ANNUAL REPORT 1998

adidas-Salomon

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PRESIDENT'S LETTER

DEAR SHAREHOLDER: In 1998, we achieved the second-best result in our history. To use the language of sport, this is the silver medal. Jan Ullrich, a passionate racing cyclist who has been endorsing our products since the start of his career, also had to be content with second place in the 1998 Tour de France, despite his total commitment and enormous will to win. However, his popularity with cycling fans worldwide has in no way diminished. In fact he was voted Germany's most popular athlete. Donovan Bailey, the Olympic 100m Champion in Atlanta, put it into words: "What I don't win only makes me stronger". As a company we have a similar philosophy.

When it comes to showcasing our brands, 1998 was truly exceptional. Early in the year the Winter Olympics focused the attention of sports enthusiasts on Nagano. In summer the Soccer World Cup in France attracted more spectators than any single sports event before. When the French team, promoting the three stripes, won the World Cup, we could not have wished for more. These were great times for our brands.

For our share price, times were not so great though. It declined 24 per cent in the course of the year despite our inclusion in the DAX 30, the German blue-chip index.

This, however, has not been representative of the underlying strength of the adidas brand: A net sales increase of more than 70 per cent in the USA is a noteworthy achievement. And the subsequent improvement of the market share of the adidas brand to more than 12 per cent in the world's largest sporting goods market is truly outstanding.

By the same token, the adidas business increased by more than 15 per cent in Europe. Given our traditionally high market share in most European countries, this is an accomplishment of comparable dimension to our US achievements.

The fact that we were able to keep our margins stable, to improve our income from operations by a double-digit figure and to propose the same dividend as last year are, in my eyes, clear signs of a successful company.

Nevertheless, we cannot ignore the fact that the bottom line in 1998 has not kept up with top-line growth.

Several factors played a role here:

First: It is practically impossible to protect yourself against the impact of economic crises as experienced in Asia and Russia – at least in the short term. In Asia, the adidas brand has lost just over 20 per cent in net sales in one year. In Russia, business has gone sour after the havoc created by the financial crisis.

Second: When markets take a nose-dive, like the golf market did in 1998, the negative effects can be minimized by fast reactions but never completely eliminated. When it became clear that Taylor Made was in trouble because of demand rapidly diminishing, we reacted immediately: Staff levels were reduced, spending halted, production partly stopped. We could thus prevent the operating contribution of Taylor Made falling below zero, but we could not prevent it from being lower than last year.

Third: Even our hedging strategy, which reduces future currency risks, turned out to be a burden on our results last year. We were using instruments that allowed us to secure very favorable exchange rates and thus significant benefits in 1999, but this has led to the inclusion of some of the associated cost in our 1998 results.

And fourth: The integration of Salomon turned out to be more difficult than anticipated. But since the middle of the year we have initiated the necessary integration steps and are now pleased with the pace of progress and confident that future developments will be positive. You will find more on this subject in the Management report.

Looking forward, it certainly lies within our power to pursue the rapid integration of Salomon, Taylor Made and Mavic. And it is also within our power to expertly market our products in order to gain further market share, as in the USA and in certain European countries, or not to lose any ground in countries like Germany where we have a strong market share position. In Asia we see first signs of growth again after a year of crisis-related downturns. Last but not least, it is in our power to improve our margins and control our costs. These are our objectives and they are more important than ever before.

The last few months of 1998 showed that the world's sporting goods markets have slowed and partly lost their momentum. We have to accustom ourselves to the idea of more moderate growth. While we are still maintaining our position and continuing to grow, even where some of our competitors are suffering losses, we will not be able to completely escape the effects of a slowing market. And our efforts to gain further market share will be all the more difficult in areas where we are already strong.

In 1999, we do not anticipate that our earnings improvement will be driven by top-line growth. Bottom-line growth will be primarily fueled by better margins, tighter cost control and the increasingly successful integration of Salomon.

Each of these factors lies within our hands and we will apply all our energies to reach these objectives. At the end of 1999 we want to be able to say again that we have achieved the best result ever in our company's history. However, in order to reach our goal, our efforts, like every top performance, need to be accompanied by a bit of luck.

You too can help steer our fortunes by continuing to place your trust in us and accompanying us for a further year in our quest to become the best sports group in the world.

Robert Louis-Dreyfus

MANAGEMENT DISCUSSION AND ANALYSIS

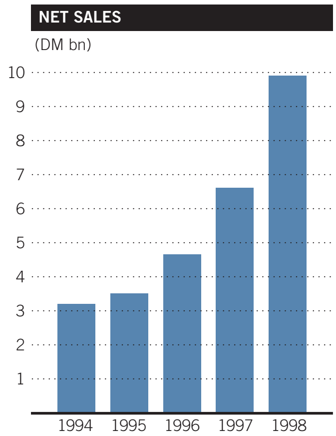
1998: KEY POINTS IN BRIEF

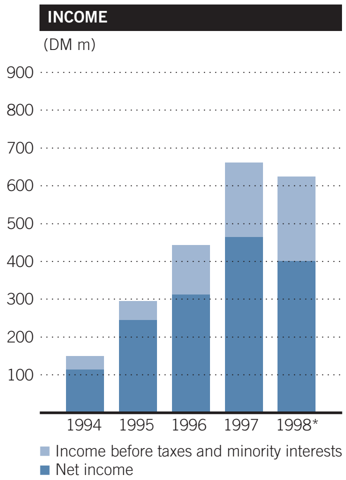
STRONG INCREASE IN SALES, SALOMON ACQUISITION IMPACTS BOTTOM LINE

- Consolidated net sales up 48% to DM 9.9 billion
- Income from operations improved by 23% to DM 737 million
- Financial result significantly impacted by financing of Salomon acquisition and by one-off items
- Further increase in tax rate
- Net income (before special effect) down 13% to DM 401 million
- Earnings per share (before special effect) DM 8.84

INTEGRATION OF SALOMON GROUP MAKING GOOD PROGRESS

- Salomon Worldwide being dissolved
- Headquarter functions being combined
- Integration of sales organizations initiated
- Sourcing activities optimized
- New business units established
- Cooperation in research and development intensified





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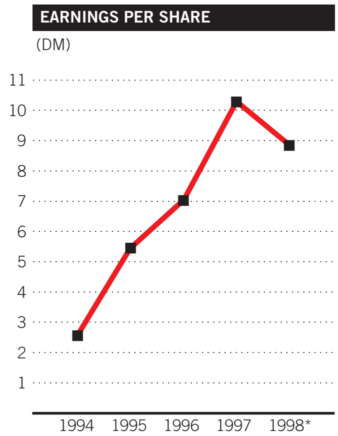

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adidas-Salomon

IN 1998 adidas-Salomon ACHIEVED HIGH GROWTH RATES DESPITE A FLAT MARKET. HOWEVER, FINANCIAL EXPENSES RELATING TO THE ACQUISITION OF SALOMON COULD NOT BE OFFSET BY CORRESPONDING CONTRIBUTIONS TO THE RESULT BY THE NEWLY ACQUIRED BRANDS. ONE-OFF NEGATIVE IMPACTS ON THE FINANCIAL RESULT AND AN INCREASED TAX RATE CAUSED NET INCOME (BEFORE SPECIAL EFFECT) TO FALL BELOW THE PRIOR YEAR'S LEVEL.

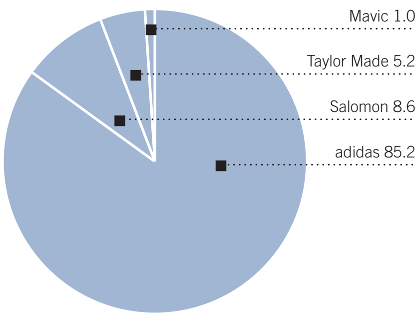
MODERATE GROWTH IN SPORTING GOODS MARKETS In 1998 the world's sporting goods markets achieved moderate growth at best. The strong growth of recent years did not continue and there is evidence that some markets including the USA experienced a slight decline. Contributing factors to this development were the economic and currency crises in Asia, Russia and most recently South America. There has also been a very significant change in consumer preference, especially in the USA, the world's largest sporting goods market. The trend, particularly among young consumers, is toward leisure fashions in preference to authentic sportswear.

NET SALES ALMOST REACHED DM 10 BILLION In this difficult environment adidas-Salomon increased consolidated net sales in 1998 by 48% to DM 9.9 billion. First-time inclusion of sales generated by the Salomon, Taylor Made and Mavic brands acquired at the beginning of the year represents 22 percentage points of this sales growth. Net sales under the adidas brand name outperformed average market growth rates, increasing by 26% to DM 8.4 billion.

SLIGHT INCREASE IN LICENSEE SALES With a virtually unchanged number of licensee and distribution agreements net licensee sales in 1998 increased 3% to well over DM 1.3 billion. This growth is due solely to licenses for products not included in the adidas-Salomon product ranges. Sales under geographic licenses for adidas-Salomon product lines declined by 4%, primarily as a result of a significant decrease in licensee sales in Japan, where the licensee agreement expired at the end of 1998.

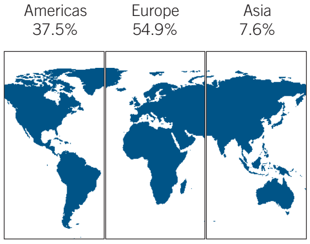
NET SALES BY BRANDS

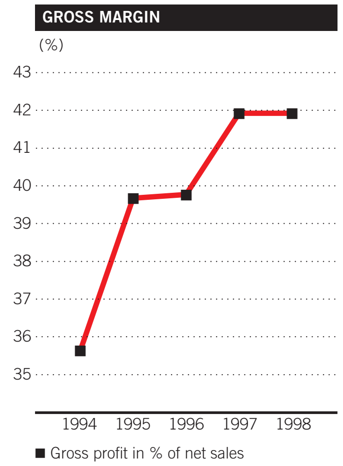
(in %)

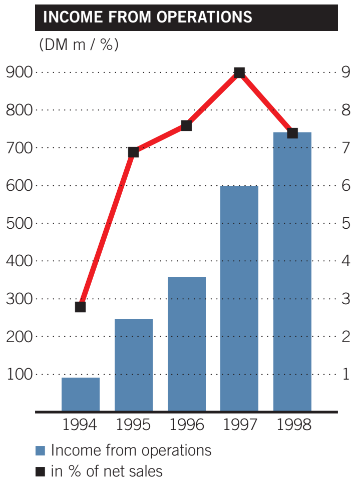


adidas-Salomon

Net sales 1998, split by region







NEW RECORD IN FOOTWEAR AND APPAREL SALES

Net sales of Footwear within the adidas-Salomon group reached DM 3.9 billion, up 35% or DM 1 billion on the previous year.

Apparel sales in 1998 grew 19%, reaching DM 4.3 billion. This represents 43% of total net sales of the group. Measured by sales volume, Apparel thus remains the largest product division.

HARDWARE SALES AT A NEW LEVEL

As the products of the newly acquired brands Salomon, Taylor Made and Mavic are primarily included under Hardware, sales of this product division increased from DM 238 million to DM 1,743 million. In prior years Hardware has primarily included bags and balls. Today it also comprises skis, snowboards, bindings, ski boots, cross-country ski equipment and in-line skates marketed under the Salomon brand name, Taylor Made golf clubs and accessories, and Mavic bike wheels and rims.

STRONGEST SALES GROWTH IN NORTH AMERICA

In terms of regional performance, North America again delivered the highest growth rates. Net sales under the adidas brand name were up 68%, while total net sales including the new brands doubled. This region contributed 35% to total net sales of the adidas-Salomon group in 1998.

Europe remains the largest market, representing 55% of total net sales. Sales in this region at DM 5.4 billion were up 32%. First-time inclusion of the Salomon group in the consolidated financial results accounted for 15 percentage points of this growth.

In Asia/Pacific, sales growth was relatively slow, improving by just under 7% year-over-year to reach DM 750 million. This increase is entirely due to first-time inclusion of sales of the new brands. Sales of adidas products were 23% down compared to 1997, largely due to currency translation effects.

Latin America contributed DM 218 million to consolidated net sales, which is an increase of 30% compared to the previous year. The total sales in this region were generated by the adidas brand.

GROSS MARGIN REMAINED STABLE

Gross profit increased 48%, in line with sales. As a result, gross margin at 41.9% (as a percentage of net sales) remained stable at the previous year's high level. Gross margin for the adidas brand at 42.1% was above the average for the group, while Salomon and Mavic were below the group level. Despite the decline of the golf business Taylor Made maintained a gross margin above the group average.

INCOME FROM OPERATIONS SHOWED DOUBLE-DIGIT GROWTH

The significant increase in sales and gross profit did not translate into a corresponding improvement of income from operations. While income from operations of the adidas brand kept pace with sales growth, the contribution of the Salomon group was low. The golf business in particular was not able to deliver its traditionally high level of profitability due to the rapid decline of the US golf market.

Income from operations totaled DM 737 million, representing an improvement of 22.6% compared to 1997 on an adidas stand-alone basis.

Advertising and promotional expenses represented 12.9% of net sales compared to 12.8% in 1997. Additional expenditure was largely related to the Soccer World Cup. adidas-Salomon regards this expenditure as an investment in the group's brands, serving to position the brands and safeguard our future success.

Depreciation and amortization increased by DM 101 million to DM 181 million, primarily reflecting the impact of the acquisition of the Salomon group. Depreciation of intangible assets totaled DM 101 million, the largest part of which, DM 68 million, was depreciation of goodwill and other intangibles relating to the Salomon acquisition.

SLIGHT IMPROVEMENT IN ROYALTY AND COMMISSION INCOME

Royalty and commission income increased 2.5% to DM 87 million in line with licensee sales. The companies contributing to this result in 1998 remained virtually the same as in 1997. Royalty income from Japan declined, leading up to the expiry of the licensee agreements at the end of 1998.

FINANCIAL RESULT IMPACTED BY SALOMON ACQUISITION

In comparison to 1997 (a deficit of DM 31 million) the financial result deteriorated significantly to a deficit of DM 224 million. One of the main reasons was the high interest charge of DM 93 million relating to the acquisition costs of the Salomon group. The total interest expense amounted to DM 165 million (1997: DM 33 million).

Negative exchange rate effects at DM 48 million (1997: positive DM 2 million) also contributed to the worsening of the financial result. This deterioration is primarily due to expenses relating to hedging activities, in particular knock-out options, which secure a favorable rate for US dollar requirements in 1999 and were charged to income in an amount of DM 62 million already in 1998. This negative impact was partly offset by positive exchange rate effects in Region Europe.

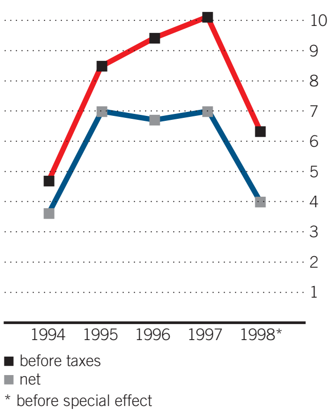
Additionally, provisions and allowances were made in response to the economic and currency crises in Asia and Russia.

EXTRAORDINARY INCOME NEUTRAL ON RESULTS

In 1998, as in the prior year, extraordinary income was recorded. This amounted to DM 24 million (1997: DM 22 million) although it had no impact on income before taxes as offsetting expenses of the same amount are included in the selling, general and administrative expenses. The expenses and extraordinary income are directly related to a special reward and incentive plan for Management which is sponsored by two individual shareholders.

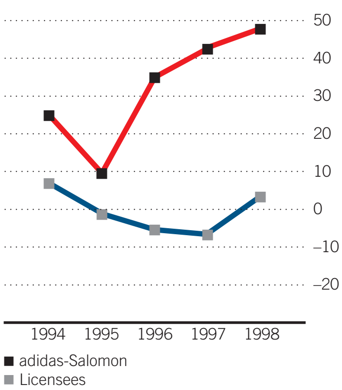
PROFIT MARGIN ON TURNOVER

(%)



TOTAL NET SALES OF THE BRANDS

Change year-over-year, in %



SECOND-BEST RESULT IN COMPANY HISTORY Due to the negative impact of the financial result, income before taxes was down DM 53 million or 8% year-over-year to DM 624 million.

Net income before the special effect totaled DM 401 million (DM 8.84 per share). This is a deterioration of DM 62 million (DM 1.37 per share) or 13.4% year-over-year and additionally reflects the negative impact of an increased tax rate of 33.0% (1997: 27.5%). Nevertheless, this is the second-best result in the history of the Company.

As already reported in the first quarter, the result is impacted by a special charge of DM 723 million. In purchasing Salomon, adidas also acquired a number of promising products and processes which were still in the development phase and had not yet reached technological or commercial feasibility. In line with adidas-Salomon's accounting and valuation policy to expense research and development as it is incurred, the fair value of this in-process research and development, which was independently determined at DM 723 million, was fully expensed in 1998.

After inclusion of this special effect, adidas-Salomon reports a net loss of DM 322 million for the year.

SALOMON ACQUISITION CHANGED SCOPE AND STRUCTURE OF BALANCE SHEET The acquisition of the Salomon group was completed at the end of March 1998. The purchase was 100% debt-financed, significantly changing the scope and structure of the balance sheet.

On the liabilities side, the acquisition led to an increase in short-term bank borrowings in the remaining amount of the purchase price paid in 1998.

On the assets side, as a result of the acquisition, there was an increase of DM 132 million in fixed assets, DM 1,136 million in goodwill and DM 109 million in other intangible assets. The special charge of DM 723 million was fully expensed.

Total assets increased 44% to DM 6,270 million.

SIGNIFICANT INCREASE IN INVESTMENTS Investments in property and equipment within the group totaled DM 233 million (1997: DM 91 million). This significant increase is partly related to the decision to expand the group's headquarters in Herzogenaurach. As a result of the group's strong growth over the past few years, the team of employees is now working out of many different buildings. In order to remedy this situation, it was decided to take over and convert a site in Herzogenaurach and develop it into a new global headquarters, the adidas-Salomon "World of Sports".

To this end, adidas-Salomon acquired, for a purchase price of DM 44 million, GEV Grundstücksgesellschaft, the company that owned the land and buildings. Additionally, DM 25 million was invested in renovation and conversion in 1998.

The World of Sports is based on a modular construction plan comprising several development stages which can be completed according to requirements. The complex may ultimately include a central administration building, employee restaurant, conference and educational center, research and development center and numerous sports facilities.

NET BORROWINGS INCREASED Outstanding net borrowings increased from DM 1.44 billion at the end of 1997 to DM 3.24 billion at the end of 1998, primarily due to the financing of the acquisition of the Salomon group and higher working capital requirements, which were caused by the strong growth in sales.

Taking advantage of the low short-term interest rates, adidas-Salomon continued to cover its financing needs with short-term borrowings. However, arrangements were made for protection against credit and interest rate risk.

As of December 31, 1998, committed medium-term credit lines and other longer-term financing arrangements amounted to a total of DM 2.2 billion. In the meantime, this amount has been raised further to DM 2.6 billion. The committed medium-term lines have maturities up to November 2002, have maximum margins secured and can be drawn at the Company's discretion. Interest rate caps for the protection against interest rate risk were outstanding for an amount of DM 2.0 billion at the end of 1998. This amount has also been increased in the meantime.

To reduce the dependence on bank borrowings as the main financing vehicle, a Private Placement in the amount of FRF 525 million (DM 156 million) was completed in November 1998, with maturities between five and six years.

In January 1999, a Treasury Notes Program in the amount of EUR 150 million was commenced in Belgium. Drawings under the program currently stand at DM 170 million. A German Commercial Paper and Medium-Term Notes Program, which will be introduced later in the year, is also in the process of being finalized.

Finally, adidas-Salomon has raised DM 100 million under a 10-year loan, which has been used for the refinancing of expenditures for the World of Sports project.

EQUITY RATIO DECLINED Equity declined by DM 495 million, primarily due to the special charge as discussed above. Equity (including minority interests) as a percentage of total assets decreased from 33% in 1997 to 16% in 1998.

PARTICIPATIONS WITHIN THE GROUP RESTRUCTURED In the context of the reorganization of logistics operations across the adidas-Salomon group, as well as European and global sourcing activities, adidas International Trading B.V., a newly founded subsidiary based in Amsterdam, has been capitalized by way of a contribution in kind. This was achieved through the transfer of the shares in the company responsible for international sourcing activities, adidas Asia/Pacific Ltd., Hong Kong, from adidas-Salomon AG to adidas International Trading B.V. This transaction led to an intercompany profit of DM 1,008 million which is eliminated at group level in the adidas-Salomon AG consolidated financial statements.

In connection with the reorganization of the French subsidiaries of the adidas-Salomon group as well as the integration of adidas and Salomon, adidas-Salomon AG transferred, by way of a contribution in kind, its holding in adidas Sarragan France S.A.R.L. to adidas Salomon France S.A.

In the process of the integration of the Salomon group the holding structure of the subsidiaries in North America was changed at the end of 1998.

None of these changes had a material impact on the group's 1998 results.

SIGNIFICANT INCREASE IN NUMBER OF EMPLOYEES The average headcount of adidas-Salomon in 1998 was 11,661 employees. This represents an increase of 4,019 compared to 1997. Of this total, first-time inclusion of the Salomon group accounts for an additional 2,855 employees. The remaining increase is related to continued strong growth of the adidas business. Additional personnel were mainly needed in the operating sector. Takeover of distribution in Japan following the expiry of former licensee agreements accounted for 113 additional employees.

READY FOR THE YEAR 2000 In order to avoid performance problems in the group's operations due to the Year 2000 issue, adidas-Salomon set up, in 1997, a Year 2000 Programme Office to audit the entire IT landscape for potential risk, with the support of external consultants.

The scope of the Year 2000 projects includes individual subsidiaries as well as all business partners in the sourcing, sales and finance sectors. During 1998 all European Year 2000 projects were audited by the Year 2000 Programme Office, while the Asian and American audits will be completed by the first quarter of 1999.

The total costs for the Year 2000 project, which is of crucial importance to the group's daily operations, are estimated to be DM 37 million, of which DM 10.5 million has been capitalized. The total amount, covering the three-year period of the project (1997-1999), includes an amount of DM 24 million for staffing costs and fees for external consultancy services as well as costs of DM 13 million for replacement or upgrade of hardware and software.

As a result of its company-wide scope, the Year 2000 project has also contributed to a complete review of the IT systems, resulting in an overall improvement in the quality of these systems.

adidas

SALES AND EARNINGS OF THE adidas BRAND AGAIN SHOWED DYNAMIC DEVELOPMENT IN 1998. VIGOROUS GROWTH IN THE USA, THE WORLD'S KEY SPORTING GOODS MARKET, LED TO SIGNIFICANT INCREASES IN MARKET SHARE, OFFSETTING CRISIS-RELATED DECLINES IN ASIA. THE adidas BRAND AGAIN INCREASED INCOME FROM OPERATIONS. IN 1999, HOWEVER, SALES AND EARNINGS GROWTH OF THE adidas BRAND IS EXPECTED TO SLOW, REFLECTING LESS DYNAMIC MARKETS.

NEW RECORD IN SALES AND PROFIT In 1998, adidas increased net sales by 26% to over DM 8.4 billion, strengthening its position as the world's second-largest sporting goods brand. The high sales growth was primarily driven by Footwear, which increased by 35% to just under DM 3.9 billion. Net sales of Apparel grew 19% to just under DM 4.3 billion. Hardware sales increased 16%, contributing DM 276 million to the new sales record.

Gross margin improved by 20 basis points to 42.1%. This success primarily reflects the continued strict control of all sourcing costs. As adidas was also able to maintain selling, general and administrative expenses at an almost stable level in relation to net sales, income from operations improved to a new record of DM 752 million.

POSITION IN THE EUROPEAN MARKET STRENGTHENED In 1998, the total market for branded athletic footwear in Europe decreased slightly. Although exact figures for the overall European sporting goods market are not yet available, indications are that the development was comparable to that of the athletic footwear market.

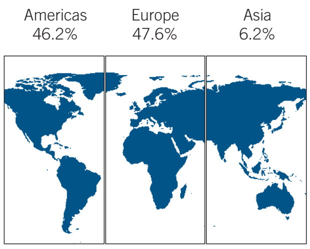
In this flat market, net sales of products under the adidas brand name increased by 17% to DM 4.8 billion. For the first time since 1994, adidas Footwear growth rates (+19%) were higher than those of Apparel (+14%). The increase in Footwear was primarily driven by Running, Tennis, Kids, Women and Originals. Running remains the largest sports category, ahead of Soccer and Training.

Apparel growth in 1998 was primarily driven by non-fashion categories such as Sports Specific, i.e. Running, Tennis, Basketball, Workout, and also Swimwear. Measured by volume, Training remains the largest category, followed by Soccer, Lifestyle and Swimwear. This development reflects a product strategy which addresses the performance-oriented sports enthusiast.

As a result of the difficult market situation in Europe, and the slower growth rate for Apparel, gross margin declined by 1.1 percentage points to 41.3%.

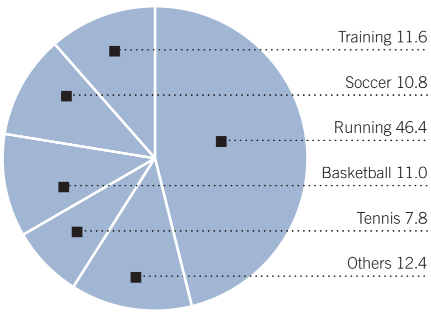
adidas FOOTWEAR

Net sales 1998, split by region



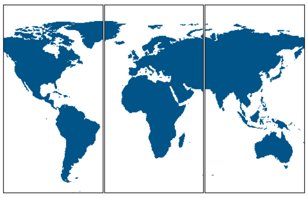
adidas FOOTWEAR

Net sales 1998, split by categories, in %



adidas APPAREL

Net sales 1998, split by region



adidas' strong presence as main sponsor of the 1998 Soccer World Cup in France underlined the brand's heritage and competence in this sports category. Despite a share of the soccer boot market of around 40%, coupled with strong competition and a flat market, sales increased by more than 10%. Soccer apparel grew impressively by more than 54%. The success of the adidas-sponsored French national team, the new World Champions, almost certainly made a significant contribution to this development.

In the key markets adidas outperformed most of its competitors. The highest growth rates across all product groups were achieved in Spain (+64%), Poland (+45%), Italy (+32%), the Netherlands (+30%) and France (+19%). adidas UK further strengthened its market position with a double-digit growth rate.

Despite signs of an economic slowdown and decrease of the athletic footwear market in Germany and Norway, adidas was able to further increase its large market share. In both countries adidas sales stabilized at a very high level. In Russia, sales declined significantly in the aftermath of the economic crisis.

A new joint venture was set up in Turkey in 1998, replacing the former licensee. adidas Turkey commenced operations in January 1999. Turkey has the highest growth rates amongst the main target group (12-21 years) in Europe. In light of a well established brand image and reputation, adidas sees high potential for the brand in Turkey.

In the overall European marketplace, there seems to be little potential for leveraging sales growth in 1999. However, in the medium term the adidas brand is well positioned to increase its market share and profitability in a single European market.

MARKET SHARE IN NORTH AMERICA INCREASED SIGNIFICANTLY

adidas was the fastest growing sports brand in North America in 1998. Net sales were up 68% to DM 2.9 billion, while the sporting goods market in general was flat and the athletic footwear market even contracted. The region's growth was led by the USA with sales of DM 2.7 billion, up 71% over 1997.

In the USA, Footwear sales climbed 93%, doubling market share to over 12%. The growth was driven by the Running category which was up strongly for the third year in a row and now represents slightly more than half of all Footwear sales.

The athletic apparel market in the USA was also tough, yet sales of adidas Apparel grew 48%, primarily driven by the Women's category and the popularity of three-stripe styles across all categories.

Sales in Canada at DM 187 million were up 28%, yet a clear and sudden shift in consumer preferences away from branded athletic footwear and apparel led to excess inventories industry-wide and subsequent price wars. This change in consumer preferences coupled with a decline in the value of the Canadian dollar drove down the gross margin.

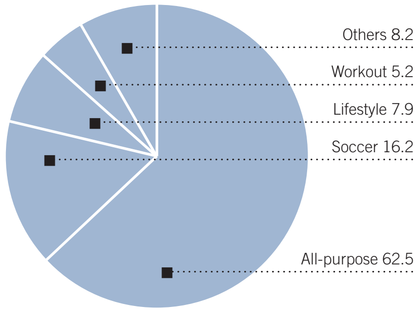
Nevertheless, gross margin for the region as a whole developed positively, improving 0.2 percentage points to reach an all-time high of 38.5%. The improvement in margin was broad-based but most impressive in Apparel. This improvement was directly related to price increases resulting from product range adjustments and to a reduction in clearance sales.

adidas is meanwhile also well established in the most popular spectator sports in North America: baseball, football, basketball and college sports. In baseball, the association with the World Series Champion New York Yankees continued to establish adidas as a leader. Signings with four National Football League (NFL) teams will also improve visibility of the brand in this sport. In basketball, adidas relies on signature athletes like Kobe Bryant and Antoine Walker. Endorsers of adidas in the college sports sector include colleges rich in tradition such as Notre Dame, Tennessee and, beginning in 1999, UCLA.

These signings improve visibility of the adidas brand and, coupled with enhanced media exposure, will provide a strong platform for future success of the brand in North America.

adidas APPAREL

Net sales 1998, split by categories, in %



SALES IN ASIA/PACIFIC IMPACTED BY ECONOMIC CRISIS

The currency crisis that swept across the region in the second half of 1997 resulted in a depressed economic climate in key countries for the adidas brand in 1998.

Net sales in nominal terms dropped by 23% to DM 539 million. However, at constant exchange rates this would have been only slightly below the previous year. A major contributing factor to this development was the halving of sales in South Korea, one of the key markets for adidas in this region, but sales also declined in Hong Kong and Malaysia.

This decline was not offset by business expansion in other markets, although some of these achieved impressive growth rates. For example in India, adidas sales were up by more than 200%, in China sales almost doubled, while sales in Taiwan and Singapore increased by over 20%.

Despite adverse conditions gross margin at 40.4% was only 0.5 percentage points below the previous year. This result reflects changes in the product and sourcing mix and price increases, and also the fact that a substantial portion of the US dollar requirements for the year was hedged.

adidas Japan K.K., a wholly owned subsidiary of adidas-Salomon AG, was founded in February 1998. Following expiry of the licensee agreements at the end of 1998 this company now controls sales and distribution of adidas products in Japan, the largest single market in the region, creating the basis for improved market penetration.

1999 will see a significant increase in sales through the first-time inclusion of sales in Japan in the consolidated financial statements. adidas intends to provide momentum for the brand in markets where sales have declined, by focusing on merchandising and enhancing brand presence.

Some additional impetus is also expected to be forthcoming from the integration of Taylor Made. From April on, five adidas subsidiaries will assume responsibility for distribution of Taylor Made products. adidas’ expertise in sales and marketing will be used to leverage the golf business in these countries.

LATIN AMERICA SHOWED STRONG GROWTH

In Latin America net sales of adidas brand products increased 30% to DM 218 million. The top performing countries were Argentina (+93%) and Mexico (+39%), while high growth rates in Brazil and Chile were also partly due to the taking over of the former licensee business. adidas Chile took over the apparel business in the Chilean market while the Brazilian subsidiary took over the sales of locally produced footwear halfway through the year.

These measures are in line with the objective to achieve better control of the brand by establishing wholly owned subsidiaries. As a result, the share of total sales contributed by adidas subsidiaries in Latin America increased to 42%, with the remaining 58% being generated by licensee business, mainly in Footwear. Reflecting this restructuring process, gross margin improved by 5.7 percentage points to 39.0%.

Apparel sales increased by 87%, growing at a faster rate than total net sales. As a consequence, Apparel sales increased from 12% to 18% of total sales. Footwear sales grew 21% and now account for 75% of total sales.

1999 will be a challenging year for Latin America as the devaluation of the Brazilian currency at the beginning of the year is expected to affect the whole region.

At the beginning of 1999 a new subsidiary in Colombia took over sales in the Colombian markets formerly serviced by a distributor. Likewise the Central American and Caribbean countries will be serviced by the subsidiary in Panama instead of by distributors.

Forward order buying programs for key accounts have now been introduced in all major markets, substantially limiting the risks on the product purchasing side.

Factory outlets will provide new means of controlling inventory levels and the setting up of adidas-owned image shops will help to improve the positioning of the brand, while the installation of shop-in-shop systems at retail will support presentation of adidas products at the point of sale.

MAVIC

FOR THE FIRST TIME SINCE 1995 MAVIC PASSED THE BREAK-EVEN POINT IN ITS OPERATING RESULT. STRONG SALES GROWTH HAS LED TO ECONOMIES OF SCALE. AN EXPANDED PRODUCT RANGE IS EXPECTED TO SUPPORT CONTINUED GROWTH IN THE FUTURE.

UPTURN IN SALES Mavic increased sales in 1998 in all regions and product groups by a total of 28% to DM 102 million. This sales growth was driven by the Wheels category which grew 61% to DM 48 million, which represents around half of total net sales. Rims accounted for DM 51 million, 9% up compared to 1997.

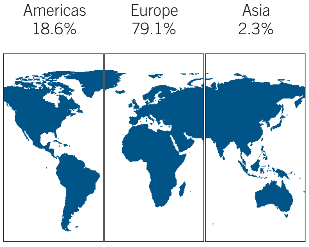
In terms of regional performance, growth was led by Europe with an increase of 31% to DM 81 million, followed by North America where sales increased 21% to DM 19 million.

The engine of growth was the quality of the innovative products coupled with the successes and popularity of promotional partners such as top racing teams Crédit Agricole and Post Swiss.

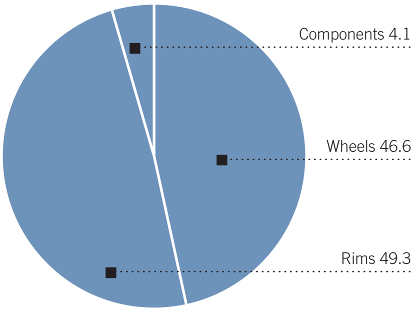
POSITIVE OPERATING RESULT Mavic contributed to the success of the group in 1998, achieving a positive operating result for the first time since 1995. While gross margin declined slightly to 35% of net sales, the operating result improved by well over DM 4 million to DM 1 million due to a stable level of operating expenses.

EXPANSION OF PRODUCT RANGE EXPECTED TO BOOST SALES
In fall 1998 Mavic launched a new product: an electronic gear shift. This was hailed by experts as the most outstanding innovation of the season in the cycle component sector. Led by the new product, Mavic expects to increase sales further in 1999.

MAVIC
Net sales 1998, split by region



MAVIC
Net sales 1998, split by products, in %

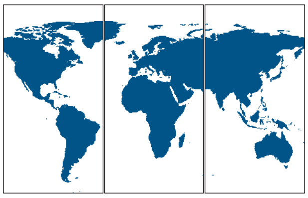


SALOMON

SALOMON'S SUCCESS IN 1998 WAS PRIMARILY DRIVEN BY NEW PRODUCTS: HIKING BOOTS, IN-LINE SKATES AND SNOWBOARDS. GROWTH ACHIEVED IN THE WINTER SPORTS SECTOR, A MARKET WHICH HAS BEEN DIFFICULT FOR YEARS, UNDERLINES THE UNBROKEN INNOVATIVE STRENGTH OF THE BRAND. THE OPERATING RESULT IMPROVED DUE TO A NUMBER OF MEASURES TO ENHANCE EARNINGS AND ALMOST REACHED BREAK-EVEN. IN 1999 SALOMON EXPECTS TO ACHIEVE GROWTH IN SALES AND AN IMPROVEMENT IN PROFITABILITY.

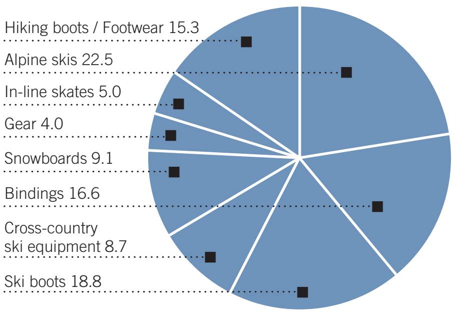
SALOMON

Net sales 1998, split by region



SALOMON

Net sales 1998, split by products, in %



SALES OF WINTER SPORTS PRODUCTS REMAINED STABLE Sales of products under the Salomon brand name increased by 13% to DM 850 million in 1998. Winter sports products, growing 1%, contributed 80% or DM 678 million to total Salomon sales. Performance of the individual categories was mixed. Snowboard sales almost doubled to DM 78 million as a result of the expansion of the product range. Alpine Ski equipment (skis, bindings, boots and snowblades) decreased by 5% as a result of a continued decline of the market, but Salomon succeeded in strengthening its market shares, except, as a result of intensive price pressure, in the bindings sector.

SALES OF SUMMER SPORTS PRODUCTS DOUBLED Sales of Salomon summer sports products were up 105% to DM 172 million. Summer sports products now account for 20% of total Salomon brand sales, compared to 11% in 1997. Hiking Boots and Footwear were the major growth drivers, increasing 55% to DM 130 million. Other top performers included the newly introduced In-line Skates which contributed DM 42 million to net sales in their first season. This result far exceeded management's own expectations and is attributable to Salomon's leadership position in state-of-the-art technology for performance-oriented in-line skates.

GROSS PROFIT SUBSTANTIALLY IMPROVED Gross profit grew at a significantly faster rate than net sales, increasing 36% to DM 332 million. This result is attributable to improvements of gross margin in all winter and summer sports product categories. Gross margin across all product categories improved 6.6 percentage points to 39.0%. This improvement reflects lower costs, better average sales prices, the stabilization of inventories and a particularly strong winter season at the end of 1998.

OPERATING RESULT ALMOST AT BREAK-EVEN LEVEL Operating expenses increased by 16%, growing at a far more moderate rate than gross profit. As a consequence, the operating result improved by DM 41 million and, at negative DM 3 million, almost reached break-even.

Marketing expenses were up 4% to DM 98 million.

FURTHER IMPROVEMENT OF SALES AND PROFITABILITY Net sales of Salomon brand products will continue to grow in 1999. Additionally the numerous integration measures already initiated will further improve profitability. This means Salomon can be expected to record a positive operating result for the first time in 1999. In the medium term Salomon is seeking to achieve an operating margin in line with the current adidas level.

TAYLOR MADE

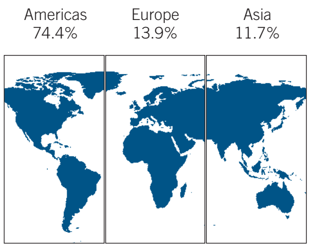
1998 WAS A BAD YEAR FOR THE GOLF INDUSTRY. GLOBAL SALES DECREASED SIGNIFICANTLY, ALSO IMPACTING TAYLOR MADE. THE USA AND JAPAN, THE TWO LARGEST GOLF MARKETS IN THE WORLD, EXPERIENCED A SLUMP IN SALES, LEADING TO CONSIDERABLE PRESSURE ON THE OPERATING RESULT OF TAYLOR MADE. HOWEVER, WITH THE HELP OF NEW PRODUCTS TAYLOR MADE EXPECTS TO STABILIZE SALES AND IMPROVE EARNINGS AGAIN IN 1999.

MARKETS IN USA AND JAPAN IN SHARP DECLINE While in the first quarter of 1998 Taylor Made increased sales by 25%, the second quarter showed a slump in sales in the USA and Japan which continued through the rest of the year. In the second half of the year, the production of Ti Bubble 2 Metalwoods was stopped altogether in order to allow retailers to reduce inventories and free space for new products in 1999.

The significant deterioration of major markets is attributable to several factors. The level of innovation content offered by the products in the 1998 range was not felt by consumers to match the price. The climatic phenomenon "el niño" brought continuous rainfall lasting until the end of June to California and Florida, the biggest volume golf markets. It was impossible or impractical to play golf, impacting demand for golf products accordingly. As a consequence inventories at retail rose and sales of Taylor Made products fell. In Japan, sales suffered from the overall economic downturn of the country.

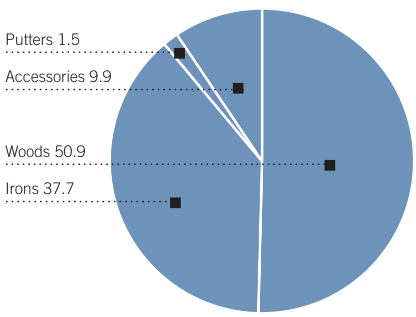
TAYLOR MADE

Net sales 1998, split by region



TAYLOR MADE

Net sales 1998, split by products, in %



Total sales in 1998 declined by 15%, or DM 90 million, to DM 514 million. Most severely impacted, with a decrease of 30%, were Metalwoods, which account for more than 50% of total sales. Over the year as a whole, sales declined 39% in Asia and 15% in North America. An improvement in sales was achieved only in Europe, which represents around 15% of total sales. Sales in this region grew 33% to DM 71 million. In terms of product categories, Irons were the top performers, growing 11% to DM 194 million and increasing this category's share of total sales by 9 percentage points to 38%.

GROSS PROFIT DETERIORATED Gross profit deteriorated by 20% to DM 230 million. Accordingly, the gross margin declined by 2.8 percentage points to 44.7%. This development is attributable to overstocking at retail, a collapse of consumer demand and a subsequent increase in discounted sales.

OPERATING RESULT DOWN, MARKETING EXPENSES UNDER CONTROL The operating result fell 69% to DM 30 million. Despite cost-cutting measures, including a significant reduction of the headcount, it was not possible to offset the pressure on the operating result coming from the decline in sales. Control of marketing expenses was tightened to the greatest possible extent, allowing only a 1% increase to DM 92 million. At 5% the increase in operating expenses was moderate.

INNOVATIVE PRODUCTS AND RENOWNED PROMOTIONAL PARTNERS FOR A BETTER FUTURE For 1999 Taylor Made rounded off its product range with newly developed golf balls. This means Taylor Made is now represented in most major golf-related equipment categories. At the same time a new generation of innovative golf clubs to be marketed under the product name FireSole™ is expected to capture new customer interest.

The marketing support for launch of the new products will include world-class golfer Mark O'Meara, who was selected as PGA Player of the Year in 1998.

With its new products, clubs as well as balls, Taylor Made expects to be able to maintain sales in 1999 at the prior year level and, at the same time, improve operating income.

THE SHARE

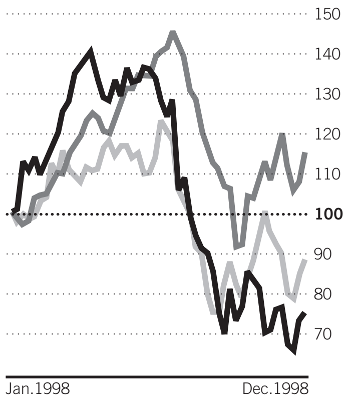
FOLLOWING A SHARP RISE IN THE SHARE PRICE IN THE FIRST HALF OF THE YEAR THERE WAS AN EQUALLY SHARP FALL SHORTLY AFTER INCLUSION IN THE DAX, WHICH CONTINUED UNTIL THE END OF THE YEAR. AT THE BEGINNING OF THE NEW YEAR THE adidas-Salomon SHARE HAD LOST ALMOST A QUARTER OF ITS VALUE, COMPARED TO THE BEGINNING OF 1998. DESPITE A DECLINE IN EARNINGS, IT IS PROPOSED THAT THE DIVIDEND PAYMENT REMAINS UNCHANGED AT DM 1.65 PER SHARE.

STOCK MARKET PERFORMANCE MIXED 1998 was a year of strong share price fluctuation for the stock markets in Europe. The DAX, comprising Germany's 30 largest quoted companies, had increased an amazing 44% by July as a result of the stock market boom. However, the Russian economic and currency crisis triggered an almost equally strong slide in share prices that was intensified by worsening expectations for the global economy and fears of a crisis in South America.

Towards the end of the year the DAX recovered to finish 1998 at around 5000 points, an increase of 16% compared to the previous year.

adidas-Salomon SHARE PRICE VS. DAX AND INDUSTRY INDEX

(Indexed, January 2 = 100)



■ adidas-Salomon
■ DAX
■ S&P SC Footwear

SHARE PRICE DECLINED IN SECOND HALF YEAR By the middle of the year, the adidas-Salomon share had increased by around 38%, to a high of DM 329, fueled by good results, high expectations following the take-over of the Salomon group and the strength of the overall stock market.

In July, during the Soccer World Cup, the share price began to decline. The golf business was not meeting the high expectations, the integration of Salomon was progressing slowly at this point and sales and order backlogs no longer showed the traditional high growth rates.

The worsening financial position of our main competitors also led to a downturn in the overall industry's share prices. In addition, it became increasingly apparent that retail chains in the USA specializing in sporting goods had expanded too quickly and now needed to consolidate. Their shares also fell rapidly, as indicated by the S&P SC Footwear index. adidas-Salomon could not escape the industry trend.

The adidas-Salomon share closed the year at DM 182. The share price had virtually halved compared to its all-time high and had declined by DM 56 or 24% compared to the start of the year.

Market capitalization at the end of the year stood at DM 8.3 billion (previous year: DM 10.4 billion).

INCLUDED IN THE GERMAN SHARE INDEX In June 1998 the adidas-Salomon share was admitted to the DAX. With its inclusion, adidas-Salomon moved up to the premier league of listed German companies, bringing greater visibility to the share.

KEY PER SHARE DATA

(in €/DM, except for number of shares)

	1998 €	1998 DM	1997 DM
Year end price	**93.30**	182.00	230.00
High	**168.30**	329.00	268.00
Low	**77.20**	151.00	131.60
Net income**	**4.52**	8.84	10.21
Dividend	**0.84***	1.65*	1.65
Cash flow***	**2.64**	5.17	1.72
Number of shares outstanding (m)		45.35	45.35

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

FINANCIAL INFORMATION ON THE INTERNET Financial information and information on the adidas-Salomon share is now available on the internet. Investors can find the current share price, charts showing share price development and detailed financial information at <www.adidas.de>. The current adidas-Salomon annual report and the quarterly reports will be published on the internet. This will ensure that individual investors and others interested in investing in adidas-Salomon have access to key information at the same time as financial analysts and institutional investors.

PROPOSED DIVIDEND PAYMENT OF DM 75 MILLION The adidas-Salomon Executive Board will propose to the Annual General Meeting of Shareholders a dividend for 1998 of DM 1.65 per share, maintaining last year's level. This represents a total payout of DM 75 million.

The proposal is based on the assumption that many of the factors that have influenced the 1998 results were of a one-off character and that this, in anticipation of better results in 1999, justifies continuity in the Company's dividend policy.

The proposal represents an increase in the total payout ratio from 16% in 1997 to 19% of consolidated net income before the special effect in 1998. With this proposal the Executive Board has made almost maximum use of the scope defined by previously formulated Company policy to maintain a payout ratio of between 15% and 20%.

As in the previous year the Company's tax situation does not permit any tax credit for German domestic shareholders with unlimited tax liability.

OUTLOOK

MARKET CONDITIONS FOR THE GROUP'S PRODUCTS DETERIORATED IN 1998, AND THE GLOBAL SPORTING GOODS MARKET IS EXPECTED TO REMAIN FLAT IN 1999. DESPITE THESE MARKET DEVELOPMENTS, adidas-Salomon AIMS TO INCREASE EARNINGS BY IMPROVING MARGINS AND ACHIEVING BETTER COST CONTROL. POSITIVE CONTRIBUTIONS ARE ALSO EXPECTED TO BE FORTHCOMING FROM THE INTEGRATION OF THE SALOMON GROUP.

Market conditions for the group's products deteriorated in 1998 and prospects for an improvement in the overall market in 1999 have been dampened. According to independent forecasts, the global sporting goods market in 1999 is expected to remain flat and in certain segments even to contract.

These forecasts are based on various factors. For the sporting goods industry as a whole, although not necessarily for each individual company, anticipated development of gross domestic product and consumption in the private sector is regarded as a key indicator of future growth. Europe is expected to slow, while in Asia first signs of improvement have only just become visible. In the USA, where the consumer climate is felt to be positive, outlook for the industry is dampened as a result of excessive floor space expansion at retail.

Although floor space growth generated additional demand for in-store inventory during 1998, the expansion outpaced consumer demand, with an inevitable increase in inventory at retail. This is currently the constellation in the sporting goods industry in the USA, where it may take up to one year before the imbalance in supply and demand is entirely corrected.

Another important factor is the change in demand patterns in particular among some of the group's key consumers, where the last year has seen the strength in the brown shoe and leisure fashion segments affect the sporting goods industry. It continues to be difficult to predict future developments in this key consumer sector.

Despite these market developments, adidas-Salomon expects to be able to increase earnings in 1999.

The development of the result is, however, not expected to be driven predominantly by the top line where, in light of the market forecasts discussed above, adidas-Salomon anticipates single-digit percentage growth. As the industry, in particular in the USA, is currently in a period of change, forecasts in this context carry an element of uncertainty. Therefore, it cannot be ruled out that these expectations will not be realized.

Sales are expected to increase only moderately in comparison to previous years, as is indicated by the fact that at the end of 1998 orders were up by only 1% year-over-year. An improvement in earnings will therefore primarily be achieved through increased efforts to further improve gross margin and achieve better cost control.

Positive contributions to the results are also expected to be forthcoming from synergy effects achieved in the context of the integration of the Salomon, Taylor Made and Mavic brands. Key integration steps were initiated in 1998, and the first positive impact of these measures will be felt in a significant improvement of the contribution provided by these brands in 1999. As the team spirit becomes increasingly stronger, synergy effects will also be further strengthened.

adidas-Salomon also expects to increasingly benefit from the commencement of operations of adidas Japan, following completion of the start-up phase. The new organization will enable the group to enhance the positioning of the adidas brand in Asia's largest market and to capitalize on market potential.

Additionally, net cash provided by operating activities will be used to reduce borrowings, leading to a corresponding improvement of the net interest result.

In 1999 adidas-Salomon expects to achieve a significant improvement in earnings and thus to be able to continue the excellent track record of previous years. At this point in time, however, it is not clear what effect the latest decisions on tax legislation in Germany will have on the results.

adidas-Salomon INTEGRATION MAKING GOOD PROGRESS

A great fit – that was the title of a brochure produced prior to the acquisition, setting out the anticipated benefits of the integration of adidas and Salomon. Nothing has changed in the rationale. Salomon, Taylor Made and Mavic are outstanding brands, forming a perfect match with adidas. The complementary fit of the two companies is truly excellent – in terms of regional focus, product groups, and the seasonal aspects of our business. There are synergies inherent in the combining of headquarter functions, sales organizations and sourcing activities. adidas is able to benefit from Salomon's high level of technical innovation, while Salomon in turn is able to profit from adidas' marketing expertise.

All integration steps follow the overall principle to realize cost synergies, and to generate mid- and long-term potential for additional growth in sales and profit. The latter will focus both on geographical expansion, especially for Salomon products, and the introduction of new product lines such as the Salomon winter apparel range.

Our strengths are complementary. There are practically no overlaps. That was the view prior to the acquisition, and it remains the view today. However, very little of the combined performance potential of the two companies was realized in 1998. The sharp decline of the golf market in the USA, the world's key market, prevented the three new brands from providing a higher contribution to our results. Additionally, the process of getting to know one another and defining the roadmap for a successful future together as the adidas-Salomon group with a portfolio of brands has taken longer than originally anticipated.

Key decisions were made in the second half of the year. The majority of these measures have already been implemented. The remainder will follow swiftly.

SALOMON WORLDWIDE BEING DISSOLVED Salomon Worldwide, formerly the headquarters and holding organization of the three brands Salomon, Taylor Made and Mavic, is in the process of being dissolved. HQ functions have been directly assigned to the respective board members responsible in Herzogenaurach. This has meant a reduction of personnel, a shortening and improvement of reporting lines, and streamlining of the entire organization. The creation of one group headquarter function will be completed in 1999. The annualized savings resulting from all these measures are expected to total DM 10 million.

INTEGRATION OF SALES ORGANIZATION INITIATED Gradual progress is being made in the integration of the adidas and Salomon sales subsidiaries. In Germany, this process was completed at the beginning of 1999. The Salomon sales organization formerly based in Munich has been closed down and integrated into the existing adidas organization in Herzogenaurach. This will lead to savings on a scale of around DM 3 million per annum, as it eliminates rental for expensive office space, does away with separate warehousing needs and enables back-office functions to be shared.

In 1999, similar steps will follow in other European countries and in the USA.

OPTIMIZATION OF SOURCING ACTIVITIES AT AN ADVANCED STAGE A number of measures to optimize the global sourcing structure have been initiated and implemented. The aim is to create one sourcing organization for the benefit of all brand activities.

Effective January 1st, 1999, Salomon Far East sourcing activities have been integrated into the existing adidas organization. Existing Salomon liaison offices have been closed, and the employees integrated into the combined operations. Further consolidation will take place in Europe with particular emphasis on the integration of footwear sourcing. In addition, the adidas organization will take responsibility for apparel sourcing across all brands in order to exploit existing strengths.

These steps ensure that Salomon brand products will also benefit from the expertise that adidas, as the second-largest company in the sporting goods industry, has built up in sourcing operations worldwide. The benefits of more favorable sourcing and simplified structures are not currently quantifiable, but they are expected to be in excess of DM 10 million.

GLOBAL BUSINESS UNITS ESTABLISHED FOR GOLF AND CYCLING The new Golf and Cycling Business Units combine the respective competencies of Taylor Made and Mavic in equipment with the expertise of adidas in footwear and apparel. Leveraging of existing distribution channels, sharing of back-office functions and implementation of joint product development activities will help to increase sales and earnings within both units. Further opportunities to leverage promotional assets and sponsorship programs will be exploited.

As part of the reorganization of the Business Unit Golf, adidas Golf America has merged with the Taylor Made golf organization and moved to Carlsbad, California, the home of Taylor Made. In Europe, a combined sales and distribution organization specializing in golf products has been established in the U.K., in order to create the basis for better servicing of the distribution channels.

COOPERATION IN RESEARCH AND DEVELOPMENT INTENSIFIED

Close cooperation in the R&D sector enables existing expertise to be exploited. The Salomon apparel and outdoor development activities have been linked to the adidas organization, while Salomon experts have taken over responsibility for developing adidas cross-country ski boots, in order to capitalize on their valuable experience. Similarly, the product developers are utilizing the efforts of the research departments of the two brands. This cooperation also helps to avoid duplication of activities and to give added focus to basic research. The products of all brands are set to benefit from the transfer of expertise between the research functions.

The benefits of joint research and product development activities are not easily quantifiable. They can, however, be immense if ideas produced in this interchange process translate into successful products.

COMMITTED TO SOCIAL RESPONSIBILITY

Social responsibility is an integral part of our brand values, and adidas-Salomon has a tradition of requiring its suppliers to conform to social and environmental standards. In 1998 further steps were taken to ensure that there are acceptable working conditions in the factories which supply adidas-Salomon products. All suppliers are obliged to adhere to the corporate Standards of Engagement (SOE) confirming the policy on minimum requirements for labor, health, safety and environmental issues. The SOE is based on the World Federation of the Sporting Goods Industry model Code of Conduct and states that adidas-Salomon will not conduct business with suppliers who use forced labor or child labor and do not comply with the employment laws of the country concerned. It has been translated for display in factories into the languages of the countries where products are sourced.

STANDARDS OF ENGAGEMENT BEING MONITORED To ensure that suppliers comply with the SOE, an internal monitoring program was initiated and SOE audits of suppliers around the world were conducted by regionally located adidas-Salomon personnel. A majority of suppliers have been evaluated for compliance with the SOE and action plans developed with individual suppliers to improve conditions. adidas-Salomon has teamed up with Business for Social Responsibility, a non-profit organization which promotes corporate citizenship, to train monitors and suppliers' representatives. With the assistance of experienced environmental consultants, a manual on health, safety and environmental issues has been developed which will help to make the SOE effective in practice. Manuals on labor issues are also being developed.

SUPPORT FOR CHILD LABOR PROJECTS adidas-Salomon through the World Federation of the Sporting Goods Industry supports the child labor project in Pakistan which is succeeding in providing education opportunities for children and thus alternatives to stitching balls. A similar project is being developed in India and both involve local sporting goods manufacturers, the UN's International Labor Organization, Save the Children, UNICEF and local non-governmental organizations.

ENVIRONMENTAL CERTIFICATION FOR TECHNOLOGY CENTER An environmental milestone was the independent certification of the adidas-Salomon Global Technology Center at Scheinfeld in Germany confirming that the Center conforms with the demanding European Union environmental standards. An environmental management system is in place, aiming for continuous improvement in the way the Center interacts with the environment through recycling, waste management and sustainable policies. Approaches developed at the Center are being used to improve conditions in factories down the supply chain. An Environmental Statement for 1998 has been published detailing these activities.

APPOINTMENT OF GLOBAL DIRECTOR A coordinated and consistent approach to social and environmental issues across the group has been promoted through the appointment of a Global Director of Social and Environmental Affairs.

There was an element of prophecy in last year's Annual Report. The headline on page 20 read: "Zinedine Zidane aims to lead France to the top of world soccer in 1998". On the next page you see "Zizou" holding the Official Matchball of FIFA World Cup France '98, the adidas Equipment Tricolore.

Zidane lived up to all expectations, leading "Les Bleus" to their first victory in World Cup history. That is why Zinedine Zidane is once again in our 1998 Annual Report. This time, he is holding the World Cup trophy in his hands, instead of the matchball which he twice put into the net of defending champions Brazil in the final.

IN THE SPORTS ARENA

adidas AND FRANCE ON TOP OF WORLD SOCCER

The Soccer World Cup, 1998's premier event, and probably the most watched sports event ever, provided an outstanding opportunity for adidas to showcase the brand and its commitment to soccer. For the first time, adidas was an Official Sponsor, Supplier and Licensee of the tournament. Six participating teams were outfitted by adidas, including the Champions. This combination ensured an exceptional level of global visibility.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OLYMPIC WINTER GAMES – A HUGE SUCCESS FOR adidas AND SALOMON

As the 1998 Nagano Winter Olympics came to a close, the “balance sheet” for adidas and Salomon showed a total of 70 Olympic medals for the two brands. Among the heroes of the Games we find athletes representing both brands. The most successful female athlete of the Games, cross-country skier Larissa Lazutina of Russia, was wearing adidas.

The most successful male, Björn Daehlie of Norway, one of the best cross-country skiers ever, with a total of eight Olympic gold medals and 45 world championship titles, was endorsing Salomon footwear and equipment. Each of them took three golds. All women’s cross-country skiing gold medals were taken by members of the Russian team in adidas products.

In alpine skiing, Jean-Luc Crétier won the downhill, the discipline which is regarded as the “king” of all alpine events. Tae Satoya of Japan was the surprise winner of the women’s freestyle event. Both of them were fully outfitted with Salomon equipment.

“On the other side of the mountain”, adidas dominated both in luge and bobsled. Nearly 100% of all medal winners were endorsing adidas technical footwear. Defending Olympic Champion Georg Hackl of Germany showed the world for the third consecutive time that when it comes to top-level Olympic competition he can barely be beaten.

With an unprecedented 25 tour wins in 1998, the Taylor Made Tour staff had a near-perfect season, featuring victories at three majors, the Masters, British Open and U.S. Open, and a second place finish at the PGA. This stellar run almost resulted in a "major sweep" – a feat that might never be duplicated.

The player who endorsed Taylor Made's performance on the course best is Mark O'Meara. Using Taylor Made's clubs, O'Meara drove home multiple PGA Tour successes in 1998. O'Meara won two of the four majors in 1998 – the Masters and British Open. As a result, he was selected as the PGA Player of the Year and also received the Jack Nicklaus Award for PGA Player of the Year.

Mark O'Meara is expecting to continue his successes in 1999, using his new Taylor Made FireSole™ drivers, irons and putters. FireSole™ clubs are the most advanced line of clubs to be introduced by Taylor Made in more than a decade. O'Meara's input has proven to be invaluable to Taylor Made researchers who rely on his expertise as they move through the development processes.

The new products introduced by Taylor Made in 1999 are designed to improve the game not only of champions, but of golfers at all levels.

PLAYER OF THE YEAR – MARK O'MEARA WITH TAYLOR MADE

The New York Yankees are far more than just a baseball team and have long been the symbol of authenticity in America. Baseball is generally referred to as “America's pastime”. That would make the “Bronx Bombers”, the Yankees nickname over the last 70 years, baseball’s ambassador to the world.

At the end of 1997 the Yankees and adidas entered into a long-term cooperation. The timing could not have been better. The Yankees completely dominated the baseball season and closed out the season by winning their second World Series in three years. It was also the 25th time that they have been World Champions, by far the most of any team.

The relationship between the Yankees and adidas is all about tradition, authenticity and performance. adidas and the Yankees have both drawn on their vast experiences in the sports world to bring them to the point they are at today: renowned for quality, professionalism, performance and style. They both have applied their knowledge of the past with their understanding of today to plant the seeds for a successful future.

THE NEW YORK YANKEES AND adidas – A PARTNERSHIP BUILT ON AUTHENTICITY

JAN ULLRICH – LEADING adidas' NEW GENERATION OF ATHLETES

adidas' signing of Jan Ullrich signaled a new beginning. Jan and adidas set out to redefine cycling shoes and apparel, as well as the way cycling is marketed. Jan Ullrich represents a new generation of young adidas athletes who will dominate tomorrow's sporting scene.

In 1997 Jan Ullrich won the Tour de France in dominating style. He was the first German ever to win cycling's most prestigious race. At only 25 years of age, Jan seems destined to dominate the cycling world well into the next century.

Last year Jan had to be content with second place in the Tour de France, despite his commitment and tremendous will to win. But this has only served to further increase his popularity. His courage and determination have solidified his position as one of Europe's favorite athletes. His unquestionable integrity was a sharp contrast to the 1998 Tour de France doping scandal. He rose above the scandal and undoubtedly helped save the race.

For Jan's team, Team Telekom, it was a highly successful season, as several team members, all endorsing the 3-stripes, won international road races. Jan Ullrich is dedicated to being in top form for the 1999 races and, whatever the results of the Tour de France may be, he has already won the loyalty of fans all over the world.

SUPERVISORY BOARD AND EXECUTIVE BOARD

SUPERVISORY BOARD

Henri Filho,
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(Chairman)

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

Georg Beer,
Herzogenaurach, Germany*)
until November 30, 1998

Gerold Brandt,
Gräfelfing, Germany

David Bromilow,
Bangkok, Thailand

Hans-Dieter Hippmann,
Scheinfeld, Germany*)

Fritz Kammerer,
Fürth/Bay., Germany*)

Peter Nolan,
Los Angeles, USA

Serge Okun,
Lungern, Switzerland

Dr. Thomas Russell,
Sarasota, USA

Charles Thomas Scott,
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EXECUTIVE BOARD

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Christian Tourres,
Lungern, Switzerland
(Deputy Chairman)

Glenn Bennett,
Portland, USA

Jean-François Gautier,
Annecy, France
from January 19, 1998 until August 3, 1998

Herbert Hainer,
Herzogenaurach,
Germany

Dean Hawkins,
Richmond, UK

Manfred Ihle,
Frankfurt/Main, Germany
since July 1, 1998

Peter C. Moore,
Portland, USA
until May 15, 1998

Michel Perraudin,
Nuremberg, Germany

Erich Stamminger,
Nuremberg, Germany

Jan Valdmaa,
Münchaurach, Germany

*) Employee representatives

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

(INTERNATIONAL ACCOUNTING STANDARDS)

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in DM 000)

		As of December 31,		
	(Note)	1998 adidas-Salomon	1998 adidas (comparable)[1]	1997 adidas (restated)[2]
Cash and cash equivalents	(24)	101,388	76,358	63,574
Accounts receivable	(4)	1,567,883	976,891	888,256
Inventories	(5)	1,905,968	1,646,211	1,606,101
Other current assets	(6)	439,334	305,140	269,448
Total current assets		**4,014,573**	**3,004,600**	**2,827,379**
Property and equipment, net	(7)	496,304	359,889	274,585
Goodwill, net	(8)	1,315,100	212,074	223,926
Other intangible assets, net	(9)	106,755	32,079	10,884
Deferred tax assets	(22)	219,793	132,769	54,750
Other non-current assets	(10)	117,278	1,046,021	957,486
Total non-current assets		**2,255,230**	**1,782,832**	**1,521,631**
Total assets		**6,269,803**	**4,787,432**	**4,349,010**
Short-term bank borrowings	(11)	2,855,757	1,623,284	1,524,825
Accounts payable		731,829	617,259	685,307
Income taxes		187,458	187,277	133,336
Accrued liabilities and provisions	(12)	687,561	410,167	340,943
Other current liabilities	(13)	192,841	107,413	122,016
Total current liabilities		**4,655,446**	**2,945,400**	**2,806,427**
Long-term bank borrowings	(11)	484,467	0	0
Pensions and similar obligations	(14)	107,126	88,490	77,200
Deferred tax liabilities	(22)	5,154	3,876	10,341
Other non-current liabilities	(15)	36,601	5,043	8,614
Total non-current liabilities		**633,348**	**97,409**	**96,155**
Minority interests		75,052	55,782	45,027
Shareholders' equity	(16)	905,957	1,688,841	1,401,401
Total liabilities and shareholders' equity		**6,269,803**	**4,787,432**	**4,349,010**

[1] includes only adidas group without the direct and indirect effects of the Salomon acquisition

[2] 1997 comparatives are restated due to the application of IAS 12 (revised 1996) 'Income Taxes' and to improve comparability

See accompanying notes to the consolidated financial statements

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

(in DM 000)

			Year ended December 31,	
	(Note)	**1998 adidas-Salomon**	**1998 adidas (comparable)** [1]	**1997 adidas (restated)** [2]
Net sales	(23)	9,907,118	8,440,810	6,698,277
Cost of sales		5,753,198	4,884,557	3,888,717
Gross profit		**4,153,920**	**3,556,253**	**2,809,560**
Selling, general and administrative expenses		3,235,652	2,711,257	2,128,286
Depreciation and amortization	(7–9)	181,406	92,918	80,242
Income from operations		**736,862**	**752,078**	**601,032**
Royalty and commission income		87,419	86,707	85,279
Financial result	(21)	(224,278)	(118,079)	(31,020)
Extraordinary income	(27)	23,742	23,742	21,690
Income before taxes		**623,745**	**744,448**	**676,981**
Income taxes	(22)	205,573	208,343	185,858
Net income before minority interests		**418,172**	**536,105**	**491,123**
Minority interests		(17,318)	(18,087)	(28,109)
Net income before special effect		**400,854**	**518,018**	**463,014**
Acquired in-process research and development – expensed	(2)	(722,600)	0	0
Net income/(loss)		**(321,746)**	**518,018**	**463,014**
Net income/(loss) per ordinary share (in DM)		*(7.09)*	*11.42*	*10.21*
Net income before special effect per ordinary share (in DM)		*8.84*	*11.42*	*10.21*

[1] includes only adidas group without the direct and indirect effects of the Salomon acquisition

[2] 1997 comparatives are restated due to the application of IAS 12 (revised 1996) 'Income Taxes' and to improve comparability

See accompanying notes to the consolidated financial statements

adidas-Salomon AG AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in DM 000)

		Year ended December 31,	
	1998 adidas-Salomon	1998 adidas (comparable)[1]	1997 adidas (restated)[2]
Operating activities:			
Income before taxes and minority interests	623,745	744,448	676,981
Adjustments for:			
Depreciation and amortization	222,220	104,030	81,508
Unrealized foreign exchange gains/losses, net	(6,143)	(3,772)	6,532
Interest income	(12,366)	(17,041)	(14,324)
Interest expense	177,307	78,410	47,663
Gains/losses on sales of property and equipment, net	(6,159)	163	(222)
Operating profit before working capital changes	**998,604**	**906,238**	**798,138**
Increase in receivables and other current assets	(202,926)	(195,371)	(327,182)
Increase in inventories	(83,286)	(126,676)	(465,953)
Decrease/increase in accounts payable and other current liabilities	(78,604)	11,893	256,937
Cash provided by operations	**633,788**	**596,084**	**261,940**
Interest paid	(169,707)	(77,151)	(45,825)
Income taxes paid	(229,604)	(242,298)	(138,252)
Net cash provided by operating activities	**234,477**	**276,635**	**77,863**
Investing activities:			
Purchase of goodwill and other intangible assets	(46,212)	(39,565)	(58,038)
Purchase of property and equipment	(189,785)	(125,457)	(90,768)
Proceeds from sale of property and equipment	27,977	6,652	5,762
Acquisition of Salomon net of cash acquired	(1,247,692)	0	(941,976)
Acquisition of GEV KG and GmbH net of cash acquired	(38,737)	(38,737)	0
Increase in investments and other long-term assets	(46,613)	(111,492)	(1,282)
Interest received	12,366	17,041	14,324
Net cash used in investing activities	**(1,528,696)**	**(291,558)**	**(1,071,978)**
Financing activities:			
Increase/decrease in long-term bank borrowings, net	471,268	0	(4,952)
Dividends of adidas-Salomon AG	(74,826)	(74,826)	(49,884)
Dividends to minority shareholders	(10,886)	(10,673)	(12,502)
Capital contributions by minority shareholders	1,697	1,697	0
Increase in short-term bank borrowings, net	945,593	112,002	1,051,160
Net cash provided by financing activities	**1,332,846**	**28,200**	**983,822**
Effect of exchange rates on cash	**(813)**	**(493)**	**(10,109)**
Net increase/decrease in cash and cash equivalents	37,814	12,784	(20,402)
Cash and cash equivalents at beginning of year	63,574	63,574	83,976
Cash and cash equivalents at end of year	**101,388**	**76,358**	**63,574**

[1] includes only adidas group without the direct and indirect effects of the Salomon acquisition

[2] 1997 comparatives are restated due to the application of IAS 12 (revised 1996) ‘Income Taxes’ and to improve comparability

See accompanying notes to the 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) and 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 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 effective as of December 31, 1998.

NEW ACCOUNTING STANDARDS:

Several new International Accounting Standards were issued and existing International Accounting Standards were revised, which are required to be adopted in 1999 and 2000. The Company is currently analyzing the impacts of these standards and does not expect any standard to have a material impact on the Company's financial position, results of operations or cash flows and its reporting thereon.

GERMAN STATUTORY REPORTING:

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

COMPARABLE INFORMATION/PRO FORMA INFORMATION:

The companies of the Salomon group were consolidated as of January 1, 1998. For comparative purposes pro forma financial information excluding direct and indirect effects of the acquisition of the Salomon group is presented in the column adidas (comparable) for 1998. For this purpose assets, liabilities, income and expenses arising from the acquisition or relating to the Salomon group have been eliminated in the comparable financial statements of the adidas group. Comparatives for 1997 for the Salomon group are not available, since the group had a March 31 year-end and did not prepare interim consolidated financial statements on a quarterly basis.

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 for the following:

As of January 1, 1998 the Company adopted IAS 12 (revised 1996) retrospectively. Due to the comprehensive temporary concept and less stringent criteria for the recognition of deferred tax assets arising from tax loss carryforwards the Company recognized DM 53.3 million and DM 55.1 million of deferred tax assets as of December 31, 1997 and 1996 respectively. There was no significant effect on tax expense in 1997. The amount as of December 31, 1996 was recognized as a cumulative equity adjustment. Minority share in profit changed by DM 1.9 million in 1997. Minority interest in the Company changed by DM 3.7 million to DM 45.0 million as of December 31, 1997.

In the course of 1998, the Company changed its accounting policy for prepaid interest-rate cap premiums. Until 1997, the Company recorded such caps at their fair value, with the recognition of changes in the fair value in current income. The Company believes that it is more appropriate, from the viewpoint of a matching between costs and benefits and given the non-trading nature of the caps, to amortize the cap premiums over the lifetime of the caps. The resulting adjustment (income of DM 11.2 million) is included in the determination of the net profit for the year ending December 31, 1998. If the Company's 1997 accounting treatment for interest caps had been continued in 1998, the Company would have accounted for additional interest expenses in an amount of DM 13.0 million.

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 1998 classification.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of adidas-Salomon AG and its significant direct and indirect subsidiaries. A company is a subsidiary, if the Company controls directly or indirectly the financial and operating policies of the respective enterprise.

The number of consolidated companies evolved during the year as follows:

December 31, 1997	**70**
Consolidation of the Salomon group	20
Newly founded/consolidated subsidiaries	10
Purchased companies	2
Merged companies	(4)
December 31, 1998	**98**

The companies of the Salomon group were consolidated as of January 1, 1998, the date at which effective control transferred to adidas-Salomon AG.

Eight subsidiaries have not been included in the consolidated financial statements in 1997 and 1998, 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 I 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 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,**	
	1998	**1997**	**1998**	**1997**
1 USD	1.7591	1.7334	1.6739	1.7921
100 FRF	29.8273	29.7084	29.8033	29.8830
1 GBP	2.9155	2.8399	2.7753	2.9820
100 ESP	1.1780	1.1843	1.1738	1.1814
1,000 ITL	1.0132	1.0170	1.010	1.0177
100 AUD	110.4121	128.8271	102.6940	117.4000
100 KRW	0.1279	0.1824	0.1392	0.1090
100 RUR*	22.2240	0.0300	7.7675	0.0298
100 JPY	1.3423	–	1.4716	–

* in Russia three currency-digits were eliminated in 1998

In the individual financial statements of group companies monetary items denominated in a foreign currency are measured at closing exchange rates at the balance sheet date. Resulting currency gains and losses are recorded immediately 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 bad debt. These allowances are determined on the basis of individual risk assessment and the 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 include 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.

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.

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 127 million (including the Salomon group) and DM 49 million on product research and development for the years ended December 31, 1998 and 1997, respectively.

The value of acquired in-process research and development, i.e. products and processes which had 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 has been charged directly to income.

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 charged to expense 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.

LEASING:

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

LIABILITIES AND PROVISIONS:

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

PENSIONS AND SIMILAR OBLIGATIONS:

Provisions for pensions are determined using the "projected unit credit method" in accordance with IAS 19.

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 will be 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 differences and tax loss carryforwards which exceed taxable differences are only recognized to the extent that it is probable that the company concerned will generate sufficient taxable income in order to realize the associated benefit.

EARNINGS PER SHARE:

Earnings per share are calculated in accordance with IAS 33. The Company does not have any securities or other contracts outstanding which might result in a dilution of earnings per share.

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 whereas 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 current income as incurred.

Interest-rate cap premiums are amortized over the lifetime 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 October 1, 1997 adidas assumed full ownership over its former joint venture adidas Benelux, Netherlands and its fully-owned subsidiary adidas Belgium through the acquisition of the remaining interest. The purchase price totaled DM 65 million. The purchase costs in excess of the proportionate shares of the acquired net assets of DM 55 million were allocated to goodwill.

Effective December 22, 1997 the Company acquired 100% of the former Salomon family holding company, Sport Développement S.C.A. (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 aggregate purchase price for these shares was DM 942 million and was accounted for at cost under investments in 1997 (see note 10).

After the closing of the purchase of the family holding company, and with the approval of the French authorities, adidas Salomon France S.A. launched in January 1998 a simplified public tender offer for all outstanding shares of Salomon S.A., a publicly traded company admitted to the official market of the Paris Stock Exchange. The offer price of FRF 521.50 in the tender offer was the same as the implied price per Salomon share paid to the shareholders of the family holding company. After the closing of this tender offer in February 1998 the Company had acquired over 95% of the shares of Salomon S.A.

Thereafter, a “going private” offer was launched followed by a mandatory repurchase of all remaining outstanding shares. Consequently, the Salomon shares were delisted from the Stock Exchange in Paris.

The aggregate acquisition cost for the Salomon group was DM 2,364 million. The excess over the proportionate share of the acquired net assets was allocated as follows:

	(in DM 000)
Tangible assets	5,065
Identifiable intangible assets	79,489
Acquired in-process research and development	722,600
Goodwill	1,136,002
Deferred tax assets	51,595
Accrued liabilities and provisions	(205,000)
	1,789,751

The goodwill is amortized over a period of twenty years.

The accrued liabilities and provisions include primarily provisions for restructuring. In connection with the acquisition of the Salomon group the Company has implemented a restructuring plan, which focuses on the integration of the Salomon group into the adidas structure. The plan, which includes further key integration activities in 1999, will be substantially completed by the year 2001.

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

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

adidas International Trading B.V., Netherlands, a wholly-owned subsidiary, was founded on September 7, 1998. This company becomes operative effective January 1, 1999 and will be responsible for European inventory management and global sourcing activities through its subsidiary adidas Asia/Pacific Ltd., Hong Kong.

adidas Turkey A.S., a joint venture with the former distributor and licensee in Turkey, was founded on November 3, 1998. Beginning January 1, 1999, this joint venture will start its operations.

4. ACCOUNTS RECEIVABLE

		December 31,	
(in DM 000)	**1998 adidas-Salomon**	**1998 adidas (comparable)**	**1997 adidas (restated)**
Accounts receivable, gross	1,709,617	1,089,941	960,349
less: allowance for doubtful accounts	141,734	113,050	72,093
Accounts receivable, net	**1,567,883**	**976,891**	**888,256**

5. INVENTORIES

Inventories by major classification are as follows:

	December 31,		
(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Finished goods and merchandise	2,059,073	1,818,631	1,750,424
Work-in-process	10,730	4,572	3,656
Raw materials	63,244	11,021	11,123
Inventories, gross	**2,133,047**	**1,834,224**	**1,765,203**
less: provisions	227,079	188,013	159,102
Inventories, net	**1,905,968**	**1,646,211**	**1,606,101**

6. OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31,		
(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Prepaid expenses – current	207,957	141,280	104,901
Taxes receivable	123,450	85,897	63,548
Security deposits	16,682	16,682	8,909
Receivables from unconsolidated affiliates	1,933	958	5,133
Premiums for derivative financial instruments	39,636	25,679	29,600
Sundry	54,569	38,001	59,930
Other current assets – gross	**444,227**	**308,497**	**272,021**
less: provisions	4,893	3,357	2,573
Other current assets	**439,334**	**305,140**	**269,448**

Prepaid expenses relate mainly to promotion agreements.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,		
(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Land, land rights and buildings	346,912	286,687	241,312
Technical equipment and machinery	163,878	72,109	67,598
Other equipment, furniture and fittings	362,038	333,599	285,575
	872,828	**692,395**	**594,485**
less: accumulated depreciation	408,977	364,959	325,540
	463,851	**327,436**	**268,945**
Advanced payments and construction in progress, net	32,453	32,453	5,640
Property and equipment, net	**496,304**	**359,889**	**274,585**

8. GOODWILL

Goodwill primarily relates to the Company's acquisitions of the Salomon group and the subsidiaries in the United States, Australia/New Zealand and Netherlands/Belgium (see also note 3).

Goodwill amortization expense is DM 78 million (adidas-Salomon group), DM 19 million (adidas comparable), and DM 17 million for the years ended December 31, 1998 and 1997, respectively.

9. OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

	December 31,		
(in DM 000)	**1998 adidas-Salomon**	**1998 adidas (comparable)**	**1997 adidas (restated)**
Software, patents, trademarks and concessions, gross	156,451	65,993	39,137
Less: accumulated amortization	54,177	38,395	29,128
	102,274	**27,598**	**10,009**
Advanced payments, net	4,481	4,481	875
Other intangible assets, net	**106,755**	**32,079**	**10,884**

Intangible asset amortization expense is DM 23 million (adidas-Salomon group), DM 8 million (adidas comparable), and DM 4 million for the years ended December 31, 1998 and 1997, respectively.

10. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	December 31,		
(in DM 000)	**1998 adidas-Salomon**	**1998 adidas (comparable)**	**1997 adidas (restated)**
Investments, net	5,541	934,284	943,819
Cash deposits	2,974	2,974	6,820
Prepaid expenses and other non-current assets	108,763	108,763	6,847
Other non-current assets	**117,278**	**1,046,021**	**957,486**

Investments primarily relate to the shares in adidas Salomon France S.A. (see note 3). These shares are accounted for at cost in the year 1997 and the comparable statement for 1998.

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

Prepaid expenses and other non-current assets mainly include prepayments for long-term promotional contracts.

11. BANK BORROWINGS AND CREDIT LINES

Short-term borrowings consist of bank borrowings and discounted trade bills, typically with maturities of less than 12 months.

As of December 31, 1998, principal borrowings were in currencies participating in the EURO (54.1%) and USD (36.3%).

Month-end weighted average interest rates on borrowings in all currencies ranged from 4.5% to 5.2% and from 4.8% to 5.6% for the years ended December 31, 1998 and 1997, respectively.

As of December 31, 1998 the Company had credit lines in a total amount of DM 7.0 billion outstanding; unused credit lines amounted to approximately DM 3.7 billion.

In addition, the Company had separate lines for the issuance of letters of credit in an amount of approximately DM 1.2 billion.

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

(in DM million)		Maturity
Private placement of adidas Salomon France S.A., guaranteed by adidas-Salomon AG	156	November 2003 to November 2004
Committed medium-term lines of Salomon S.A.	328	January 2001 to March 2002
	484	

As to the protection against interest rate risks, refer to note 18 below.

12. ACCRUED LIABILITIES AND PROVISIONS

Accrued liabilities and provisions consist of the following:

	December 31,		
(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Restructuring	167,324	13,542	21,038
Marketing	96,943	89,719	80,640
Payroll, commissions and employee benefits	97,966	78,466	80,507
Outstanding invoices	111,605	76,156	57,719
Returns, allowances, warranty	66,950	47,610	43,016
Taxes, other than income taxes	4,723	4,723	5,555
Other	142,050	99,951	52,468
Accrued liabilities and provisions	**687,561**	**410,167**	**340,943**

Restructuring provisions mainly relate to the integration of the Salomon group (see note 3). Provisions for marketing mainly consist of provisions for distribution, such as discounts, rebates and sales commissions, and promotion. Other accrued liabilities and provisions include items not otherwise allocated, including 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)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Liabilities due to personnel	30,243	15,298	15,824
Sundry tax liabilities	38,690	18,355	37,966
Liabilities due to social security	16,191	14,377	13,547
Interest liabilities	9,820	3,479	2,220
Deferred income	2,587	180	233
Sundry	95,310	55,724	52,226
Other current liabilities	**192,841**	**107,413**	**122,016**

14. PENSIONS AND SIMILAR OBLIGATIONS

The Company sponsors and/or contributes to various pension plans, primarily in Germany. The Company's plans include both defined contribution plans and defined benefit plans as described below.

The plans of adidas-Salomon AG cover substantially all German employees.

The aggregate amounts vested in Germany under defined contribution plans were DM 38 million and DM 33 million as of December 31, 1998 and 1997, respectively.

The Company sponsors and contributes to a defined benefit plan in Germany. The employee benefits of this plan are based on years of service. Pension costs are funded currently, subject to German regulatory funding limitations. The pension accruals of adidas-Salomon AG were calculated actuarially using the projected unit credit method in accordance with International Accounting Standards. Measurement of the projected benefit obligation was based on a discount rate of 6.25% in 1998 and 7% in 1997, respectively, and an expected compensation growth rate between 2% and 3%. Additionally, the Company sponsors and contributes to a defined benefit plan in Germany for certain employees. The Company's contributions to the plan are determined annually and are allocated to an employee based on years of service and the employee's compensation.

Additionally, the Company borrowed approximately DM 21 million and DM 17 million as of December 31, 1998 and 1997, respectively, from its pension trust fund in Germany, which are also included in pensions and similar obligations.

The actuarial valuations of the plans described above are made at the end of each reporting period. The actuarial valuations of the plans are dated December 9, 1998, December 22, 1998 and January 11, 1999.

Salomon S.A. sponsors and contributes to a defined benefit plan, which covers all employees. Besides the French mandatory pension plan an additional retirement plan is funded. The additional retirement plan was revised retrospectively with effect from January 1, 1998. As a result of this curtailment the provision was released by DM 19 million. Measurement of the projected benefit obligation was based on a discount rate of 5.5% in 1998 and an expected compensation growth rate between 2.5% and 3.5%. The actuarial valuation of the plans is dated October 6, 1998.

Pension expense totaled DM 26 million (adidas-Salomon group), DM 25 million (adidas comparable), and DM 28 million for the years ended December 31, 1998 and 1997, respectively.

15. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include mainly obligations under finance leases. Liabilities falling due after more than 5 years totaled DM 21 million (adidas-Salomon group) and DM 0 million as of December 31, 1998 and 1997, respectively.

16. SHAREHOLDERS' EQUITY

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

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

At the Shareholders' Meeting on May 28, 1997 the shareholders resolved the following change of the Articles of Association with regard to the capital:

The authorization of the Executive Board, subject to Supervisory Board approval, to increase the stock capital by a maximum amount of DM 7,000,000 against contributions in cash or in kind for the purpose of granting shares to employees and to members of the Executive Board of adidas AG and of its affiliates, is cancelled and amended to read as follows:

> "The Executive Board shall be entitled for the duration of two years from the date of the registration of § 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."

The Executive Board of adidas AG stated that, for the next two years, it shall refrain from utilizing DM 7,000,000 of its authorization, namely to increase the stock capital until September 1, 2000, subject to Supervisory Board approval, by issuing new shares against contribution in cash once or several times, by an aggregate amount of DM 22,600,000.

Due to pending action of rescission, the amendment of the Articles of Association has not yet been registered in the Commercial Register and therefore has not yet become effective.

The following is a summary of the consolidated statement of shareholders' equity for the years ended December 31, 1998, 1997 and 1996:

(in DM 000)	Share capital	Capital surplus	Retained earnings (including foreign currency translation adjustments)[1]	Total
Balance at January 1, 1996	**226,746**	**14,781**	**335,059**	**576,586**
Net effect on equity of changes in companies included in consolidation	–	–	84	84
Net income	–	–	314,069	314,069
Dividend payment	–	–	(11,338)	(11,338)
Other – net, primarily translation adjustments	–	–	24,927	24,927
Cumulative equity adjustment due to the application of IAS 12 (revised 1996)	–	–	51,440	51,440
Balance at December 31, 1996	**226,746**	**14,781**	**714,241**	**955,768**
Net effect on equity of changes in companies included in consolidation	–	–	42	42
Net income	–	–	463,014	463,014
Dividend payment	–	–	(49,884)	(49,884)
Other – net, primarily translation adjustments	–	–	32,461	32,461
Balance at December 31, 1997	**226,746**	**14,781**	**1,159,874**	**1,401,401**
Net effect on equity of changes in companies included in consolidation	–	–	(219)	(219)
Net income	–	–	(321,746)	(321,746)
Dividend payment	–	–	(74,826)	(74,826)
Other – net, primarily translation adjustments	–	–	(98,653)	(98,653)
Balance at December 31, 1998	**226,746**	**14,781**	**664,430**	**905,957**

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

At the annual general meeting of the Company held on May 7, 1998, the Company's shareholders approved the distribution of a dividend of DM 1.65 per share.

Earnings available for dividend distributions are determined by reference to the retained earnings of adidas-Salomon AG calculated under German commercial law.

The Board of Directors will recommend to the annual general meeting that the unappropriated earnings of adidas-Salomon AG at December 31, 1998 should be appropriated as follows:

	(in DM 000)
Dividend of DM 1.65 per ordinary share	74,826
Allocation to revenue reserves	521,477
Unappropriated earnings of adidas-Salomon AG as of December 31, 1998	**596,303**

17. LEASING ARRANGEMENTS

The Company leases offices, warehouses and equipment under leases expiring from one to eight years. Rent expense aggregated DM 125 million (including the Salomon group), DM 102 million (adidas comparable) and DM 80 million for the years ended December 31, 1998 and 1997, respectively. Amounts of future minimum lease payments under significant non-cancelable operating leases for the succeeding five years 1999 through 2003 are approximately DM 92 million, DM 64 million, DM 44 million, DM 25 million and DM 17 million, respectively. Amounts of future minimum lease payments after 2003 are approximately DM 36 million.

Additionally, the Company conducts a portion of its operations from leased facilities in France which are classified as a capital lease.

Salomon S.A. maintains several premises for administration, warehousing, research and development as well as production in leased facilities in France. The value of these capital leases with a duration between 15 and 18 years, through 2008, net of accumulated depreciation of approximately DM 31 million, is included in land and buildings. The future lease payments of DM 2 million and DM 20 million are presented under other current and non-current liabilities, respectively.

adidas Sarragan France S.A. leased a building for administration for fifteen years expiring in 2004. The value of this capital lease, net of accumulated depreciation of approximately DM 4 million at December 31, 1998 and 1997, respectively, is included in land and buildings. The future lease payments under this capital lease, which are payable through the year 2004, amounted to approximately DM 2 million at December 31, 1998.

18. FINANCIAL INSTRUMENTS

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

MANAGEMENT OF FOREIGN EXCHANGE RISK:

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. Compared to prior years, the currency exposure of the Company is more balanced, due to the increased share of the Company's business in the U.S. and the high share of European sourcing and production in the Salomon group.

It is the Company's policy to hedge identified currency risks due to future operations when it becomes exposed. Typically, this is at the time at which the Company commits itself with regard to selling prices for a future season.

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

To limit the premium payments for currency options, the Company, in its hedging via options, purchased USD call options in combination with a knock-out feature and the sale of USD put options, both with lower strike rates. In the case of a sharp decline of the USD, which is beneficial for the Company, due to its reliance on product purchases which are invoiced in USD, the call option disappears on a decline of the USD below the strike rate of the knock-out, but the Company would still have the obligation to buy the USD at the low strike rate of the sold USD put option. To re-establish the hedge at the new lower strike rate, the USD call options would be replaced with a lower strike rate, whereas the put options would be repurchased or reset to lower strike rates. Due to the sharp decline of the USD, primarily in the third and fourth quarter of 1998, USD call options were knocked out and USD put options were reset or repurchased in the course of 1998.

Since 1998, the Company charges premiums regarding discontinued currency options to financial expenses. Until 1997, they had been charged to cost of goods sold. The amount of such charges was DM 61.7 million in 1998 and DM 25.4 million in 1997. The offsetting benefit is the renewal of the knocked-out hedges at the new, more favorable strike rates, which, however, will only be realized at maturity of the option.

In the course of the fourth quarter of 1998, the Company discontinued the purchase of USD call options in combination with knock-outs and the sale of put options. All outstanding puts were repurchased, whereas most of the knock-outs were eliminated. The effect of such activities was a gain of DM 3.7 million. Since the fourth quarter new hedges with options have been arranged without knock-outs and without combination with a sale of USD put options.

In 1998, the Company incurred currency option premiums in a total amount of DM 89.2 million. The total amount of option premiums, which was charged to income in 1998, was DM 89.7 million. Thereof DM 52.8 million refer to options with original expiry dates in 1999. Option premiums in an amount of DM 25.3 million and DM 19.7 million were deferred at December 31, 1998 and 1997, respectively.

Virtually the whole amount of DM 1.28 billion of the currency hedges outstanding on December 31, 1998, was for the purchase of USD. Of these, DM 1.04 billion were hedges with currency options. The total amount of USD purchases against other currencies was 1.3 billion in 1998.

(in DM million)	**December 31, 1998**	**December 31, 1997**
Notional amount		
Forward contracts	238	295
Currency options	1,041	1,416
	1,279	**1,711**
Fair value		
Forward contracts	(10.2)	9.7
Currency options	25.8	64.3
	15.6	**74.0**
Book value		
Forward contracts	(1.9)	0
Currency options	25.3	19.7
	23.4	**19.7**

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 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 currency composition of its world-wide borrowings. These contracts protect the Company's borrowings in a notional amount of DM 2.0 billion against a rise of the weighted average interest rate above 5.5%. Out of this amount, the protection ends for DM 1.4 billion at a weighted average rate of 8.4%.

As of December 31, 1998, the remaining life of these caps ranges from 1.5 to 5.5 years, with a weighted average of 3.2 years.

(in DM million)	**December 31, 1998**	**December 31, 1997**
Interest-rate caps		
Notional amount	2,000	1,700
Fair value	1.6	9.8
Book value	14.4	9.8

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 date. 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.

19. COST OF MATERIALS

The total costs of materials are DM 5,637 million (adidas-Salomon group), DM 4,877 million (adidas comparable) and DM 3,874 million for the years ending December 31, 1998 and 1997, respectively.

20. PERSONNEL EXPENSES

The breakdown of personnel expenses is as follows:

(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
	Year ended December 31,		
Wages and salaries	865,614	623,000	547,857
Social security contributions	111,858	77,505	70,389
Pension expense	26,232	25,153	28,210
	1,003,704	**725,658**	**646,456**

21. FINANCIAL RESULT

Financial result consists of the following:

(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
	Year ended December 31,		
Interest income	12,321	17,012	14,215
Interest expense	(177,307)	(78,410)	(47,663)
Interest expense, net	**(164,986)**	**(61,398)**	**(33,448)**
Income from investments	45	29	109
Write-down of investments	(11,546)	(11,546)	0
Option premiums regarding discontinued currency options	(61,741)	(61,741)	0
Other – net, primarily net exchange gains	13,950	16,577	2,319
	(224,278)	**(118,079)**	**(31,020)**

Since 1998, the Company charges premiums regarding discontinued currency options to financial expenses. In 1997, such amounts had been charged to cost of goods sold. The amount of such charges in 1997 was DM 25.4 million.

22. 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 federal corporation tax. The corporate tax rate for undistributed earnings is 45% plus a surcharge of 5.5% (7.5% in 1997) thereon. Upon distribution of domestic earnings, 15 percentage points of corporation tax and the attributable surcharge thereon are refunded. Shareholders who are subject to German income tax are entitled to an additional refund of the remaining 30 percentage points of corporate income tax and the attributable surcharge paid by the Company.

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.

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

	December 31,		
(in DM 000)	**1998 adidas-Salomon**	**1998 adidas (comparable)**	**1997 adidas (restated)**
Deferred tax assets			
Non-current assets	26,102	22,445	18,223
Current assets	131,210	99,370	51,583
Accrued liabilities and provisions	154,755	54,982	40,521
Accumulated tax losses carryforwards	132,011	104,350	124,350
	444,078	**281,147**	**234,677**
Valuation allowances	**(168,812)**	**(136,947)**	**(150,128)**
Deferred tax liabilities			
Non-current assets	45,419	3,460	5,832
Current assets	12,649	9,913	10,074
Untaxed reserves	1,529	1,033	6,159
Accrued liabilities and provisions	1,030	901	18,075
	60,627	**15,307**	**40,140**
Deferred tax assets, net	**214,639**	**128,893**	**44,409**

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)	**1998 adidas-Salomon**	**1998 adidas (comparable)**	**1997 adidas (restated)**
Deferred tax assets	219,793	132,769	54,750
Deferred tax liabilities	5,154	3,876	10,341
Deferred tax assets, net	**214,639**	**128,893**	**44,409**

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.

The valuation allowances relate primarily to deferred tax assets of adidas America which has tax loss carryforwards which can be utilized in limited annual amounts within 9 years. Other valuation allowances refer to companies operating in the start-up phase or in certain emerging markets, since the realization of the related tax benefits is not probable.

Tax expense is split as follows:

	Year ended December 31,		
(in DM 000)	1998 adidas-Salomon	1998 adidas (comparable)	1997 adidas (restated)
Current tax expense	280,188	296,239	180,798
Deferred tax expense/(income)	(74,615)	(87,896)	5,060
	205,573	**208,343**	**185,858**

Deferred tax income 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 statutory German corporate tax rate is as follows:

	Year ended December 31,					
	1998 adidas-Salomon		1998 adidas (comparable)		1997 adidas (restated)	
(in DM 000)		**%**		**%**		**%**
Expected income tax expense	280,748	45.0	335,076	45.0	304,709	45.0
Tax rate differential	(111,408)	(17.9)	(127,318)	(17.1)	(110,932)	(16.3)
Non-deductible goodwill amortization	33,391	5.4	9,590	1.3	9,094	1.3
Other non-deductible expenses	26,869	4.3	22,920	3.1	17,618	2.6
Release of tax provisions	(35,686)	(5.7)	(35,686)	(4.8)	0	0.0
Losses for which benefits were not recognizable and change in valuation allowance	3,250	0.5	(5,828)	(0.8)	(40,919)	(6.0)
Other, net	2,393	0.4	965	0.1	1,471	0.2
Subtotal	**199,557**	**32.0**	**199,719**	**26.8**	**181,041**	**26.8**
Withholding tax expense	6,016	1.0	8,624	1.2	4,817	0.7
Income tax expense	**205,573**	**33.0**	**208,343**	**28.0**	**185,858**	**27.5**

Effects arising from German trade tax and the split tax rate for corporation tax are included in the tax rate differential. In 1998 the tax rate differential has been positively influenced by a change in the Italian tax system (DM 9 million) and tax holidays in Switzerland due to a change in the assessment procedure (DM 2 million).

The release of tax provisions is due to finalized foreign tax assessments for previous years.

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 stock in the subsidiaries. The Company estimates that the distribution of these earnings would result in DM 20 million and DM 18 million of additional withholding taxes as of December 31, 1998 and 1997, respectively.

23. 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 on the basis of a regional reporting structure and by brand. Certain functions of the Company are centralized and an allocation to specific segments is not considered to be meaningful.

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

SEGMENTAL INFORMATION FOR THE adidas-Salomon GROUP BY BRANDS

(in DM million)	adidas	Salomon	Taylor Made	Mavic	HQ/Consolidation	Total group
	1998	1998	1998	1998	1998	1998
Net sales (third parties)	8,441	850	514	102	0	9,907
Net margin	3,556	332	230	36	0	4,154
in % of net sales	*42.1*	*39.0*	*44.7*	*35.2*	–	*41.9*
Operating result	806	(3)	30	1	0	834
Total assets	3,454	1,136	166	48	1,466	6,270

SEGMENTAL INFORMATION FOR THE adidas-Salomon GROUP BY REGIONS

(in DM million)	Europe	America	Asia/ Pacific	Latin America	HQ/Consolidation	Total group
	1998	1998	1998	1998	1998	1998
Total net sales	5,711	3,555	750	219	4,062	14,297
Inter-segment sales	(285)	(65)	0	0	(4,039)	(4,389)
Net sales (third parties)	5,426	3,489	750	219	23	9,907
Net margin	2,204	1,395	305	85	165	4,154
in % of net sales	*40.6*	*40.0*	*40.7*	*39.0*	–	*41.9*
Operating result	699	539	50	22	(476)	834
Total assets	2,647	1,284	407	144	1,788	6,270

SEGMENTAL INFORMATION FOR THE adidas GROUP BY REGIONS

(in DM million)	**Europe**		**America**		**Asia/Pacific**	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**
Total net sales	4,814	4,113	2,850	1,700	539	702
Inter-segment sales	(2)	(1)	(2)	(1)	0	(1)
Net sales (third parties)	4,812	4,112	2,848	1,699	539	701
Net margin	1,991	1,743	1,097	651	218	287
in % of net sales	*41.3*	*42.4*	*38.5*	*38.3*	*40.4*	*40.9*
Operating result	783	740	460	241	17	135
Total assets	1,788	1,752	947	837	275	235

(in DM million)	**Latin America**		**HQ/Consolidation**		**adidas**	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**
Total net sales	219	169	4,062	3,222	12,484	9,906
Inter-segment sales	0	0	(4,039)	(3,205)	(4,043)	(3,208)
Net sales (third parties)	219	169	23	17	8,441	6,698
Net margin	85	56	165	73	3,556	2,810
in % of net sales	*39.0*	*33.3*	–	–	*42.1*	*41.9*
Operating result	22	6	(476)	(521)	806	601
Total assets	144	105	1,633	1,420	4,787	4,349

Net sales (third parties) are shown in the geographic market in which the revenues are realized. Inter-segment sales resulting in the adidas group from the centralized sourcing function are shown in the column Headquarter/Consolidation.

The difference between operating result and income from operations in the income statements totaling DM 82 million (adidas-Salomon group), DM 69 million (adidas comparable) and DM 0 million in 1998 and 1997, respectively, is due to certain non-operational items, such as amortization of goodwill, gains and losses on fixed assets and exceptional income and expenses. Transactions between segments, as well as legal entities, are agreed upon the dealing-at-arms'-length principle. Certain charges between legal entities are not reflected in the above reporting format.

Segment assets are assets employed to generate the operating result of a segment. Non-operating and corporate assets are included in the column Headquarter/Consolidation.

24. CASH FLOW STATEMENT

The Company acquired all remaining shares outstanding of Salomon S.A. in 1998. The first step of the acquisition of Salomon affected cash flows in 1997 (see note 3).

Further, the Company acquired a 90% interest in GEV Grundstücksgesellschaft mbh & Co. KG.

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 long-term 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. This accounting treatment had no effect on cash flow.

The change of short and long-term borrowings is presented net, since the Company uses credit lines in the form of overdrafts (see note 11). 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.

In addition to short-term cash, adidas Korea has cash accounts with maturities of 3–12 months in the amount of DM 1 million (1997: DM 11 million), which are included in other current assets, and cash accounts with maturities exceeding 12 months in the amount of DM 3 million (1997: DM 7 million), which are included in other long-term assets.

25. COMMITMENTS AND CONTINGENCIES

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

The Company has other financial commitments for promotion and advertising contracts, together with fixed-asset investment commitments for the succeeding five years 1999 through 2003 of approximately DM 379 million, DM 324 million, DM 277 million, DM 220 million and DM 145 million, respectively. Amounts of future payments after 2003 are approximately DM 225 million. These commitments have remaining terms of up to 10 years from December 31, 1998.

The Company is currently engaged in various lawsuits resulting from the normal course of business. 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. While the effect on future results of these items is not subject to reasonable estimation because considerable uncertainty exists, in the opinion of management, the ultimate liabilities resulting from such claims, if any, will not materially affect the consolidated financial position, results of operations or cash flows of the Company.

26. RELATED PARTIES

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

27. SPECIAL REWARD AND INCENTIVE PLAN (SRIP) AND OTHER STOCK OPTION PLANS

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 were exercisable immediately after the implementation of the plan. The other options are exercisable in tranches through December 31, 1999. 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, 1998 of DM 23,742,000 is shown as extraordinary income; the respective expenses of the same amount are included in the selling, general and administrative expenses.

At Salomon S.A., France, a tranche of the existing stock option plan was exercised in December 1998 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.

28. OTHER INFORMATION

EMPLOYEES:

The average numbers of employees are as follows:

	December 31,		
	1998 adidas-Salomon	**1998 adidas (comparable)**	**1997 adidas (restated)**
Central functions	495	293	266
Global marketing/Research and development	789	331	299
Sales companies	7,568	6,780	6,004
Sourcing/Production	2,809	1,402	1,073
	11,661	**8,806**	**7,642**

REMUNERATION OF THE SUPERVISORY BOARD AND BOARD OF DIRECTORS:

For the period ended December 31, 1998 the remuneration of the Supervisory Board amounted to DM 403,000.

For the period ended December 31, 1998 remuneration of active members of the Board of Directors amounted to DM 20.707 million (including DM 6.633 million being the difference between realized share price and exercise price for options exercised by board members under the special reward and incentive plan – see note 27) for the group.

For the period ended December 31, 1998 remuneration for former members of the Board of Directors amounted to DM 11.994 million including group companies.

Pension commitments for previous members of the Board of Directors totaled DM 3.247 million in the consolidated balance sheet of the Company. Pension payments amounted to DM 129,000 with respect to adidas-Salomon AG.

Herzogenaurach, February 8, 1999

The Board of Directors of adidas-Salomon AG

AUDITORS' REPORT

To the Board of Directors 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 of December 31, 1998 and 1997, and the related consolidated statements of income and cash flows for each of the years ended December 31, 1998 and 1997. 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 of December 31, 1998 and 1997, and the related consolidated results of its operations and its cash flows for each of the years ended December 31, 1998 and 1997 in accordance with International Accounting Standards.

Frankfurt am Main, February 8, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dieter Kuhn	Dr. Bert Böttcher
Wirtschaftsprüfer	Wirtschaftsprüfer

SHAREHOLDINGS OF adidas-Salomon AG, HERZOGENAURACH

As at December 31, 1998 Company and domicile	Currency	Equity 000 currency units	Share in capital held by	Share in capital in %
Germany				
1 GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG Herzogenaurach (Germany)	DEM	1,442	directly	90
2 GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH Herzogenaurach (Germany)	DEM	49	directly	100
3 erima Sportbekleidungs GmbH Reutlingen (Germany)	DEM	16,466	directly	100
4 adidas Versicherungs-Vermittlungs GmbH Herzogenaurach (Germany)	DEM	50	directly	100
5 Salomon GmbH Munich (Germany)	DEM	(5,372)	directly	100
Europe (incl. Africa and Middle East)				
6 adidas (UK) Ltd. [1)] Stockport (Great Britain)	GBP	45,619	directly	100
7 adidas (ILKLEY) Ltd. [1) 12)] Stockport (Great Britain)	GBP		6	100
8 Larasport (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		6	100
9 Sarragan (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		6	100
10 Trefoil Trading (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		9	100
11 Three Stripes (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		6	100
12 adidas Sarragan France S.a.r.l. Landersheim (France)	FRF	214,728	48	100
13 adidas Espana S.A. Zaragoza (Spain)	ESP	3,976,649	directly	100
14 adidas Italia S.r.l. Monza (Italy)	ITL	75,685,000	directly	50
15 adidas Norge A/S Gjovik (Norway)	NOK	115,639	directly	100
16 adidas Sport GmbH Lindau (Switzerland)	CHF	13,741	directly	100
17 adidas Sverige AB Hägersten (Sweden)	SEK	55,762	directly	100
18 adidas Austria GmbH Klagenfurt (Austria)	ATS	111,632	directly 16	95.89 4.11

As at December 31, 1998 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	in %
19	adidas Benelux B.V. Etten-leur (Netherlands)	NLG	13,417	directly	100
20	adidas Belgium N.V. Zellik (Belgium)	BEF	96,241	19	100
21	BIG L.A. N.V.[11] Houthalen (Belgium)	BEF	7,383	20	50
22	adidas International B.V. Amsterdam (Netherlands)	USD	205,462	directly 12	96.2 3.8
23	adidas International Trading B.V. Amsterdam (Netherlands)	NLG	1,148,798	directly	100
24	adidas CR spol. s.r.o. Prague (Czech Republic)	CZK	265,222	directly	100
25	adidas Egypt Ltd. Cairo (Egypt)	USD	151	directly	100
26	adidas Hellas A.E. Thessaloniki (Greece)	GRD	2,626,094	directly	50
27	adidas Gulf L.L.C. Dubai (United Arab Emirates)	USD	2,098	12 indirectly	49 51
28	adidas Budapest Kft.[2] Budapest (Hungary)	HUF	1,667,551	directly	85
29	Predator Kft.[2] Budapest (Hungary)	HUF		28	100
30	A.T.P. Kft.[2] Budapest (Hungary)	HUF		28	100
31	Questra Kft.[2] Budapest (Hungary)	HUF		28	100
32	adidas (Ireland) Ltd.[3] Dublin (Ireland)	IEP	4,012	directly	100
33	Fortstewart Ltd.[3] [12] Dublin (Ireland)	IEP		32	100
34	Three Stripes Export Ltd.[3] [12] Dublin (Ireland)	IEP		32	100
35	adidas Israel Ltd. Tel Aviv (Israel)	USD	1,195	directly	100
36	adidas Lebanon SAL[10] [12] Beirut (Lebanon)	USD	(158)	12 indirectly	49 51
37	adidas Middle East SAL Beirut (Lebanon)	USD	3,097	12	100

As at December 31, 1998 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	in %
38	adidas Ltd. (former adidas Moscow Ltd.) Moscow (Russia)	RUB	(578,070)	18	100
39	adidas Poland Sp. z. o. o. Warsaw (Poland)	PLN	48,568	directly	100
40	adidas Portugal Lda. Lisbon (Portugal)	PTE	710,705	directly	51
41	adidas Slovakia s.r.o. Bratislava (Slovak Republic)	SKK	(23,799)	directly	100
42	adidas (South Africa) (Pty) Ltd. Cape Town (South Africa)	ZAR	29,358	directly	100
43	adidas Spor Malzemeleri Satis ve Pazarlama A.S. Istanbul (Turkey)	DEM	798	22	51
44	SC adidas Ukraine Kiev (Ukraine)	UAK	(3,259)	directly	100
45	erima France S.a.r.l. Schiltigheim (France)	FRF	(467)	3	100
46	Le Coq Sportif International S.A.[10) 12)] Schiltigheim (France)	FRF	(1,813)	directly	100
47	Sarragan S.A. Fribourg (Switzerland)	CHF	1,003	directly	100
48	adidas Salomon France S.A. Metz-Tessy (France)	FRF	3,579,266	directly 22	85.5 14.5
49	Salomon S.A. Annecy (France)	FRF	1,570,515	48	100
50	Salomon Österreich GmbH Salzburg (Austria)	ATS	28,917	49	100
51	Salomon Schweiz A.G. Stans (Switzerland)	CHF	13,831	49	100
52	Salomon Italia S.p.A. Bergamo (Italy)	ITL	7,573,227	49 53	99.9 0.1
53	Salomon San Giorgio S.p.A. Treviso (Italy)	ITL	14,333,739	49 52	68.8 31.2
54	Salomon Romania Srl[10)] Timisoara (Romania) (March 31, 1998)	ROL	24,990,621	49	100
55	Salomon Sport AB Svenljunga (Sweden)	SEK	29,894	49	100
56	Salomon Norge A/S Oslo (Norway)	NOK	(6,359)	49	100
57	Salomon Sport Finland Oy Helsinki (Finland)	FIM	19,874	49	100
58	Salomon Taylor Made Ltd.[9)] Basingstoke (Great Britain)	GBP	(1,948)	59	100

As at December 31, 1998 Company and domicile	Currency	Equity 000 currency units	Share in capital held by	in %
59 Taylor Made Ltd.[9) 12)] Basingstoke (Great Britain)	GBP		49	100
60 Mavic S.A. Saint-Trivier-Sur-Moignans (France)	FRF	53,247	49	100
61 Catidom S.A.S. Annecy (France)	FRF	10,320	60	100
North America				
62 adidas Salomon North America Inc.[4)] (former adidas North America Inc.) Portland, Oregon (USA)	USD	202,773	directly	100
63 adidas Salomon USA, Inc. (former Taylor Made Golf Company, Inc.)			62	89.25
Carlsbad, California (USA)	USD	517,873	49	10.75
64 adidas America Inc.[4)] Spartanburg, South Carolina (USA)	USD		63	100
65 adidas Distribution Center Inc.[4)] Lansing, Michigan (USA)	USD		63	100
66 Sports Inc.[4) 12)] Portland, Oregon (USA)	USD		62	100
67 adidas Retail Outlets Inc.[4)] Portland, Oregon (USA)	USD		63	100
68 adidas Sales Inc.[4)] Portland, Oregon (USA)	USD		63	100
69 adidas (Canada) Ltd. Toronto (Canada)	CAD	13,221	62	100
70 Taylor Made Golf USA Carlsbad, California (USA)	USD	40,326	63	100
71 Salomon North America, Inc. Georgetown, Massachusetts (USA)	USD	4,518	63	100
72 Salomon Design Center Inc.[10)] Boulder, Colorado (USA)	USD	0	63	100
73 Bonfire Snowboarding, Inc. Portland, Oregon (USA)	USD	3,597	63	100
74 Salomon Canada Sports Ltd. Montreal (Canada)	CAD	3,500	49	100
75 LXZA Inc.[5) 10) 12)] (former LCS America Inc.) Spartanburg, South Carolina (USA)	USD	575	directly	100
76 LXZDO Inc.[5) 10) 12)] (former LCS Design Outlets Inc.) Spartanburg, South Carolina (USA)	USD		75	100
77 Sarragan Holding Inc.[5) 10) 12)] Princeton, New Jersey (USA)	USD		directly	100

As at December 31, 1998 Company and domicile	Currency	Equity 000 currency units	Share in capital held by	in %
Asia/Pacific				
78 adidas Australia Pty. Ltd. Mulgrave (Australia)	AUD	36,801	directly	100
79 adidas Korea Ltd. Seoul (South Korea)	KRW	21,127	directly	51
80 adidas Asia/Pacific Ltd. Hong Kong (China)	USD	109,913	23	100
81 adidas (Suzhou) Co. Ltd. Suzhou (China)	CNY	33,334	directly	100
82 adidas China Holding Co. Ltd.[10) 12)] Hong Kong (China) (December 31, 1997)	HKD	(510)	directly	50
83 Guangzhou adi Sporting Goods Ltd. Guangzhou (China)	CNY	(1,765)	directly indirectly	90 10
84 Guangzhou Adi Trade & Development Co. Ltd. Guangzhou (China)	CNY	(34,637)	indirectly 83	50 50
85 adidas Hong Kong Ltd. Hong Kong (China)	HKD	24,557	directly	100
86 adidas India Private Ltd.[6)] New Delhi (India)	INR	(77,522)	directly 22	99 1
87 adidas India Trading Private Ltd.[6)] New Delhi (India)	INR		86	80
88 P.T. Trigaris Sportindo (adidas Indonesia) Jakarta (Indonesia)	IDR	(9,880,109)	indirectly	90
89 adidas Japan K.K. Tokyo (Japan)	JPY	(1,157,145)	directly	100
90 adidas Malaysia Sdn. Bdn. Kuala Lumpur (Malaysia)	MYR	5,072	directly	60
91 adidas New Zealand Pty. Ltd. Auckland (New Zealand)	NZD	2,007	directly	100
92 adidas Philippines Inc. Manila (Philippines)	PHP	119,125	directly	100
93 adidas Singapore Pte. Ltd. (Singapore)	SGD	815	directly	100
94 adidas Taiwan Ltd. Taipei (Taiwan)	TWD	56,320	directly	100
95 adidas Holding (Thailand) Co. Ltd. Bangkok (Thailand)	THB	1,000	directly indirectly	49 51
96 adidas (Thailand) Co. Ltd. Bangkok (Thailand)	THB	100,685	indirectly	100
97 Salomon & Taylor Made Co., Ltd. Tokyo (Japan)	JPY	7,303,296	49	79.74

As at December 31, 1998 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	in %
Latin America					
98	adidas Argentina S.A. Buenos Aires (Argentina)	ARS	4,585	directly	100
99	adidas do Brasil Ltda. São Paulo (Brazil)	BRL	(696)	directly	100
100	adidas Chile Ltda. Santiago de Chile (Chile)	CLP	523,318	directly 4	99 1
101	adidas de Mexico S.A. de C.V.[7)] Mexico City (Mexico)	MXN	37,287	directly	100
102	adidas Industrial S.A. de C.V.[7)] Mexico City (Mexico)	MXN		directly	100
103	adidas Latin America S.A. Panama City (Panama)	USD	7,609	directly	100
104	3 Stripes S.A. (adidas Uruguay) Montevideo (Uruguay)	UYU	3,612	directly	100
105	adidas Corporation de Venezuela, S.A.[8)] Caracas (Venezuela)	VEB	216,916	directly	100
106	adidas Margarita S.A.[8)] Porlamar, Marg. (Venezuela)	VEB		105	100
107	adidas Colombia Ltda. Cali (Colombia)	COP	283,131	directly	100

1) Sub-group UK
2) Sub-group Hungary (merged with effect December 31, 1998)
3) Sub-group Ireland
4) Sub-group USA
5) Sub-group LCS/Sarragan America
6) Sub-group India
7) Sub-group Mexico
8) Sub-group Venezuela
9) Sub-group Salomon UK
10) Eight companies have not been included in the consolidated financial statements of adidas-Salomon AG due to their insignificance
11) Associated company; due to its insignificance no equity valuation was made
12) Companies with no active business

adidas-Salomon AG AND SUBSIDIARIES
STATEMENT OF MOVEMENTS
OF PROPERTY AND EQUIPMENT

(in DM 000)

	Goodwill	Software, patents, trademarks and concessions	Advance payments	Total intangible assets
Acquisition cost				
December 31, 1996	**219,995**	**33,860**	**20**	**253,875**
Currency effect	2,935	33	(7)	2,961
Additions	55,060	5,648	864	61,572
Changes in companies consolidated	–	–	–	–
Transfers	–	347	11	358
Disposals	–	(751)	(13)	(764)
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**
Accumulated depreciation/amortization				
December 31, 1996	**34,664**	**25,042**	**–**	**59,706**
Currency effect	2,457	(37)	–	2,420
Additions	16,943	4,417	–	21,360
Changes in companies consolidated	–	–	–	–
Transfers	–	278	–	278
Disposals	–	(572)	–	(572)
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**
Net carrying amount				
December 31, 1996	185,331	8,818	20	194,169
December 31, 1997	223,926	10,009	875	234,810
December 31, 1998	1,315,100	102,274	4,481	1,421,855

Land, land rights and buildings	Technical equipment and machinery	Other equipment, furniture and fittings	Advance payments/ Construction in progress	Total tangible assets	Shares in group companies	Partici-pations	Other financial assets	Total financial assets
228,574	**58,672**	**223,050**	**7,620**	**517,916**	**390**	**337**	**1,937**	**2,664**
2,670	3,223	6,532	710	13,135	4	(3)	109	110
10,941	3,769	68,607	7,451	90,768	942,930	–	114	943,044
–	–	–	–	–	–	–	–	–
(16)	3,280	3,231	(6,853)	(358)	–	–	–	–
(857)	(1,346)	(15,845)	(1,168)	(19,216)	(74)	(211)	(1,701)	(1,986)
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**
93,567	**38,563**	**144,695**	**–**	**276,825**	**66**	**–**	**18**	**84**
222	1,067	3,058	–	4,347	4	–	–	4
7,397	6,322	44,309	2,120	60,148	–	–	–	–
–	–	–	–	–	–	–	–	–
(25)	1,287	(1,540)	–	(278)	–	–	–	–
(793)	(1,268)	(11,321)	–	(13,382)	(70)	–	(5)	(75)
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**
135,007	20,109	78,355	7,620	241,091	324	337	1,919	2,580
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

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 four joint meetings with the Executive Board and in 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 for the first time 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 audit 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 ended December 31, 1998 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 and the meeting in August 1998 at which the financial statements for the first half year were presented.

CHRONOLOGY OF DISCUSSIONS AND RESOLUTIONS

On January 19, 1998, by way of a circular resolution pursuant to § 15 para. 6 of the Articles of Association, the Supervisory Board appointed Jean-François Gautier to the Executive Board of adidas-Salomon AG with immediate effect.

At the meeting of the Supervisory Board on March 4, 1998, Manfred Ihle was appointed a member of the Executive Board effective July 1, 1998. At the same meeting the Supervisory Board discussed the business situation of the Company in the past and current financial year, expressing its approval of the main objectives being pursued by the Executive Board, namely integration of the Salomon group and further improvement of the Company's market position in North America. Additionally, the Supervisory Board gained insight into the individual product groups and activities of Salomon, Taylor Made and Mavic.

At the Supervisory Board meeting on May 6, the Supervisory Board discussed and approved the results for the first quarter of 1998. Furthermore, the Supervisory Board members reviewed the current status of the World of Sports project, expressing their approval of the Executive Board's plans with respect to expansion of the Company's global headquarters in Herzogenaurach.

At the same meeting the Supervisory Board expressed its support for the Executive Board's efforts to achieve progress with respect to the Company's Standards of Engagement governing observance of minimum working conditions.

Peter C. Moore retired from the Executive Board on May 15, 1998. The Supervisory Board would like to thank Peter C. Moore for his personal commitment and contribution.

At its meeting on August 4, 1998, the Supervisory Board accepted the resignation of Jean-François Gautier as a member of the Executive Board and thanked him for the energy and commitment he had displayed in leading the Salomon group. Jean-François Gautier had tendered his resignation on August 3, 1998, and resigned his seat on the Board on the same day.

At the same meeting on August 4, the Supervisory Board discussed and approved the financial statements for the first half year of 1998. The Supervisory Board also reviewed the progress being made in the integration of the Salomon group and the status of the projects relating to replacement of licensee agreements in Japan and Turkey with a wholly-owned subsidiary and a joint venture, respectively.

On November 2, the Supervisory Board convened for its fourth meeting in 1998. The Supervisory Board members discussed in detail the Company's business situation at the end of the third quarter of 1998, reviewing the group's hedging policy and the Salomon integration project. Furthermore, at this meeting the Supervisory Board discussed the outlook for the adidas-Salomon group, especially in Asia, paying particular attention to the targets and budget of the newly founded subsidiary adidas Japan K.K.

EXPRESSION OF GRATITUDE

Georg Beer, long-serving member of the Supervisory Board and Chairman of the Central Works Council of adidas-Salomon AG, retired on November 30, 1998. The Supervisory Board would like to thank Georg Beer for his personal commitment and contribution to adidas-Salomon AG.

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 8, 1999

The Supervisory Board
Henri Filho
(Chairman)

adidas-Salomon AG AND SUBSIDIARIES
SELECTED FINANCIAL DATA

(INTERNATIONAL ACCOUNTING STANDARDS)

(DM million)	1998[1]	1997[2]	1996[2]	1995	1994
Net sales	**9,907**	6,698	4,709	3,500	3,196
Gross profit	**4,154**	2,810	1,877	1,389	1,141
Net margin (%)	**41.9**	41.9	39.8	39.7	35.7
Income from operations	**737**	601	360	243	90
Income from operations (% of net sales)	**7.4**	9.0	7.6	6.9	2.8
Royalty and commission income	**87**	85	97	100	97
Financial result	**(224)**	(31)	(13)	(47)	(36)
Income before taxes and minority interests					
(in 1998 before special effect)	**624**	677	444	296	151
Net income (in 1998 before special effect)	**401**	463	314	245	117
Net income (in 1998 before special effect) in % of net sales	**4.0**	6.9	6.7	7.0	3.7
Net income (in 1998 before special effect) per ordinary share					
in DM	**8.84**	10.21	6.93	5.40	2.59
in Euro	**4.52**	–	–	–	–
Net income/(loss)	**(322)**	463	314	245	117
Net income/(loss) per ordinary share					
in DM	**(7.09)**	10.21	6.93	5.40	2.59
in Euro	**(3.63)**	–	–	–	–
Inventories	**1,906**	1,606	1,088	843	687
Receivables and other current assets	**2,007**	1,158	818	563	475
Total current assets	**4,015**	2,827	1,990	1,447	1,200
Total assets	**6,270**	4,349	2,520	1,777	1,442
Working capital	**(640)**	21	555	343	353
Total borrowings, net	**3,236**	1,443	340	407	300
Total liabilities	**5,289**	2,903	1,515	1,180	1,000
Shareholders' equity	**906**	1,401	956	577	423
Net sales footwear	**3,875**	2,871	2,171	1,790	1,749
Net sales apparel	**4,270**	3,586	2,314	1,528	1,256
Net sales hardware	**1,743**	238	181	131	132
Net sales Europe	**5,442**	4,127	3,159	2,393	2,153
Net sales North America	**3,497**	1,699	1,026	767	768
Net sales Asia/Pacific	**750**	703	416	249	190
Net sales Latin America	**218**	169	108	91	85
Total net sales of the brands					
– adidas-Salomon	**9,907**	6,698	4,709	3,500	3,196
– Licensees	**1,325**	1,293	1,374	1,450	1,466
Number of employees (year-end)	**12,036**	7,993	6,986	5,730	5,087

[1] Consolidated Financial Statements for 1998 include the Salomon group for the first time

[2] 1997 and 1996 comparatives are restated due to the application of IAS 12 (revised 1996) 'Income Taxes'

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