probable. Based on the past performance and the prospects of the business for the foreseeable future, a valuation allowance is established where this criterion is not met.

Valuation allowances refer to deferred tax assets of companies which are operating in the start-up phase or certain emerging markets, since the realization of the related tax benefits is not probable. Further adidas Salomon North America Inc. (formerly adidas North America Inc.) has tax loss carryforwards, which can be utilized in limited annual amounts within 7 years, for which a valuation allowance is established for amounts in excess of income projections.

Deferred tax assets and liabilities are offset if they relate to the same fiscal authority. Hence they are presented on the balance sheet as follows:

	December 31,	
(in DM 000)	**1999**	**1998**
Deferred tax assets	262,764	219,793
Deferred tax liabilities	23,262	5,154
Deferred tax assets, net	**239,502**	**214,639**

Tax expense is split as follows:

	Year ended December 31,	
(in DM 000)	**1999**	**1998**
Current tax expense	311,044	280,188
Deferred tax income	(11,873)	(74,615)
Income tax expense	**299,171**	**205,573**

Deferred tax income in 1998 is primarily attributable to previously unrecognized deferred tax assets arising from deductible differences of adidas America, which had not been recognized due to the history of losses, and an increase in deductible temporary differences across the companies of the group.

The reconciliation of the effective tax rate of the adidas-Salomon Group to the German corporate tax rate of 40% (1998: 45%) is as follows:

	Year ended December 31,			
	1999		**1998**	
	in DM million	**in %**	**in DM million**	**in %**
Expected income tax expense	312	40.0	281	45.0
Tax rate differential	(76)	(9.7)	(112)	(17.9)
Non deductible goodwill amortization	30	3.9	33	5.4
Other non deductible expenses	29	3.7	27	4.3
Release of tax provisions	–	–	(36)	(5.7)
Losses for which benefits were not recognizable and change in valuation allowance	(4)	(0.5)	3	0.5
Other, net	4	0.5	2	0.4
	295	**37.9**	**200**	**32.0**
Withholding tax expense	4	0.5	6	1.0
Income tax expense	**299**	**38.4**	**206**	**33.0**

The release of tax provisions in 1998 is due to finalized foreign tax assessments for fiscal years prior to 1998.

The Company does not recognize deferred tax liabilities for unremitted earnings of non-German subsidiaries, which are expected to be permanently invested in international operations. The earnings could become subject to additional tax if they were remitted as dividends, or if foreign earnings were loaned to the Company, or if the Company should sell its shareholdings in the subsidiaries.

The Company estimates that the distribution of these earnings would result in DM 28 million and DM 20 million of additional withholding taxes as at December 31, 1999 and 1998, respectively.

24. Earnings per share

Basic earnings per share are computed as follows:

	Year ended December 31, 1999	1998
Net income before special effect in DM	445,385,000	400,854,000
Net income/(loss) in DM	445,385,000	(321,746,000)
Weighted number of ordinary shares outstanding	45,349,200	45,349,200
Basic earnings per share before special effect	9.82	8.84
Basic earnings per share	9.82	(7.09)

Potential dilutive shares may arise under the stock option plan of adidas-Salomon AG, which was implemented in 1999. The calculation of diluted earnings per share is not applicable as at December 31, 1999 as none of the required performance criteria for the exercise of the stock options is fulfilled at the balance sheet date (see note 29).

25. Segmental information

The Company operates predominately in one industry segment, the design, wholesale and marketing of athletic and lifestyle products. The Company is currently managed by brands and on the basis of a regional structure.

Certain functions of the Company are centralized and an allocation to specific segments is not considered to be meaningful. Assets, liabilities, income and expenses relating to these corporate functions are presented in the Headquarter/Consolidation column together with non-allocable items and the inter-segment elimination.

Information about the Company's segments in accordance with the management approach is presented below.

Segmental information by brand

	adidas		SALOMON		TAYLOR MADE	
(in DM million)	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Net sales third parties	8,733	8,441	1,062	850	571	514
Gross margin	3,844	3,556	424	332	288	230
in % of net sales	*44.0*	*42.1*	*39.6*	*39.0*	*50.1*	*44.7*
Operating profit	839	806	61	10	68	39
Assets	3,919	3,383	996	1,117	275	193
Liabilities	1,582	1,228	311	272	88	53
Capital expenditure	206	198	29	35	19	31
Amortization and depreciation excl. goodwill amortization	95	74	9	13	7	4

	MAVIC		HQ/Consolidation		adidas-Salomon Group	
(in DM million)	1999	1998	1999	1998	1999	1998
Net sales third parties	86	102	19	–	10,471	9,907
Gross margin	31	36	13	–	4,600	4,154
in % of net sales	*36.3*	*35.2*			*43.9*	*41.9*
Operating profit	1	2	(27)	(43)	942	814
Assets	47	53	1,779	1,524	7,016	6,270
Liabilities	26	27	3,555	3,709	5,562	5,289
Capital expenditure	5	4	–	–	259	268
Amortization and depreciation excl. goodwill amortization	1	1	12	12	124	104

Segmental information by region

	Europe		America		Asia/Pacific	
(in DM million)	1999	1998	1999	1998	1999	1998
Total net sales	5,651	5,711	3,622	3,555	1,284	750
Inter-segment sales	(326)	(285)	(67)	(65)	(6)	–
Net sales third parties	5,325	5,426	3,555	3,489	1,278	750
Gross margin	2,216	2,204	1,433	1,395	578	305
in % of net sales	*41.6*	*40.6*	*40.3*	*40.0*	*45.2*	*40.7*
Operating profit	747	699	450	539	185	50
Assets	2,283	2,179	1,651	1,303	752	393
Liabilities	763	657	661	471	317	176
Capital expenditure	79	68	52	56	35	18
Amortization and depreciation excl. goodwill amortization	39	38	24	21	10	6

	Latin America		HQ/Consolidation		adidas-Salomon Group	
(in DM million)	1999	1998	1999	1998	1999	1998
Total net sales	246	219	3,936	4,062	14,739	14,297
Inter-segment sales	–	–	(3,869)	(4,039)	(4,268)	(4,389)
Net sales third parties	246	219	67	23	10,471	9,907
Gross margin	98	85	275	165	4,600	4,154
in % of net sales	*39.8*	*39.0*			*43.9*	*41.9*
Operating profit	30	22	(470)	(496)	942	814
Assets	147	129	2,183	2,266	7,016	6,270
Liabilities	40	44	3,781	3,941	5,562	5,289
Capital expenditure	5	4	88	122	259	268
Amortization and depreciation excl. goodwill amortization	2	1	49	38	124	104

Compared to the prior year the composition of the segments of the adidas-Salomon Group has changed reflecting the further integration of certain central functions. Further the definition of operating profit has been unified for internal and external reporting purposes. Comparative information has been restated in order to improve comparability.

Net sales to third parties are shown in the geographic market in which the revenues are realized. Inter-segment sales represent sales to operational units not belonging to the same region; the global sourcing function is shown in the Headquarter/Consolidation column.

Transactions between the segments, as well as between legal entities, are based on the dealing-at-arms'-length principle. However, certain charges between legal entities are not reflected in above reporting format.

Segment assets include all operating assets and comprise mainly accounts receivable, inventory, property and equipment as well as intangible assets. Segment liabilities comprise operating liabilities and consist principally of trade and other payables and accrued liabilities and provisions. Non-allocable items include goodwill, financial assets, assets and liabilities relating to income taxes and borrowings, which are included in the Headquarter/Consolidation column.

Capital expenditure, amortization and depreciation relate to segment assets; the acquisition of goodwill and the inception of finance leases do not affect capital expenditure. Capital expenditure in 1998 includes the fair value of the assets acquired by the purchase of GEV Grundstücksgesellschaft mbH & Co. KG, a property investment company, which owns the property of the new headquarters of the Company in Herzogenaurach.

26. Cash flow statement

The Company acquired all remaining shares outstanding of Salomon S.A., Annecy in 1998. The first step of this acquisition affected cash flows in 1997 (see note 3). Further, the Company acquired a 90% interest in GEV Grundstückgesellschaft mbh & Co. KG, Herzogenaurach.

The fair values of assets acquired and liabilities assumed were as follows at the date of the acquisition:

(in DM 000)	Salomon group	GEV
Cash	174,091	48
Inventories	285,169	–
Receivables and other current assets	800,018	75
Property and equipment	131,539	43,994
Goodwill and other intangible assets	1,245,212	–
Investments and other non current assets	76,007	471
Minority interests	(20,659)	(161)
Accounts payable and other liabilities	(637,132)	(286)
Short-term borrowings	(399,862)	(5,356)
Long-term bank borrowings	(13,224)	–
Acquired in-process research and development	722,600	–
Total acquisition cost	**2,363,759**	**38,785**
Less: cash acquired	(174,091)	(48)
Less: purchase price paid in 1997	(941,976)	–
Cash flow on acquisition net of cash acquired	**1,247,692**	**38,737**

Acquired in-process research and development has been fully expensed upon the initial consolidation of the Salomon group in 1998. This accounting treatment had no effect on cash flows.

Subsequent acquisition costs for the acquisition of Salomon S.A. in 1999 (see note 29), are presented in the consolidated statements of cash flows as purchase of goodwill and intangible assets.

The change of short- and long-term borrowings is presented net, since the Company uses credit lines in the form of overdrafts. A presentation on a gross basis would not be meaningful, as cash receipts and payments are frequent and involve material amounts, due to the volatility of financing needs during the year. The shift between current and non current borrowings is predominantly due to a change in presentation rather than actual cash flows (see note 11).

In addition to short-term cash, adidas Korea has cash accounts with maturities of 3–12 months in the amount of DM 0 million (1998: DM 1 million), which are included in other current assets, and cash accounts with maturities exceeding 12 months in the amount of DM 2 million (1998: DM 3 million), which are included in other non current assets.

27. Commitments and contingencies

Contingent liabilities:

As at December 31, 1999 and 1998, respectively, the Company has bills discounted in the amount of approximately DM 9 million and DM 10 million and is contingently liable for guarantees of indebtedness for liabilities due to banks in the amount of approximately DM 2 million and DM 3 million.

Other financial commitments:

The Company has other financial commitments for promotion and advertising contracts, which mature as follows:

	December 31,	
(in DM million)	**1999**	**1998**
Within 1 year	377	354
Between 1 and 5 years	976	966
After 5 years	201	225
	1,554	**1,545**

Commitments in respect of advertising and promotion maturing after five years have remaining terms of up to 10 years from December 31, 1999.

In addition purchase commitments for property and equipment are DM 2 million and DM 25 million as at December 31, 1999 and 1998, respectively, which are maturing within one year.

For commitments under lease and service contracts refer to note 18.

Litigation:

The Company is currently engaged in various lawsuits resulting from the normal course of business. The risks regarding these lawsuits were estimated and are included under accrued liabilities and provisions (see note 12). Two of these lawsuits involve significant amounts – in connection with the non-prolongation of a license and distribution agreement in Japan and the claim of a Chinese dissident. In the opinion of management, the ultimate liabilities resulting from such claims will not materially affect the consolidated financial position of the Company.

28. Related parties

Robert Louis-Dreyfus and Christian Tourres, members of the Executive Board of adidas-Salomon AG, have indirect influence on the French soccer club Olympique de Marseille. The Company has a promotion contract with this club.

Furthermore, Robert Louis-Dreyfus has indirect influence on the Belgian soccer club Standard Liège. There is also a promotion contract between the Company and this club, which, however, existed prior to the personal engagement of Robert Louis-Dreyfus and no substantial changes have been made to this contract since then.

The terms of the promotion contracts with both clubs are similar to those with other clubs.

29. Equity compensation benefits

Special Reward and Incentive Plan (SRIP):

adidas-Salomon AG implemented a one-time offer share option plan during the second quarter of 1997 for certain key employees and Executive Board members. The options can be exercised at a fixed pre-determined price. The rights and terms governing the exercise are fixed in the option agreement. One half of the options was exercisable immediately after the implementation of the plan. The other options are exercisable in tranches through June 30, 2001. A total of 440,000 options were granted to exercise the equal number of shares.

The option plan is sponsored by two shareholders (Robert Louis-Dreyfus and Christian Tourres) who supply the shares which are required to fulfil the Company's obligation under the plan. The shares are made available at a value equal to the exercise price of the options. The contribution (being the difference between realized share price and exercise price for options exercised) from the two shareholders for the years ended December 31, 1999 and 1998 of DM 9,499,000 and DM 23,742,000 respectively is shown as extraordinary income; the respective expenses of the same amounts are included in the selling, general and administrative expenses.

Stock option plan

On May 20, 1999, the Shareholders' Meeting of adidas-Salomon AG resolved a contingent capital in the amount of EURO 3,500,000 to grant stock options for no-par-value bearer shares to the members of the Executive Board of adidas-Salomon AG, to the Managing Directors/Senior Vice Presidents of its subsidiaries as well as to further senior executives and executives of adidas-Salomon AG and of its affiliated companies.

Under the adopted stock option plan, the Executive Board has been authorized to issue non-transferable stock options for up to 1,367,187 no-par-value bearer shares to the above mentioned persons up until August 27, 2004. The granting of stock options can take place in tranches, which shall not exceed 25% of the total volume for each fiscal year.

There is a two-year vesting period for the stock options and a term of approximately three years upon their respective issue. In the reporting year, 263,000 stock options were issued, all of which still exist on the balance sheet date.

The stock options can be exercised only subject to the attainment of at least one of the following performance objectives during the period between the issue and exercise of the stock options:

(a) the stock market price for the shares – calculated on the basis of the Total Shareholder Return approach – has increased by an annual average of at least 8% (absolute performance) or

(b) the stock market price for the shares has developed by an annual average of 1% more favorably than the stock market prices of the major competitors of the adidas-Salomon Group globally and in absolute terms may not have dropped (relative performance).

The exercise periods encompass 30 trading days of the stock market each and commence on the 13th trading day of the stock market following the presentation of the report on the results for the 1st, 2nd and 3rd quarter, respectively.

The stock options can only be exercised against payment of the exercise price. The exercise price corresponds to the arithmetical mean of the closing prices of the adidas-Salomon share over the last 20 trading days of the respective exercise period, less a discount, which is composed of the absolute and relative performance components. In any case, the exercise price shall be at least the lowest issue price as stipulated in § 9 para. 1 of the German Stock Corporation Act "AktG" (currently EURO 2.56).

The option terms and conditions stipulate that the stock options can be used for already existing common shares in lieu of new shares from the contingent capital, or in the place of common shares the discount is paid in cash.

Compensation costs for the difference between the exercise price and the fair value of the shares or the intrinsic value of share options granted will not be recognized in the financial statements.

Other stock option plans:
At Salomon S.A., France, a tranche of the existing stock option plan was exercised in June 1999 by the beneficiaries. As a result of the acquisition of Salomon S.A., this stock option plan was linked with a fixed rate of 0.73 to the price of the shares of adidas-Salomon AG. The effect of this exercise was treated as additional acquisition cost for adidas Salomon France S.A.

30. Other information

Employees:

The average numbers of employees are as follows:

	December 31, 1999	1998
Sales companies	8,048	7,568
Sourcing/Production	3,062	2,809
Global marketing/Research and development	811	789
Central functions	512	495
	12,433	**11,661**

Remuneration of the Supervisory Board and Executive Board of adidas-Salomon AG:

(in DM 000)	December 31, 1999	1998
Supervisory Board remuneration	414	403
Executive Board remuneration	20,357	20,707
Thereof SRIP (see note 29)	*2,978*	*6,633*
Remuneration of former members of the Executive Board	130	11,994
Thereof: Pension payments to former members of the Executive Board	*130*	*129*
Pension obligations regarding former members of the Executive Board	3,262	3,247

Herzogenaurach, February 18, 2000

The Executive Board of adidas-Salomon AG

AUDITORS' REPORT

To the Executive Board and the Supervisory Board
adidas-Salomon AG
Herzogenaurach, Germany

We have audited the accompanying consolidated balance sheets of adidas-Salomon AG and subsidiaries (the "Company") as at December 31, 1999 and 1998, and the related consolidated statements of income and cash flows for each of the years ended December 31, 1999 and 1998. 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-Salomon AG and subsidiaries as at December 31, 1999 and 1998, and the related consolidated results of its operations and its cash flows for each of the years ended December 31, 1999 and 1998 in accordance with International Accounting Standards.

Frankfurt am Main, February 18, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dieter Kuhn	Dr. Bert Böttcher
Wirtschaftsprüfer	Wirtschaftsprüfer

adidas-Salomon AG AND SUBSIDIARIES
STATEMENT OF MOVEMENTS OF FIXED ASSETS
(in DM 000)

	Goodwill	Software, patents, trademarks and concessions	Advance payments	Total intangible assets
Acquisition cost				
December 31, 1997	**277,990**	**39,137**	**875**	**318,002**
Currency effect	(1,926)	(1,114)	(6)	(3,046)
Additions	1,147,695	28,989	4,481	1,181,165
Changes in companies consolidated	21,100	88,035	–	109,135
Transfers	–	4,707	(833)	3,874
Disposals	(1,192)	(3,303)	(36)	(4,531)
December 31, 1998	**1,443,667**	**156,451**	**4,481**	**1,604,599**
Currency effect	4,599	3,113	1	7,713
Additions	1,088	48,108	16,105	65,301
Changes in companies consolidated	701	–	–	701
Transfers	–	5,339	(3,115)	2,224
Disposals	(1,921)	(1,111)	–	(3,032)
December 31, 1999	**1,448,134**	**211,900**	**17,472**	**1,677,506**
Accumulated depreciation/amortization				
December 31, 1997	**54,064**	**29,128**	**–**	**83,192**
Currency effect	(1,812)	(355)	–	(2,167)
Additions	77,507	23,379	–	100,886
Changes in companies consolidated	–	–	–	–
Transfers	–	2,290	–	2,290
Disposals	(1,192)	(265)	–	(1,457)
December 31, 1998	**128,567**	**54,177**	**–**	**182,744**
Currency effect	4,114	1,359	–	5,473
Additions	76,301	28,772	–	105,073
Changes in companies consolidated				–
Transfers	(2,041)	2,041	–	–
Disposals	(1,921)	(532)	–	(2,453)
December 31, 1999	**205,020**	**85,817**	**–**	**290,837**
Net carrying amount				
December 31, 1997	223,926	10,009	875	234,810
December 31, 1998	1,315,100	102,274	4,481	1,421,855
December 31, 1999	1,243,114	126,083	17,472	1,386,669

Land, land rights and buildings	Technical equipment and machinery	Other equipment, furniture and fittings	Advance payments/ Construction in progress	Total tangible assets	Shares in affiliated group companies	Partici-pations	Other financial assets	Total financial assets
241,312	**67,598**	**285,575**	**7,760**	**602,245**	**943,250**	**123**	**459**	**943,832**
(2,934)	(2,625)	(13,609)	(287)	(19,455)	(269)	(1)	(5)	(275)
17,578	49,968	85,890	35,943	189,379	–	40	4,787	4,827
96,485	58,103	21,105	–	175,693	3,002	735	–	3,737
(288)	4,148	416	(8,150)	(3,874)	–	–	–	–
(5,241)	(13,314)	(17,339)	(693)	(36,587)	(942,921)	–	(78)	(942,999)
346,912	**163,878**	**362,038**	**34,573**	**907,401**	**3,062**	**897**	**5,163**	**9,122**
10,362	10,223	30,867	1,054	52,506	307	123	7,030	7,460
21,009	42,529	100,322	34,361	198,221	4,707	934	13,994	19,635
–	–	–	–	–	–	–	–	–
7,708	4,372	3,226	(17,530)	(2,224)	–	–	–	–
(17,965)	(11,906)	(50,398)	(695)	(80,964)	(1,172)	(298)	(42)	(1,512)
368,026	**209,096**	**446,055**	**51,763**	**1,074,940**	**6,904**	**1,656**	**26,145**	**34,705**
100,368	**45,971**	**179,201**	**2,120**	**327,660**	**–**	**–**	**13**	**13**
(421)	(1,019)	(7,641)	–	(9,081)	–	–	(6,643)	(6,643)
14,831	35,501	60,789	–	111,121	–	–	10,213	10,213
–	–	13	–	13	–	–	–	–
41	1,149	(3,480)	–	(2,290)	–	–	–	–
(1,425)	(1,825)	(13,076)	–	(16,326)	–	–	(2)	(2)
113,394	**79,777**	**215,806**	**2,120**	**411,097**	**–**	**–**	**3,581**	**3,581**
2,537	5,154	19,524	–	27,215	–	–	7,177	7,177
15,541	37,816	73,003	1,676	128,036	–	16	17	33
–	–	–	–	–	–	–	–	–
(266)	1,220	(954)	–	–	–	–	–	–
(4,595)	(3,638)	(39,015)	–	(47,248)	–	–	–	–
126,611	**120,329**	**268,364**	**3,796**	**519,100**	**–**	**16**	**10,775**	**10,791**
140,944	21,627	106,374	5,640	274,585	943,250	123	446	943,819
233,518	84,101	146,232	32,453	496,304	3,062	897	1,582	5,541
241,415	88,767	177,691	47,967	555,840	6,904	1,640	15,370	23,914

SHAREHOLDINGS OF adidas-Salomon AG, HERZOGENAURACH

As at December 31, 1999

Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
Germany				
1 GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG Herzogenaurach (Germany)	DEM	1,824	directly	90
2 GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH Herzogenaurach (Germany)	DEM	53	directly	100
3 erima Sportbekleidungs GmbH Reutlingen (Germany)	DEM	16,466	directly	100
4 adidas Versicherungs-Vermittlungs GmbH Herzogenaurach (Germany)	DEM	50	directly	100
Europe (incl. Africa and Middle East)				
5 adidas Sport GmbH Lindau (Switzerland)	CHF	13,103	directly	100
6 Salomon Schweiz A.G. Stans (Switzerland)	CHF	15,194	12	100
7 Sarragan S.A. [11] Fribourg (Switzerland)	CHF	198	directly	100
8 adidas Austria GmbH Klagenfurt (Austria)	ATS	129,772	directly 5	95.89 4.11
9 Salomon Österreich GmbH Salzburg (Austria)	ATS	31,585	12	100
10 adidas Salomon France S.A. Metz-Tessy (France)	FRF	3,483,160	directly 17	85.5 14.5
11 adidas Sarragan France S.a.r.l. Landersheim (France)	FRF	274,651	10	100
12 Salomon S.A. Annecy (France)	FRF	1,681,438	10	100
13 Salomon Industries et Projets France S.A.S. [9) 11)] Metz-Tessy (France)	FRF	250	12	100
14 erima France S.a.r.l. Landersheim (France)	FRF	964	3	100
15 Mavic S.A. Saint-Trivier-Sur-Moignans (France)	FRF	54,876	12	100
16 Le Coq Sportif International S.A. [9) 11)] Landersheim (France)	FRF	(2,157)	directly	100
17 adidas International B.V. Amsterdam (Netherlands)	USD	305,059	directly 11	96.2 3.8
18 adidas International Trading B.V. Amsterdam (Netherlands)	NLG	1,133,888	directly	100

Attachment II to the Notes

As at December 31, 1999 Company and Domicile		Currency	Equity 000 currency units	Share in capital held by	in %
19	adidas-Salomon International Finance B.V. [9] [11] Amsterdam (Netherlands)	EURO	20	17	100
20	adidas Benelux B.V. Etten-leur (Netherlands)	NLG	16,299	directly	100
21	adidas Belgium N.V. Zellik (Belgium)	BEF	80,073	20	100
22	BIG L.A. N.V. [10] Houthalen (Belgium) (December 31, 1998)	BEF	7,383	21	50
23	adidas (UK) Ltd. [1] Stockport (Great Britain)	GBP	71,577	directly	100
24	adidas (ILKLEY) Ltd. [1] [11] Stockport (Great Britain)	GBP		23	100
25	Larasport (U.K.) Ltd. [1] [11] Stockport (Great Britain)	GBP		23	100
26	Sarragan (U.K.) Ltd. [1] [11] Stockport (Great Britain)	GBP		23	100
27	adidas Trefoil Trading (U.K.) Ltd. [1] [11] Stockport (Great Britain)	GBP		26	100
28	Three Stripes (U.K.) Ltd. [1] [11] Stockport (Great Britain)	GBP		23	100
29	Salomon Taylor Made Ltd. [8] Basingstoke (Great Britain)	GBP	(2,863)	30	100
30	Taylor Made Great Britain Ltd. [8] [11] Basingstoke (Great Britain)	GBP		12	100
31	adidas (Ireland) Ltd. [2] Dublin (Ireland)	IEP	5,836	directly	100
32	Fortstewart Ltd. [2] [11] Dublin (Ireland)	IEP		31	100
33	Three Stripe Exports Ltd. [2] [11] Dublin (Ireland)	IEP		31	100
34	adidas Espana S.A. Zaragoza (Spain)	ESP	6,053,616	directly	100
35	adidas Italia S.r.l. Monza (Italy)	ITL	125,747,000	directly	50
36	Salomon Italia S.p.A. Bergamo (Italy)	ITL	7,852,140	12 37	99.9 0.1
37	Salomon San Giorgio S.p.A. Treviso (Italy)	ITL	16,759,479	12 36	68.8 31.2
38	adidas Portugal Lda. Lisbon (Portugal)	PTE	663,777	directly	51

As at December 31, 1999 Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
39 adidas Norge A/S Gjovik (Norway)	NOK	136,534	directly	100
40 Salomon Norge A/S Oslo (Norway)	NOK	(8,496)	12	100
41 adidas Sverige AB Hägersten (Sweden)	SEK	50,687	directly	100
42 Salomon Sport AB Svenljunga (Sweden)	SEK	39,346	12	100
43 adidas Suomi Oy [9)] Helsinki (Finland)	FIM	5,946	17	50
44 Salomon Sport Finland Oy Helsinki (Finland)	FIM	23,805	12	100
45 adidas CR spol. s.r.o. Prague (Czech Republic)	CZK	329,053	directly	100
46 adidas Budapest Kft. Budapest (Hungary)	HUF	2,276,796	directly	85
47 adidas Ltd. Moscow (Russia)	USD	8,702	8	100
48 adidas Poland Sp. z. o. o. Warsaw (Poland)	PLN	70,785	directly	100
49 Salomon Romania Srl [9)] Timisoara (Rumania) (December 31, 1998)	ROL	24,990,621	12	100
50 adidas Slovakia s.r.o. Bratislava (Slovak Republic)	SKK	106	directly	100
51 SC adidas Ukraine Kiev (Ukraine)	UAK	(10,636)	directly	100
52 adidas Hellas A.E. Thessaloniki (Greece)	GRD	3,263,513	directly	50
53 adidas Spor Malzemeleri Satis ve Pazarlama A.S. Istanbul (Turkey)	DEM	13,965	17	51
54 adidas Middle East L.L.C. (former adidas Gulf L.L.C.) Dubai (United Arab Emirates)	USD	(380)	11 indirectly	49 51
55 adidas Middle East SAL [11)] Beirut (Lebanon)	USD	3,425	11	100
56 adidas Lebanon SAL [11)] Beirut (Lebanon)	USD	(88)	11 indirectly	49 51
57 adidas Egypt Ltd. [11)] Cairo (Egypt)	USD	(1,261)	directly	100
58 adidas Israel Ltd. Tel Aviv (Israel)	USD	1,278	directly	100
59 adidas (South Africa) (Pty) Ltd. Cape Town (South Africa)	ZAR	30,876	directly	100

As at December 31, 1999 Company and Domicile		Currency	Equity 000 currency units	Share in capital held by	in %
America					
60	adidas Salomon North America Inc. [3] Portland, Oregon (USA)	USD	182,567	directly	100
61	adidas Salomon USA, Inc. Carlsbad, California (USA)	USD	117,877	60 12	89.25 10.75
62	adidas America Inc. [3] Spartanburg, South Carolina (USA)	USD		61	100
63	adidas Distribution Center Inc. [3] [11] Lansing, Michigan (USA)	USD		61	100
64	Sports Inc. [3] [11] Portland, Oregon (USA)	USD		60	100
65	adidas Promotional Retail Operations, Inc. [3] (former adidas Retail Outlets Inc.) Portland, Oregon (USA)	USD		61	100
66	adidas Sales Inc. [3] Portland, Oregon (USA)	USD		61	100
67	adidas Village Corporation [9] [11] Portland, Oregon (USA)	USD		61	100
68	Taylor Made Golf Co., Inc. Carlsbad, California (USA)	USD	49,719	61	100
69	Salomon North America, Inc. Georgetown, Massachusetts (USA)	USD	(16,062)	61	100
70	Salomon Design Center Inc. [9] Boulder, Colorado (USA) (December 31, 1998)	USD	0	61	100
71	Bonfire Snowboarding, Inc. Portland, Oregon (USA)	USD	3,790	61	100
72	Mavic Inc. Haverhill, Massachusetts (USA)	USD	3,252	61	100
73	LXZA Inc. [9] [11] (former LCS America Inc.) Spartanburg, South Carolina (USA) (December 31, 1998)	USD	575	directly	100
74	adidas-Salomon Canada Ltd. (former adidas (Canada) Ltd.) Toronto (Canada)	CAD	8,279	60	100
75	Salomon Canada Sports Ltd. Montreal (Canada)	CAD	5,037	12	100

As at December 31, 1999 Company and Domicile	Currency	Equity 000 currency units	Share in capital held by	in %
Asia/Pacific				
76 adidas-Salomon International Sourcing Ltd. [4] (former adidas Asia/Pacific Ltd.) Hong Kong (China)	USD	155,888	18	100
77 adidas Hong Kong Ltd. Hong Kong (China)	HKD	37,793	directly	100
78 adidas (Suzhou) Co. Ltd. Suzhou (China)	CNY	53,509	directly	100
79 adidas China Holding Co. Ltd. [9) 11)] Hong Kong (China)	HKD	(549)	directly	50
80 Guangzhou adi Sporting Goods Ltd. [11] Guangzhou (China)	CNY	8,638	directly indirectly	90 10
81 Guangzhou Adi Trade & Development Co. Ltd. [11] Guangzhou (China)	CNY	(67,222)	indirectly 80	50 50
82 adidas Japan K.K. Tokyo (Japan)	JPY	(921,940)	directly	100
83 Salomon & Taylor Made Co., Ltd. Tokyo (Japan)	JPY	7,509,112	12	79.74
84 adidas Korea Ltd. Seoul (Korea)	KRW	30,075,000	directly	51
85 Taylor Made Korea Ltd. [9] Seoul (Korea)	KRW		68	100
86 adidas India Private Ltd. [5] New Delhi (India)	INR	(110,939)	directly 17	99 1
87 adidas India Trading Private Ltd. [5] New Delhi (India)	INR		86	80
88 P.T. Trigaris Sportindo (adidas Indonesia) Jakarta (Indonesia)	IDR	(6,906,213)	indirectly	92
89 adidas Malaysia Sdn. Bhd. Kuala Lumpur (Malaysia)	MYR	5,540	directly	60
90 adidas Philippines Inc. Manila (Philippines)	PHP	152,908	directly	100
91 adidas Singapore Pte. Ltd. (Singapore)	SGD	1,373	directly	100
92 adidas Taiwan Ltd. Taipei (Taiwan)	TWD	91,281	directly	100
93 adidas Holding (Thailand) Co. Ltd. Bangkok (Thailand)	THB	(3,962)	directly indirectly	49 51
94 adidas (Thailand) Co. Ltd. Bangkok (Thailand)	THB	67,720	indirectly	100
95 adidas Australia Pty. Ltd. Mulgrave (Australia)	AUD	38,241	directly	100
96 adidas New Zealand Pty. Ltd. Auckland (New Zealand)	NZD	1,947	directly	100

As at December 31, 1999 Company and Domicile		Currency	Equity 000 currency units	Share in capital held by	in %
Latin America					
97	adidas Argentina S.A. Buenos Aires (Argentina)	ARS	5,548	directly	100
98	adidas do Brasil Ltda. São Paulo (Brazil)	BRL	813	directly	100
99	ASPA do Brazil Ltda. [4] São Paulo (Brazil)	BRL		76	100
100	adidas Chile Ltda. Santiago de Chile (Chile)	CLP	1,765,729	directly 4	99 1
101	adidas Colombia Ltda. Cali (Colombia)	COP	427,254	directly	100
102	adidas de Mexico S.A. de C.V. [6] Mexico City (Mexico)	MXN	49,475	directly	100
103	adidas Industrial S.A. de C.V. [6] Mexico City (Mexico)	MXN		directly	100
104	adidas Latin America S.A. Panama City (Panama)	USD	9,409	directly	100
105	3 Stripes S.A. (adidas Uruguay) Montevideo (Uruguay)	UYU	1,157	directly	100
106	adidas Corporation de Venezuela, S.A. [7] Caracas (Venezuela)	VEB	249,369	directly	100
107	adidas Margarita S.A. [7] [11] Porlamar, Marg. (Venezuela)	VEB		106	100

[1] Sub-group adidas UK
[2] Sub-group Ireland
[3] Sub-group USA
[4] Sub-group adidas-Salomon International Sourcing
[5] Sub-group India
[6] Sub-group Mexico
[7] Sub-group Venezuela
[8] Sub-group Salomon-Taylor Made UK
[9] Ten companies have not been included in the consolidated financial statements of adidas-Salomon AG due to their insignificance.
[10] Associated company; due to its insignificance no equity valuation was made.
[11] Companies with no active business

adidas-Salomon AG AND SUBSIDIARIES
SELECTED FINANCIAL DATA
(INTERNATIONAL ACCOUNTING STANDARDS)

	EURO 1999	**1999**	**1998[2)]**	**1997[1)]**	**1996[1)]**	**1995**
P&L data (in DM million)						
Net sales	5,354	**10,471**	9,907	6,698	4,709	3,500
Footwear[3)]	2,222	**4,346**	4,004	2,871	2,171	1,790
Apparel[3)]	2,190	**4,284**	4,305	3,586	2,314	1,528
Hardware[3)]	929	**1,817**	1,579	238	181	131
adidas	4,465	**8,733**	8,441	6,698	4,709	3,500
Salomon	543	**1,062**	850	0	0	0
Taylor Made	292	**571**	514	0	0	0
Mavic	44	**86**	102	0	0	0
Europe	2,723	**5,325**	5,426	4,112	3,159	2,393
North America	1,818	**3,555**	3,489	1,699	1,026	767
Asia/Pacific	653	**1,278**	750	701	416	249
Latin America	126	**246**	219	169	108	91
Gross profit	2,352	**4,600**	4,154	2,810	1,877	1,389
Operating profit	482	**942**	814	618	376	252
Royalty and commission income	35	**68**	87	85	97	100
Financial expenses, net	(84)	**(164)**	(224)	(31)	(13)	(47)
Income before taxes	398	**779**	624	677	444	296
Income taxes	153	**299**	206	186	107	43
in % of IBT		***38.4%***	*33.0%*	*27.5%*	*24.0%*	*14.5%*
Minority interests	18	**34**	17	28	24	8
Net income[4)]	228	**445**	401	463	314	245
P&L ratios						
Gross margin		**43.9%**	41.9%	41.9%	39.8%	39.7%
Operating margin		**9.0%**	8.2%	9.2%	8.0%	6.9%
Profit margin[4)]		**4.3%**	4.0%	6.9%	6.7%	7.0%
Working capital turnover		**4.9**	(15.5)	319.0	8.5	10.2
Interest coverage		**6.1**	4.8	21.2	14.1	8.8
Return on equity[4)]		**33.5%**	44.2%	33.0%	32.9%	42.5%
Return on capital employed[4)]		**20.7%**	20.5%	35.8%	35.2%	35.0%

	EURO 1999	1999	1998[2]	1997[1]	1996[1]	1995
Balance sheet data (in DM million)						
Total assets	3,587	**7,016**	6,270	4,349	2,520	1,777
Inventories	1,045	**2,044**	1,906	1,606	1,088	843
Receivables and other current assets	1,234	**2,414**	2,007	1,158	818	563
Working capital	1,096	**2,144**	(640)	21	555	343
Total borrowings, net	1,591	**3,112**	3,236	1,443	340	407
Shareholders' equity	680	**1,330**	906	1,401	956	577
Balance sheet ratios						
Financial leverage		**234.0%**	357.2%	103.0%	35.6%	70.6%
Equity ratio		**19.0%**	14.4%	32.2%	37.9%	32.4%
Data per share (in DM)						
Earnings per share[4]	5.02	**9.82**	8.84	10.21	6.93	5.40
Operating cash flow	7.24	**14.16**	5.17	1.72	4.42	2.89
Dividend per ordinary share	0.92	**1.80**	1.65	1.65	1.10	0.25
Employees						
Number of employees at year end		**12,829**	12,036	7,993	6,986	5,730
Personnel expenses (in DM million)		**1,134**	1,004	646	468	389

1) 1997 and 1996 comparatives are restated due to the application of IAS 12 (revised 1996) "Income Taxes".
2) Consolidated financial statements for 1998 include the Salomon group for the first time.
3) 1998 comparatives are restated due to revised classification of Salomon, Taylor Made and Mavic products.
4) In 1998 before special effect of DEM 723 million for acquired in-process research and development – expensed.

Definitions:

Gross margin is defined as gross profit divided by net sales
Operating margin is defined as operating profit divided by net sales
Profit margin is defined as net income divided by net sales
Working capital turnover is defined as net sales divided by working capital
Interest coverage is defined as earnings before taxes and net interest divided by net interest
Return on equity is defined as net income divided by shareholders' equity
Return on capital employed is defined as income before taxes and minority interests and before financial and extraordinary result divided by capital employed (defined as average of shareholders' equity plus minority interests plus total borrowings, net for the respective period)
Financial leverage is defined as total borrowings, net divided by shareholders' equity
Equity ratio is defined as shareholders' equity divided by total assets

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