Annual Report 1997

adidas®

adidas-Salomon AG and Subsidiaries
Selected Financial Data

(International Accounting Standards)

(DM million)	1997*	1996	1995	1994	1993
Net sales	**6,698**	4,709	3,500	3,196	2,544
Gross profit	**2,810**	1,877	1,389	1,141	827
Gross margin (%)	**41.9**	39.8	39.7	35.7	32.5
Income (loss) from operations	**601**	360	243	90	(27)
Income (loss) from operations (% of net sales)	**9.0**	7.6	6.9	2.8	(1.1)
Royalty and commission income	**85**	97	100	97	85
Financial result	**(31)**	(13)	(47)	(36)	(33)
Income before taxes and minority interests	**677**	444	296	151	25
Net income	**465**	314	245	117	14
Net income (% of net sales)	**6.9**	6.7	7.0	3.7	0.6
Net income per ordinary share (DM)	**10.25**	6.93	5.40	2.59	0.31
Inventories	**1,606**	1,088	843	687	605
Receivables and other current assets	**1,158**	818	563	475	424
Total current assets	**2,827**	1,990	1,447	1,200	1,071
Total assets	**4,294**	2,456	1,777	1,442	1,293
Working capital	**21**	555	343	353	285
Total borrowings, net	**1,443**	340	407	300	349
Total liabilities	**2,901**	1,506	1,180	1,000	955
Shareholders' equity	**1,352**	904	577	423	324
Net sales footwear	**2,871**	2,171	1,790	1,749	1,360
Net sales apparel	**3,586**	2,314	1,528	1,256	1,007
Net sales hardware	**238**	181	131	132	117
Net sales Europe	**4,127**	3,159	2,393	2,153	1,898
Net sales North America	**1,699**	1,026	767	768	490
Net sales Asia/Pacific	**703**	416	249	190	91
Net sales Latin America	**169**	108	91	85	65
Total net sales of the brand					
– adidas	**6,698**	4,709	3,500	3,196	2,544
– Licensees	**1,293**	1,374	1,450	1,466	1,367
Number of employees (year-end)	**7,993**	6,986	5,730	5,087	5,096

* Consolidated Financial Statements for 1997 do not include Salomon S.A. and its subsidiaries.

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President's Letter

DEAR SHAREHOLDER,

In 1997, we made good progress in pursuing our goal to become the best sporting goods company in the world. Although we will never equate quantity with quality, we are pleased that we are now the second-largest global company in our industry – which itself shows all signs of continued worldwide development. This significant milestone was reached in another successful year in which adidas achieved extraordinary growth in both sales and profit.

In 1997, the adidas management decided to make a major external acquisition to complement our strong organic growth. In December, with your approval and support, we acquired Salomon, one of the world's leaders in sporting goods sectors in which we previously had no significant presence. Through this acquisition, we thus broadened the spectrum of our product range through the addition of three leading sports brands – Salomon for winter sports equipment, Taylor Made for golf equipment and Mavic for cycle components.

The 'fit' of Salomon and adidas is truly excellent. Both draw on a unique heritage of providing athletes with high-quality products for top performance based on innovation and new technology. Our product lines have practically no overlaps, and our two companies will profit from each other's respective expertise. As a combined group, adidas and Salomon are well balanced in terms of major product groups (footwear, apparel and equipment), as well as with respect to the seasonal aspects of our business and regional focus on the major sporting goods markets.

Our industry will continue to experience a process of consolidation. In the long term, only the largest, integrated companies with a solid financial base will have sufficient strength, market penetration, and opportunities for diversifying risk to assure continued success. We are committed to being among this group, without ever losing sight of our dedication to quality and to our own specific identity. With the acquisition of Salomon, we have taken another major step toward this goal.

In 1997, we not only achieved record sales volumes and broadened our product lines; we also reached new levels of success in the key US marketplace. In the United States, the world's largest sporting goods market, we achieved more than one billion dollars in gross sales for the first time. This means that we are also well on the way to becoming the second-largest in America's sporting goods sales. Our US order book is continuing to grow rapidly, while the American sporting goods market as a whole shows only moderate growth. We believe that it is not unrealistic to expect that our US market share, which currently stands at around six per cent, will grow to more than ten per cent in the next two years. The basic foundation for this growth is already in place – brand acceptance, product quality, trade-marketing, advertising, and sponsorship agreements with American athletes and teams. We have opened the door to the world's largest sporting goods market; now we must make the most of our strong competitive positioning there.

While our business in America continues to boom, the sales outlook for the Asian markets is bleak. Although our results there in 1997 were certainly satisfactory, we anticipate a decline in Asia's contribution to our profit performance in 1998. However, we are confident that this decline will be more than offset by the improved profit situation in the USA. In Japan, we are facing a sea-change in our situation. Our major licensee agreement expires at the end of 1998, and so we are now building our own sales organization which should ensure improved sales and profit figures starting in 1999.

We will not rest with our current successes; like the champions we outfit, we are setting our sights continually higher and we are working to improve our future performance. We are investing in products, people and systems, as well as in new endorsements which should guarantee that excellence in championship performance will only naturally be linked with adidas. One example is the new sponsorship agreement with the US National Football League.

Expanding our Global Technology Center is another way we aim to guarantee our future success. This is where we carry out basic research, with the objective of achieving a better understanding of the movements of the human body and, based on this knowledge, developing products which not only meet the requirements of sporting excellence but also help to promote and improve athletic performance.

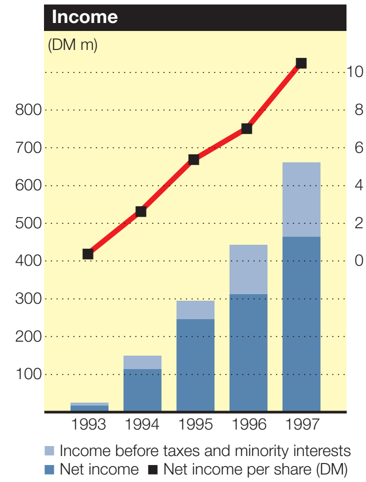
It is only with such products, incorporating state-of-the-art research work, that adidas can remain successful. This remains one of our basic beliefs. At the same time, we will also ensure that the brands we have gained with the acquisition of Salomon will not only maintain their positions in the marketplace, but will also be further strengthened by synergies inherent in the perfect fit between our two companies. Of course it will take time to integrate Salomon to a degree that we will maximize the effects of these potential synergies. This, by the way, is one of the reasons why I have extended my contract with adidas by another five years.

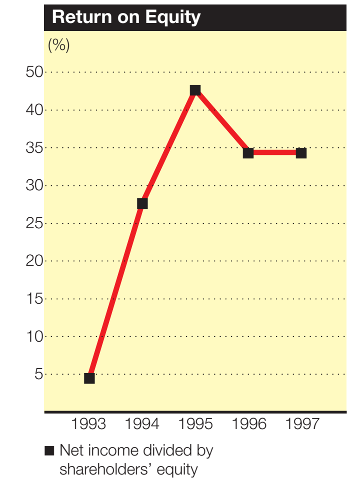
Overall, then, we are using some very solid building blocks to continue to create value for our shareholders. These include continuing growth from today's strong adidas product lines, integration of Salomon, enhancing the brand through contemporary design and product development linked to the quick-changing dynamics of shifting marketplace requirements, cost-effective sourcing, target-oriented marketing, and leveraging technological research.

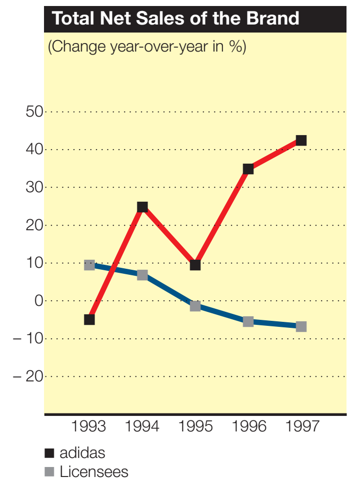
You, the shareholder, have demonstrated your trust in our management of your company. In return, we are committed to demonstrating the reasons for that trust each day. At the same time, I would like to express my personal admiration and appreciation to all adidas employees worldwide. We would not be the successful company we are without their belief in our mission, their passion for sports and their daily and enthusiastic commitment to their work.

Robert Louis-Dreyfus

Management Discussion and Analysis







ADIDAS CLOSES 1997 WITH RECORD RESULTS

- **Net sales increased by 42% to DM 6.7 billion**
- **Income before taxes rose by 52% to DM 677 million**
- **Earnings per ordinary share (after taxes) reached DM 10.25, achieving a growth rate of 48% year-on-year**

ACQUISITION OF SALOMON IMPACTS BALANCE SHEET

- **As a result of the acquisition, there has been a substantial increase in borrowings, and investments have risen by the same amount**
- **At the same time, financial leverage increased by 69 percentage points to 107%**

POSITIVE DEVELOPMENTS IN THE MARKETPLACE

In 1997, the market for sporting goods showed continuing positive development. Although exact figures are not yet available for individual countries, there are indications that the sports shoe market in the United States has grown by more than 10%. Growth rates in Europe were probably substantially below this level. Emerging markets in Asia/Pacific, due to their strong income levels, were also performing positively until this development was abruptly halted with the onset of the financial and economic crisis. It is safe to assume, despite all of these uncertainties, that demand for sporting goods again showed stronger growth than gross national product and private consumption worldwide.

SIGNIFICANT GROWTH IN CONSOLIDATED SALES

In this overall climate, adidas' net sales increased by DM 2 billion, or 42%, to DM 6.7 billion in 1997. adidas not only gained market share worldwide but also advanced to become the second-largest sporting goods company measured by consolidated net sales. As in the preceding years, this strong sales performance was primarily driven by volume growth, with an 18% increase in footwear pairs and 44% increase in apparel pieces in 1997.

A smaller proportion of the growth in sales resulted from the positive effects of an improved product and price mix. Currency effects, primarily the strength of the US dollar and pound sterling, contributed 10% to the growth in sales. In 1997, sales generated by the joint venture in South Korea were included for the first time for a full fiscal year.

CONTINUED DECREASE IN LICENSEE SALES

The establishment of new group companies is, in most circumstances, accompanied by the termination of former license and/or distribution agreements. As a consequence, net sales by licensees continued to decrease as in 1996, by about 6%, reaching DM 1.3 billion. These sales, which are not included in the consolidated company sales, now account for only 16.2% of total brand sales.

FOOTWEAR SALES INCREASED BY AROUND ONE THIRD

Net sales of footwear reached DM 2,871 million in 1997, achieving a 32% growth rate compared to 1996. The major sports categories made a substantial contribution to the increase in net sales. The running category was the strongest segment in 1997, growing by more than 100% and accounting for 36% of total footwear sales. The second and third largest categories in absolute terms, training (16% of total footwear sales) and soccer (16% of total footwear sales), managed to further increase the high levels achieved in preceding years.

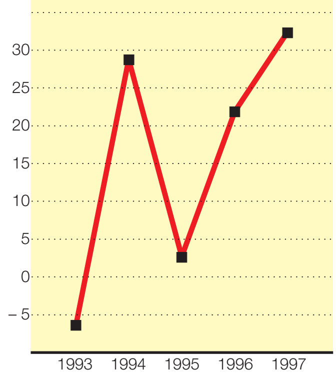
In contrast, sales of basketball shoes showed a significant decline due mainly to a change in consumer preference away from basketball shoes to casual "brown shoes" and to running shoes. This trend partially explains the substantial increase in running shoe sales. Basketball shoe sales stabilized however towards the end of the year following successful introduction of new products in this category.

Above-average growth rates were also achieved in sales of footwear developed specifically for women for a wide variety of sporting activities. This segment also delivered a sales increase of more than 100%, significantly surpassing the strong growth rates of previous years.

The "Feet You Wear" concept was launched in the second half of 1996. In 1997 adidas sold almost two million pairs of these shoes based on the "barefoot" technology, successfully positioning the "Feet You Wear" product range at the top end of the premium brand footwear segment. Although volume levels for this period were below original expectations, product enhancements and marketing changes will lead to higher volumes in 1998.

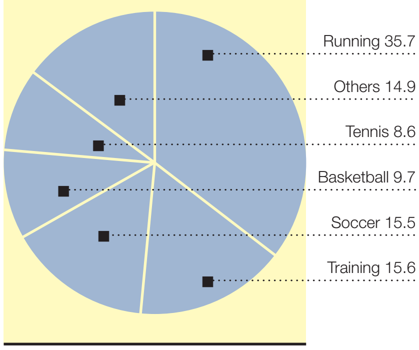
Net Sales Footwear

(Change year-over-year in %)

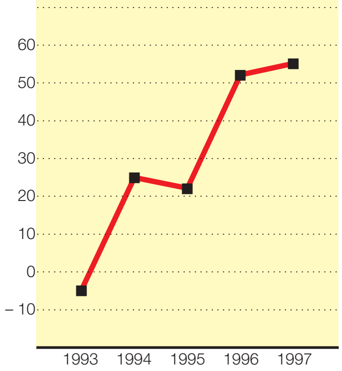


Shares of Net Sales Footwear

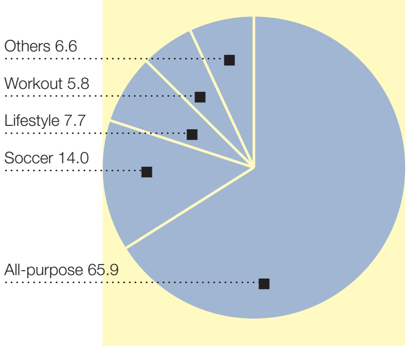
(Categories in % of net sales footwear)



Net Sales Apparel
(Change year-over-year in %)



Shares of Net Sales Apparel
(Categories in % of net sales apparel)



EXCELLENT SALES LEVELS REACHED WITH APPAREL

In 1997, adidas again achieved higher growth rates with apparel than with footwear. Net sales of apparel grew by 55%, reaching DM 3,586 million and increasing this division's share of total company sales to 54%, almost five percentage points up on 1996.

The all-purpose category remained the largest product category in apparel, representing around two thirds of total apparel sales. The lifestyle and workout categories made an even more substantial contribution to sales growth in relative terms, with above-average growth rates. Sales of soccer apparel remained at the previous year's high level.

GROWTH ALSO ACHIEVED IN HARDWARE AND OTHER SALES

Hardware and other sales, which consist mainly of bags, balls and accessories, increased by 7% to DM 241 million in 1997, resulting in a slight decrease in this division's share of total sales to 3.6% (1996: 4.8%).

GROSS PROFIT IMPROVED, SOURCING COSTS UNDER CONTROL

Gross profit improved by 49.7%, growing at a faster rate than sales and reaching DM 2,810 million. As a result, gross margin as a percentage of net sales increased by over two percentage points to 41.9% in 1997.

This success was due to careful choice of manufacturers, cost-oriented negotiations with suppliers and continuing tight control of other sourcing costs. Additionally, this development was positively influenced by the fact that apparel sales generated higher growth rates, thus increasing its share of total company sales. The apparel business traditionally has higher margins than the footwear business.

Currency erosion in several Asian countries during the last quarter of 1997 had virtually no impact on the improvement of gross margin. Although adidas sources about 95% of footwear and around 60% of apparel in countries in South-East Asia and most products are purchased from suppliers in US dollar, there are a number of reasons why the effect of the currency crisis has not been experienced in 1997:

(1) FOB prices for products purchased in the fourth quarter are typically negotiated in the second quarter;

(2) most of the suppliers' raw materials costs are priced in US dollar or other major currencies and

(3) a significant portion of adidas production is carried out in countries which did not experience major devaluations e.g. China.

It should also be remembered that, apart from price, adidas' sourcing policy includes other selection parameters for factories such as product quality, adherence to delivery deadlines and acceptable transportation distances. In order to find the best possible compromise between the different requirements, adidas pursues a long-term sourcing strategy. One of the key aspects of this strategy is to establish long-term ties with manufacturers which have a track record of delivering the high quality required by adidas. Such a policy therefore also involves not always taking advantage of every short-term price spread offered by countries with strongly depreciated currencies. However, Management expects to see some positive effect on FOB prices in 1998 as a result of both the Asian currency position and adidas' strengthening order book.

EXCHANGE RISKS HEDGED

During the last fiscal year, currency risk was again minimized for the most part through hedging contracts. It is the Company's policy to hedge up to 90% of its seasonal purchasing volume up to one year in advance with a variety of hedging instruments. In addition to forward contracts, which are arranged primarily for shorter periods, the Company employed, and continues to employ, various forms of currency options to manage its currency exposure. The impact of such contracts, which have their effect at the time of the underlying commercial transactions, is reflected in cost of sales and consequently influences gross margin.

OPERATING RESULT IMPROVED BY TWO THIRDS

The operating result increased by 66.9% year-over-year. Selling, general and administrative expenses (SG&A) including depreciation grew slightly faster than net sales and increased by 45.6% (44.2% after elimination of the expense related to a special reward and incentive plan for Management). The increase in SG&A, however, was more than offset by the improvements in gross margins, leading to the higher operating result.

Spending related to promotion and advertising increased by 48%. These expenses account for a total of 12.8% of net sales (1996: 12.3%). Additional expenditure was primarily incurred in the United States. Through new contracts, adidas is represented for the first time in all major professional leagues of the traditional American sports – expenditure which in the long term will represent a major building block for success in the world's most important sporting goods market.

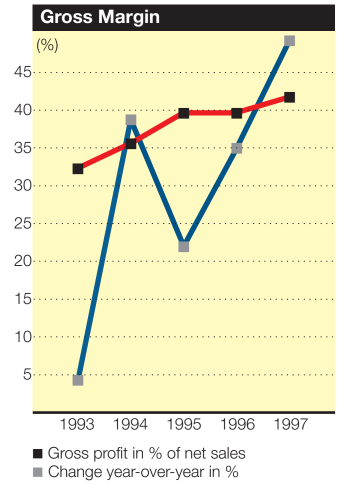
Depreciation and amortization increased by 29% to DM 80 million, reflecting both higher depreciation on equipment, in particular furniture and fittings and computer hardware, and slightly higher goodwill amortization.

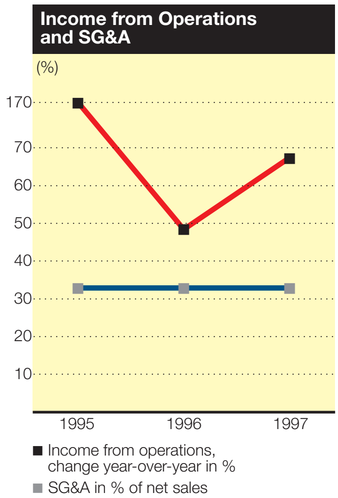
ROYALTY AND COMMISSION INCOME DECLINED

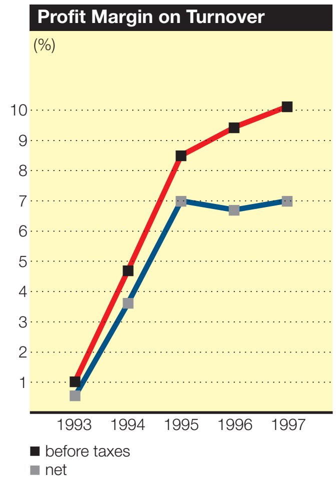
Royalty and commission income decreased by 12% to DM 85 million in 1997. This development is in line with the Company's policy not to extend licensee and distributor agreements upon expiry and to assume full control of distribution instead. One of the factors affecting royalty and commission income for fiscal 1997 was the loss of royalty income from South Korea (DM 7 million in 1996). The South Korean market is now served by a joint venture.

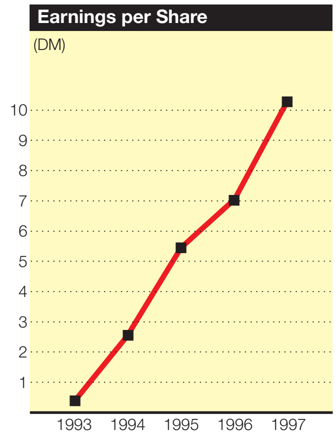
DECREASE IN THE NET FINANCIAL RESULT

The net financial result declined substantially to a loss of DM 31 million in 1997 compared to a loss of DM 13 million in 1996. The interest balance remained essentially unchanged at negative DM 33 million (1996: negative DM 34 million).









In contrast, positive exchange rate effects amounted to only DM 2 million in 1997 as compared to DM 21 million in 1996. This significant decline is primarily due to a change in the accounting treatment with effect from January 1, 1997. In 1996 unrealized exchange gains and losses on outstanding hedging contracts were reflected in exchange rate effects. As, however, adidas enters into hedging contracts to protect the cost of future product purchases, it is more appropriate to reflect the gains/losses on these instruments at the same time as the underlying commercial transactions. Accordingly for 1997 unrealized exchange gains and/or losses on such outstanding hedging contracts are carried at historical values and recognized as part of the cost base of the hedged transactions.

If the Company's previous accounting treatment for currency options had been continued in 1997, the net financial result would have been a net gain of DM 6 million, reflecting the market values of outstanding hedging contracts.

EXTRAORDINARY INCOME HAS NO IMPACT ON RESULTS

The recorded extraordinary income in the amount of DM 22 million has no net impact on income before taxes, as offsetting expenses of the same amount are included in the selling, general and administrative expenses. The expense and extraordinary income are directly related to a special reward and incentive plan for Management sponsored by two shareholders (Robert Louis-Dreyfus and Christian Tourres), who supply the shares which are required to fulfil the Company's obligations under the plan.

INCOME BEFORE TAXES INCREASED BY MORE THAN HALF

Income before taxes (IBT) increased by 52% to DM 677 million. As a consequence, IBT in per cent of net sales rose to 10.1% in 1997 (1996: 9.4%). This increase in profit is due solely to the improvement of the operating result, as there was a decrease in both royalty and commission income and the net financial result.

RETURN ON SALES IMPROVED TO 6.9%

For the first time since the initial public offering in 1995, adidas is able to report double-digit earnings per ordinary share, which reached DM 10.25 in 1997.

Indeed, net income rose by 48%, reaching DM 465 million. Despite the negative impact from increased income taxes and minority interests, net income for the year also grew at a faster rate than net sales. Return on sales developed accordingly, improving by 0.2 percentage points to 6.9% in 1997.

Minority interests increased from DM 23 million in 1996 to DM 26 million in 1997, as a result of improved profits at joint venture companies.

Income taxes increased by 74.1% to DM 186 million in 1997 (1996: DM 107 million). This has led to an increase in the effective tax rate for the group, up by 3.5 percentage points to 27.5%. The main reason for the significant increase in income taxes is the phase-out of tax losses carried forward in some of the European subsidiaries and the increased profitability of subsidiaries in countries with higher tax rates such as Italy.

Whilst the 1997 group tax rate again was sheltered by tax losses carried forward in the German operations and, to a lesser extent, in some other countries, it is anticipated that remaining losses carried forward in Germany will be used up during 1998.

MARKET SHARE IN EUROPE FURTHER EXPANDED

Europe's sporting goods markets again saw only moderate growth in 1997. As in 1996, above-average increases were recorded in only a few markets such as the U.K. and Spain.

In this overall climate, adidas managed to increase net sales by 31% to DM 4,127 million in total, thereby gaining further market share in the key European markets. In Europe, apparel sold better than footwear, as clearly shown by growth of 42% in apparel compared to 19% in footwear. Nevertheless, the increase in footwear is still well above overall market performance.

The highest growth rates for adidas were achieved in the U.K. (+91%), Poland (+68%), Spain (+63%) and Norway (+52%). In Germany, where consumption in the private sector is soft and the market for sporting goods is more or less flat, net sales increased by a further 11%, clearly demonstrating the strength of the brand.

adidas subsidiaries in the Middle East, which are included in Region Europe, generated combined sales growth of 60%. With the foundation of a new subsidiary in the United Arab Emirates in mid 1997, adidas will be able to leverage its brand recognition in this market more effectively.

A well-developed sales network in Eastern Europe has again proved to be a competitive advantage, which is reflected by a combined 34% growth rate in 1997.

In October, the former joint venture company in the Benelux countries was transformed into a wholly-owned subsidiary, creating the basis for further penetration of this market.

In order to further build and promote the European activities, adidas signed new sponsorship and license agreements or extended and upgraded the level of existing contracts in 1997. For example, adidas will be a main sponsor of the 1998 Soccer World Cup in France.

DYNAMIC GROWTH IN NORTH AMERICA

The North American market for branded athletic footwear grew at about 10% in 1997. It can be assumed that development of the overall market for sporting goods was on a comparable level. adidas, in contrast, increased its sales by 66% in 1997, to DM 1.7 billion, clearly outperforming the general market and raising its market share.

In addition to excellent volume growth, adidas was also able to increase gross margin to 38.3%. This improvement is directly linked to a favorable product mix, lower clearance sales with higher margins achieved from these clearance sales, and progress made in increasing average price points.

In footwear, net sales in North America increased 47% to DM 855 million in 1997. The increase in footwear was primarily driven by the running category, which clearly outperformed the success of the preceding year.

Europe

	DM m	Change year-over-year
Total net sales	4,127	+30.7%
of which		
Footwear	1,561	+19.2%
Apparel	2,406	+42.0%
Gross margin	42.4%	–1 PP
Order backlog*	1,735	+34.6%

* first half of 1998

North America

	DM m	Change year-over-year
Total net sales	1,699	+65.6%
of which		
Footwear	855	+46.9%
Apparel	834	+90.8%
Gross margin	38.3%	+7.6 PP
Order backlog*	1,363	+100.5%

* first half of 1998

Asia/Pacific	DM m	Change year-over-year
Total net sales	703	+69.0%
of which		
Footwear	320	+48.9%
Apparel	325	+84.8%
Gross margin	40.9%	+2.8 PP

Latin America	DM m	Change year-over-year
Total net sales	169	+55.3%
of which		
Footwear	136	+51.4%
Apparel	21	+179.6%
Gross margin	33.3%	–1 PP

Further contributions to this success also came from the tennis and soccer categories, as well as the kids' and women's segments. After an initially weak sales performance at the beginning of the year, the basketball category picked up momentum, primarily driven by Kobe Bryant's signature shoe – the KB8. Its launch in November was followed by remarkably high sell-through rates at retailers.

Net sales of apparel increased by 91%, outperforming growth in footwear sales. At DM 834 million, apparel generated almost 50% of total sales. The strongest growth in apparel was seen in the segments for women and for kids aged 8 – 20, both of which increased by around 150%.

Signings with the National Football League (NFL), the New York Yankees, America's best-known baseball team, the Universities of Notre Dame, Tennessee and Northwestern in the college sport sector, as well as with a number of young basketball players, will make adidas more visible in North America. This huge commitment to promotion and the associated media expenditure puts adidas in a good position to increase brand visibility and continue to expand market share in the North American market.

ASIA/PACIFIC PERFORMED WELL DESPITE CURRENCY CRISIS

Despite the Asian currency crisis triggered by the floating of the Thai baht on July 2, 1997, net sales in the region increased by 69% to DM 703 million in 1997, with significant contributions to the growth in net sales coming from the inclusion of the first full-year effect of the joint venture company in South Korea and the subsidiary in Taiwan. Excluding the effects of new companies, net sales in Asia increased by 38%.

Apparel was the major growth driver for adidas, increasing by 85% to DM 325 million. In footwear, net sales grew by 49% to DM 320 million, primarily driven by the running and all-purpose categories.

Top performing countries included New Zealand (+79%), Australia (+53%) and the Philippines (+46%), an indication of the success to be achieved via the strategy of establishing wholly or majority-owned subsidiaries, as implemented in these countries in 1995 and 1996.

In Japan, one of Asia's key markets, adidas was still represented solely by licensees. Sales under license in Japan in 1997 decreased by 8%. Royalty income, however, remained stable. Upon expiry of the major license agreement at the end of 1998, adidas will have a fully-controlled sales organization in Japan from 1999 onward. This should enable adidas to market the adidas products and pursue brand objectives more effectively in Japan.

In 1998, adidas will make use of the new NBA star Kobe Bryant and major international sports events, such as the Olympic Winter Games in Nagano/Japan, the Soccer World Cup in France, the Commonwealth Games and the Asian Games, in order to further strengthen the brand image in the region. All these events will be accompanied by the associated advertising and promotion activities.

Despite the anticipated negative impact on sales figures as a result of the Asian currency crisis and the related increasing pressure on margins, in 1998 adidas management is aiming to achieve the same level of net sales as in 1997. This aim is supported by the fact that the economic crisis is not showing any appreciable effects in several of adidas' key countries in the Asia/Pacific region, such as Australia, New Zealand or Hong Kong.

The formation of a wholly-owned subsidiary in the People's Republic of China and expansion of adidas' activities in Thailand at the beginning of 1998 represent further opportunities for the Company to exploit the existing growth potential in this region.

BRAND IMAGE IMPROVED IN LATIN AMERICA

Whereas major regions of Asia have been shaken by economic and financial crises, the business climate in Latin America is more stable. adidas managed to increase sales in this region by 55% to DM 169 million, thus achieving a significantly higher level of growth compared to the preceding year (1996: 19%). Virtually all subsidiaries in the region reported double-digit growth, with the exception of Brazil, where sales decreased by 2% due to a generally poor retail environment.

Growth was strongest in apparel, with an increase of 180%. However, apparel represents only 12% of total net sales in Latin America. Footwear sales grew by 51% to DM 136 million.

In 1997, the focus of adidas management was on improving brand image and the quality of adidas products sold in the region. In order to accomplish this, the percentage of sales of imported products was again increased – from 25% of total regional sales in 1996 to around 34% in 1997, with the remaining 66% being produced locally under license. Additional resources were added to product marketing to help ensure that the regional objectives regarding product are met. Moreover, adidas introduced a futures buying program for key accounts in two major markets, which should substantially reduce the risk related to the product purchase side of the business.

Going forward into 1998, a predominant focus of regional management will continue to be on pursuing opportunities to take over the distribution of adidas products wherever feasible, in order to ensure full control over the adidas brand.

SIGNIFICANT GROWTH IN TOTAL ASSETS

As of December 31, 1997 total assets amounted to DM 4.3 billion, representing an increase of 75% year-over-year mainly due to the acquisition of the Salomon family holding.

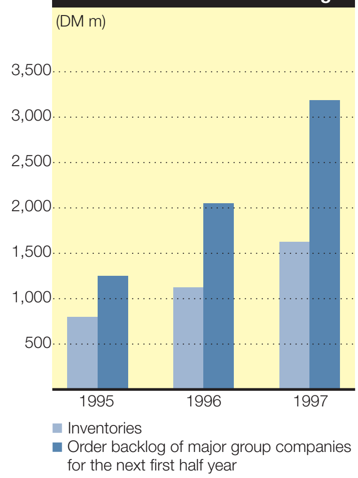
INVENTORIES INCREASED AT A SLOWER RATE THAN ORDER BACKLOG

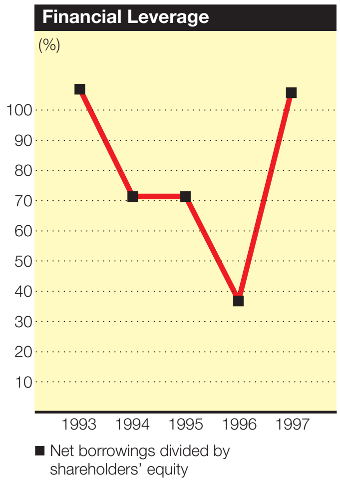
Current assets, consisting of inventories, receivables, cash and cash equivalents and other current assets, reached DM 2,827 million. This represents 66% of the total asset base of adidas, an increase of 42% year-over-year.

Inventories as of December 31, 1997 were 48% above the previous year's level but grew at a slower rate than order backlog for the next six months of 1998, which increased by 56%. The most significant growth in inventories was reported in countries that also have the highest growth in order volume, such as Spain.

Trade receivables and other current assets as of December 31, 1997 amounted to DM 1,158 million – compared to DM 818 million as of December 31, 1996. The increase in trade receivables of 37% is lower than the fourth quarter sales growth.

Inventories and Order Backlog





ACQUISITION OF SALOMON IMPACTS BALANCE SHEET: SUBSTANTIAL INCREASE IN NON-CURRENT ASSETS AND LIABILITIES

The acquisition of the Salomon family holding company at the end of December had a significant impact on the balance sheet for the fiscal year ended 1997. In a first step, adidas acquired 100% of the share capital of Sport Développement S.C.A. (the former Salomon family holding company, now re-named adidas Salomon France S.A.), a French company registered in Annecy, France. This company held 56% of the voting rights and 39% of the capital of Salomon S.A. and was purchased for a total acquisition cost of DM 942 million. The growth in non-current assets, which rose by DM 1,001 million to DM 1,467 million, is therefore almost solely the result of the increase in investments, which in turn resulted from the acquisition of the Salomon family holding company.

These effects are correspondingly reflected in the growth in liabilities. As the acquisition of the family holding company was funded by using and increasing the amounts available under existing credit lines, there was also a significant rise in short-term borrowings, which increased by a total of DM 1,059 million to DM 1,525 million.

As a result of the 100% debt-financing of the acquisition of the Salomon family holding company, financial leverage increased from 38% in 1996 to 107% in 1997.

adidas has cash credit lines amounting to DM 5.8 billion. As of December 31, 1997 unused cash credit lines amounted to DM 4.2 billion. An amount of approximately DM 1.5 billion was subsequently used to complete the acquisition of Salomon S.A. through the public tender offer in February. Remaining unused cash credit lines will be sufficient to fund increasing product purchase requirements.

DECREASE IN OPERATING CASH FLOW – AS A RESULT OF HIGHER TAX PAYMENTS

Operating cash flow totalled DM 78 million, which is DM 123 million below the previous year's level. This decrease is primarily the result of a DM 92 million increase in tax payments and increased inventory levels to support expected growth in 1998.

OUTLOOK

BACKLOG INCREASED BY MORE THAN 50%

Orders on hand at the end of 1997 amounted to DM 3,172 million, which represents an increase of 56% or DM 1,136 million compared to the end of 1996. Order backlog is an indication of sales development to be anticipated for the first six months of 1998, as the order volume covers the 1998 spring/summer season. However, the order volume only comprises the 13 largest subsidiaries of adidas – excluding South Korea – which account for approximately two thirds of adidas' total business. Variation in sales mix as well as reorders and/or cancellations could still change the order profile to some extent going into the spring/summer season.

The increase in order volume was led by North America, which showed growth of 101%, followed by Europe with 35%. Due to the uncertain economic development, figures for Asia are less reliable. adidas expects, nevertheless, a modest growth in order volume for the first six months of 1998.

In Region Europe, the strongest backlog growth was seen in Spain with 121%. The U.K., Italy, Switzerland, France and Norway all showed backlog growth of more than 25% compared to 1996.

At December 31, 1997 order backlog for footwear was up by 55%, growing at a slightly faster rate than order backlog for apparel (54%). This trend is primarily influenced by orders on hand in the USA. Order backlog for hardware and other products grew by 123% to DM 63 million.

Currency risks related to purchases in US dollar have already been hedged for more than 90% of the anticipated US dollar purchase volume for 1998. For example, purchases invoiced in US dollar for fiscal 1998 are almost fully hedged at a rate below DM 1.70.

TOP PRIORITY: INTEGRATION OF SALOMON

The dominant focus for 1998 will be the integration of the Salomon group. Preparatory meetings are already taking place at all levels, in order to realize the anticipated synergies. Important decisions have already been taken. For example, for winter 1999/2000 a winter sports apparel collection under the Salomon brand name will be introduced for the first time. Taylor Made's well-established distribution channels in the USA and Japan will already be used in 1998 in order to promote sales of adidas golf footwear and golf apparel. adidas and Salomon have also agreed on a close cooperation in the sector of hiking boots, a product category in which both companies can draw on extensive expertise and brand image.

However, it is anticipated that the implementation of combined activities will not yield any positive bottom-line impact for the combined group before 1999.

A second point of strategic focus will be to establish a wholly-owned subsidiary in Japan which will take over distribution of footwear and apparel in one of the most important markets in Asia when the existing license agreement with the Japanese company Descente expires at the end of 1998. The process has already been initiated and first steps have been taken to ensure as smooth a transition as possible.

Listing of the adidas share on a US stock exchange, originally planned for 1998, has been postponed for the time being due to the priority of the integration of Salomon.

Rebuilding and relocation of the Company's headquarters in Herzogenaurach will also be one of the future projects. In order to bring together at one site the various areas in product development, marketing and administration which are today scattered over a relatively wide area, adidas plans to relocate its headquarters within Herzogenaurach and to implement the “World of Sports” project. The first stage will commence in 1998.

INCREASE IN PROFIT EXPECTED FOR 1998

Based on the high volume of order backlog and, with the exception of Asia, continued strong demand for adidas-Salomon group branded sports products, Management currently expects growth in the pre-tax result and, even allowing for a higher tax rate, higher after-tax earnings than those recorded for 1997.

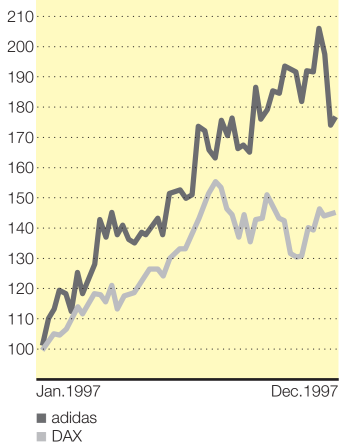
The adidas Share

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

	1997	1996
Year end price	**230.00**	133.00
High	**268.00**	148.00
Low	**131.60**	76.00
Net income	**10.25**	6.93
Dividend	**1.65***	1.10
Cash flow**	**1.60**	4.42
Number of shares outstanding (m)	**45.349**	45.349

* Proposed dividend
** Net cash provided from operating activities

adidas Share Price vs. DAX
(Indexed, January 3 = 100)



STOCK MARKETS IN TOP FORM

Stock markets in Europe and the USA were in top form in 1997. Even the economic crisis in Asia was only able to briefly interrupt but not put a stop to, or reverse, the upswing in share prices. The DAX-30, the German stock market index comprising the 30 leading blue-chip companies in Germany, appreciated 44% in the course of the year.

Financial markets in Asia, however, saw a sharp decline in stock prices.

ADIDAS SHARE ON COURSE FOR FURTHER GROWTH

In 1997, the adidas share price increased by 73%, maintaining the strong momentum it has gained since the initial public offering in November 1995. In this period of just over two years, the adidas share has more than tripled in value. Market capitalization at the end of 1997 amounted to DM 10.4 billion (1996: DM 6 billion), and has meanwhile increased to more than DM 12 billion.

In terms of market capitalization and share trading volume, adidas ranks among the 30 largest listed companies in Germany. As a consequence, it is to be expected that the adidas share will join the DAX in summer 1998.

A CUT ABOVE THE REST OF THE SPORTING GOODS INDUSTRY

Up until mid February 1997, performance of the adidas share was approximately in line with the sector index. In March, the adidas share became the frontrunner, increasing rapidly in value, whilst the share prices of adidas' main competitors weakened and lost up to 70% by year-end. This performance confirms the confidence that institutional and private investors have in adidas' growth and earnings potential.

SHAREHOLDERS APPROVE ACQUISITION OF SALOMON

At the Extraordinary Shareholders' Meeting of adidas AG on December 15, 1997, adidas shareholders voted in favor of the acquisition of Salomon S.A. The change of name to adidas-Salomon AG was also approved. This means adidas shareholders will now also participate in Salomon's success. As the acquisition is fully debt-financed, there has not been any dilutive effect on shareholders' equity.

PROPOSED DIVIDEND PAYMENT OF DM 75 MILLION

The adidas Board of Directors will propose to the Annual General Meeting of Shareholders a nominal dividend for 1997 of DM 1.65 per share, which represents a payout totaling DM 75 million and a payout ratio of 16% relative to consolidated net income. This proposal is in line with previously formulated Company policy to maintain a payout ratio between 15% and 20%. The Company's tax situation does not permit any tax credit for German domestic shareholders with unlimited tax liability.

The Many Faces of adidas

Ernie Els unites adidas and Taylor Made products on the circuit

adidas-Salomon: a great fit

The friendly acquisition of Salomon S.A. unites two leading sports companies under the name of adidas-Salomon, creating a superb portfolio of brands: adidas, Salomon, Taylor Made and Mavic.

Teamwork, long an ingredient for the success of adidas, will be the glue that binds and ensures the endurance of the partnership. The basis already exists, as both companies share values, strategies, and a performance heritage. The similar corporate cultures and complementary product lines will enable the new group to broaden its reach and boost growth.

Teamwork between the two companies will unleash the potential synergies. Significant potential exists to increase sales volume, notably in winter sports and golf apparel.

The cooperation allows us to deepen market penetration: Strong Salomon presence in the US and Japan will help adidas increase business, while adidas' strength in Europe will benefit Salomon efforts.

We expect to decrease costs through synergies in SG&A costs and efficiencies resulting from the use of adidas facilities in countries where Salomon uses distributors. We will rationalize distribution, leveraging the respective sales and distribution channels. adidas' strong footwear position with retailers will be used to boost Salomon efforts, for example in the in-line skating sector, while the Taylor Made strength in golf retail will help adidas efforts to sell apparel and footwear.

We will enhance marketing communication: The combination of each company's respective strengths will maximize their promotional symbols and broaden their reach and recognition. Top golfer Ernie Els, a key Taylor Made athlete, will now promote adidas products as well.

Our capacity to innovate will be greatly enhanced. Salomon will bring specialized expertise in the areas of injection molding, computer-aided design and development and rapid prototyping. In addition, we will be able to rationalize our R&D efforts to develop the next generation of high-tech products by making better use of resources.

ERNIE'S SHOE, THE SADDLE STRIDE, WHICH HE WILL WEAR THROUGHOUT THE CURRENT SEASON

Haile Gebrselassie has only one real challenger in distance running: the clock

In the sports arena: racing with the heartbeat of champions

Wherever champions reached new levels of success in 1997, adidas was there. The exceptional level of visibility is not by chance. It was achieved through a focused, dynamic strategy: selective investment in key symbols which embody the adidas values of excellence in performance. Their successes in 1997 gave the brand great exposure.

Ethiopian Haile Gebrselassie sets new world records

How fast can a human run? There seems to be no limit for this Olympic Champion, who once again set new levels for performance in the 10,000 meter and the 2 mile distances.

Cyclist Jan Ullrich spins a win at the Tour de France

The brand got a big boost in 1997 when this young German crossed the finish line on the Champs Elysées after a thrilling three weeks.

NBA rookie Kobe Bryant dazzles at the All Star Weekend

An emerging star shone brightly at the 1997 All Star weekend, capturing the spotlight and the winning title with a spectacular dunk in the Slam Dunk Competition. His selection for the 1998 All Star team makes him the youngest player to ever be picked for the starting line-up and signaling his potential for the future.

Dominating the IAAF World Championships

We outfitted all officials and volunteers, and we supplied numerous federations competing in the event. Yet even this was surpassed by the performance of the athletes using adidas products, led by a sweep of key medals by the Cuban athletes to perennial favorites, such as Lars Riedel and Haile Gebrselassie.

The next tennis generation is "three stripes"

The most conspicuous newcomer to the global tennis scene is Russian Anna Kournikova, whose looks deceived many an opponent. On the men's tour, Tim Henman will wear three stripes on his quest for the top.

Freestyler Fabien Rohrer becomes new snowboarding star

In our endless quest for fresh talent, we also look for those athletes who incarnate our values in new sports. Current ISF and FIS World Champion Fabien Rohrer was chosen as our new symbol to show off a new range of snowboard clothing.

HAILE'S EQUIPMENT SOLUTION FEET YOU WEAR RUNNING SHOE WHICH HE USES FOR TRAINING


adidas

Zinedine Zidane aims to lead France to the top of world soccer in 1998

US Open Champion Ernie Els is symbol on the links

This two-time US Open winner has recently signed a multi-year deal to endorse adidas shoes and apparel, to accompany him as he plays with Taylor Made clubs.

The tradition of providing performance-enhancing products to athletes and teams traces its beginnings to Adi Dassler, who made sports shoes for champions. Over the years, adidas has broadened that proud heritage to a wide range of sports. In 1997, the connection between adidas and top-level sport was further enhanced.

FIFA and UEFA agree to new partnerships

Our objective to become the best sports brand in the world is built on a foundation of soccer. In 1997, we strengthened the relationship with the key organizations by extending our contract with each. This adds a multitude of programs to the already significant World Cup France '98 sponsorship. This will ensure that adidas remains the world leader in soccer, with the help of such stars as Zinedine Zidane of France.

adidas joins forces with the National Football League ...

In 1997, the brand joined the exclusive roster of NFL Pro Line licensees, thus gaining a foothold in this highly-popular US sport. This gives us access for our products to the field of play and includes an outfitting agreement with the Tampa Bay Buccaneers.

... strengthens partnership with the NBA ...

Adding to an existing uniform rights and media agreement, adidas signed a licensing package and a marketing partnership with the NBA and the new WNBA. This strengthens adidas' credibility in this key sport.

... and plays ball with the New York Yankees

In line with the endorsement philosophy of joining forces with the biggest symbols in sports, adidas signed the legendary baseball team. The sponsorship and licensing agreement provides for joint marketing activities with one of the biggest names in sports.

ZINEDINE'S REVOLUTIONARY EQUIPMENT PREDATOR ACCELERATOR FEET YOU WEAR SHOE


adidas
F.F.F.

Kobe Bryant, in two short years, has gone from high school to the NBA All Star Team

Feet You Wear: helping nature take its course

The foot works, we copied it.

It's that simple but surprisingly revolutionary idea that has boosted adidas' success in performance footwear. The concept is about shoes that reproduce the characteristics of the foot to provide new levels of support and protection, helping athletes perform better.

The success of Feet You Wear shows how adidas has been able to combine creatively-applied technology and innovative marketing to sprint ahead. In a tradition started by Adi Dassler, these shoes provide athletes with improved agility, stability, responsiveness and safety, all enhancing their individual performance.

Another step toward natural perfection

True to the tradition of 'listen, test, modify', Feet You Wear shoes have been developed further with design enhancements to produce an ever more faithful reproduction of the foot's natural control mechanisms.

- The exclusive Feet You Wear last, designed to reflect the shape of both the sole and the top of the foot for more stability and better fit.
- A unique foot-like upper construction which fits like a second skin for better fit and agility.
- A unique, low-profile, contoured outsole/midsole combination which reduces the lever arm present in traditional shoes.
- The Dynamic Stability Triangle enables the foot to use its own geometry in preventing lateral rollover and allows quicker response during sport-specific moments.
- Torsionability and flexibility provide midfoot support while still allowing the forefoot and the heel to move independently.
- The Heel Cross provides flexible support of the upper heel, while tension straps promote a dynamic, snug fit.

This unique combination of breakthrough design features is complemented by the use of innovative, proprietary materials, such as adiPRENE™.

1998 will see the launch of a new Feet You Wear shoe tailored to the needs of the foot in soccer. Because adidas is seen as the traditional authority in soccer equipment, this new shoe is expected to be a flagship for the concept and for the brand, bringing credibility to both.

KOBE'S EQUIPMENT KB8 FEET YOU WEAR BASKETBALL SHOE


adidas
NBA

Jan Ullrich made history as the first German to win the Tour de France

R&D: the challenge to match the athlete's quest for perfection

Industry leadership starts with the best ideas. Excelling in research, technology and design is the first step in ensuring top performance. This, together with excellence in marketing, is the formula for leadership.

Behind it all is a combination of the right attitude and sufficient resources. The attitude is the commitment – like the champion athletes we outfit – to testing ourselves, to continuous self-questioning, to unwillingness to settle for less than the best. This attitude is manifested in our unique Global Technology Center in Scheinfeld, Germany – the ultimate sports manufacturing think tank. The GTC brings together under one roof four specialized laboratories to ensure that adidas products are second to none.

The Mock-up Shop – laying the foundation for fit and performance. Designers and pattern engineers convert a design into technical patterns for series production. Including designers there allows immediate fine-tuning and reduces problems during the manufacturing stages.

The House of Testing – for ultimate performance. New products endure tough tests throughout the preparation and production phases, be they material tests to ensure conformity to performance requirements or biomechanical tests to ensure product performance.

The Made-to-Measure Department – meeting the demands of athletes. Athletes know best what they need and they rely on our experts for tailor-made products. Whether it is creating a special heel for a handball goalkeeper, red soccer shoes for Fredi Bobic or special shoes for Steffi Graf, this department fosters relations between adidas and the world's top athletes in a tradition started by our founder.

The Headquarters Laboratory – testing for quality. This group determines and tests the physical parameters for materials used in shoe and ball production. All materials undergo a variety of tests to ensure that they meet the highest quality and performance requirements.

To make certain that this R&D leadership tradition continues as a key competitive advantage, an international training center was added. adidas specialists will train the next generation of researchers and developers to pass on knowledge and the culture of excellence.

The commitment to R&D continues, for 1998 will see the addition of two new competence centers – one for new concepts and one for research in rubber.

The basic tenet remains. The secret to leadership is Adi Dassler's philosophy – listen to the athlete, test and modify – and our quest for perfection in performance products.

JAN'S ADISTAR ROAD TT, THE NEW SHOE MADE WITH JAN ULLRICH FOR JAN ULLRICH


D1

Anna Kournikova brings fire, flair and glamour to tennis

Advertising: a crucial role in the rejuvenation of the adidas brand

For the last four years advertising investment levels have been increasing in all major markets and the positive effects of this are being seen in improving levels of commitment to the brand among key consumers.

The aim of the brand advertising activity over the past few years has been to win the hearts and minds of young people. This target audience is crucial, not only in terms of their direct purchasing power, but also in their wider influence in forming opinions toward the brand.

The advertising program builds a conversation with the audience. It is designed to be dynamic, innovative and varied – constantly challenging and exciting the viewer. While all the advertising supports the overall objective of making adidas the best sports brand in the world, each focuses on a different facet of the adidas brand.

The desire for freshness has resulted in activity that encompasses everything from the support of major sporting events to the introduction of new adidas technologies, from the establishment of modern day adidas heroes to the explanation of the brand's rich heritage. The diversity of the brand and its relationship with sports gives advertising a rich source for its content. The objective is to use all the aspects of the brand to tell a unique and compelling story.

1997 saw a range of high profile campaigns. Television highlights included the establishment of Feet You Wear technology: "The Difference", which saw adidas soccer players take on their alter egos and commericals with Kobe Bryant, the hottest new property in basketball. Television work was supported via a range of print campaigns adding depth to the Feet You Wear story and building credibility among a range of specialist sports audiences.

Head office produced advertising has been augmented by relevant local activities. Our agency, Leagas Delaney, which has historically handled all of the adidas advertising from its London base, now supports the US through its San Francisco office and has added local support facilities in key European markets.

1997 saw adidas' advertising reach new heights in one of the most competitive advertising sectors. However, in a market that demands a constant supply of new images and information, the brand can never become complacent and the on-going dialogue with its audience will be one of the key elements in the continued success of the brand. This is reflected in our exciting plans for advertising through to the end of the century, and beyond ...

ANNA'S RESPONSE LADY FEET YOU WEAR TENNIS SHOE WHICH SHE WILL WEAR ON COURT THROUGHOUT THE 1998 SEASON

Eddie George. First season: NFL Rookie of the Year. Second season: NFL Pro Bowl. Third season: Super Bowl?

1997: a landmark year for adidas North America

We shattered the billion dollar gross sales mark and closed the year 40% up over 1996.

While previous years had focused on understanding the marketplace, developing a strategy for leadership, coaching the management teams and building the distribution foundation – 1997 was about execution.

Volume and margin growth resulted from strategic changes in product and account mix, improved margin planning, tighter purchasing and better inventory management.

This record demand for adidas products can be explained also by the basic strength of our brand name, a result of the successful combination of leading-edge technology and aggressive promotion in key sports:

Basketball. In a stagnant market, adidas successfully launched two basketball shoes, the KB8 and the Superstar, with more high-tech introductions to come in 1998.

adidas' positioning as a performance brand on the court is gaining strength through the play of key symbols Kobe Bryant and Antoine Walker.

Soccer. Repeated efforts by competitors were successfully held off with a flow of technologically advanced products. The momentum will continue with the application to soccer of Feet You Wear.

To ensure maximum visibility and continued brand leadership, we widened our presence everywhere people play soccer.

Running. In 1997, adidas captured the number two position by more than doubling shoe sales. This was achieved through many product successes.

This technology-driven momentum was increased through sponsorship programs and leveraged into exceptional brand recognition at America's most prestigious running events.

Tennis. Our brand gained momentum in 1997 among tennis fans with the successful launch of the new Feet You Wear shoe – Response. Along with that went the continued success of the Originals line.

This remarkable track record in footwear was accompanied by explosive growth in apparel – achieved in the midst of a depressed sports-branded apparel industry with competitors struggling to maintain share.

With North American order books for next year and sales forecast up significantly, we are confident that we have what it takes to further increase momentum.

EDDIE'S TRAINING SHOE, THE EQUIPMENT MERCURY FEET YOU WEAR SHOE, ALSO THE CHOICE OF SEVERAL OTHER TOP ATHLETES


adidas
40
40

Members of the Supervisory Board and the Board of Directors

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Paris, France
(Chairman)

Dr. Hans Friderichs
Mainz, Germany
(Deputy Chairman)

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Herzogenaurach, Germany

Gerold Brandt
Gräfelfing, Germany

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Fritz Kammerer*
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Peter Nolan
Los Angeles, USA

Serge Okun
Lungern, Switzerland

Dr. Thomas Russell
Sarasota, USA

Charles Thomas Scott
London, United Kingdom

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Uffenheim, Germany

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Davos, Switzerland
(Chairman)

Christian Tourres
Lungern, Switzerland
(Deputy Chairman
from December 15, 1997)

Glenn Bennett
Portland, USA
(from March 6, 1997)

Jean-François Gautier
Annecy, France
(from January 19, 1998)

Herbert Hainer
Herzogenaurach, Germany
(from March 6, 1997)

Dean Hawkins
Richmond, United Kingdom
(from March 6, 1997)

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Michel Perraudin
Nuremberg, Germany

Erich Stamminger
Nuremberg, Germany
(from March 6, 1997)

Jan Valdmaa
Münchaurach, Germany
(from March 6, 1997)

* Employee representative

adidas-Salomon AG and Subsidiaries
Consolidated Financial Statements

(International Accounting Standards)

adidas-Salomon AG and Subsidiaries
Consolidated Balance Sheets

(in thousands of DM)

		At December 31,	
		1997	1996
ASSETS	(Note)		
Cash and cash equivalents	(18)	63,574	83,976
Inventories	(4)	1,606,101	1,088,048
Receivables and other current assets	(5)	1,157,704	817,807
Total current assets		**2,827,379**	**1,989,831**
Property and equipment, net	(6)	274,585	241,091
Goodwill and other intangible assets	(7)	234,810	194,169
Investments and other long-term assets	(8)	957,486	30,456
Total assets	(17)	**4,294,260**	**2,455,547**

LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term borrowings and current portion of long-term liabilities	(9)	1,524,825	465,940
Accounts payable		685,307	529,340
Other current liabilities	(10)	596,295	439,120
Total current liabilities		**2,806,427**	**1,434,400**
Long-term bank borrowings		0	4,941
Deferred taxes		8,880	3,376
Other long-term liabilities	(13)	85,814	62,818
Minority interests		41,286	45,684
Shareholders' equity	(11)	1,351,853	904,328
Total liabilities and shareholders' equity		**4,294,260**	**2,455,547**

See accompanying notes to the consolidated financial statements

adidas-Salomon AG and Subsidiaries
Consolidated Income Statements

(in thousands of DM)

		Year ended December 31,		
		1997	1996	1995
	(Note)			
Net sales	(17)	6,698,277	4,709,432	3,500,240
Cost of sales		3,888,717	2,832,797	2,110,899
Gross profit		**2,809,560**	**1,876,635**	**1,389,341**
Selling, general and administrative expenses		2,128,286	1,454,298	1,095,096
Depreciation and amortization	(2), (6), (7)	80,242	62,120	51,418
Income from operations		**601,032**	**360,217**	**242,827**
Royalty and commission income		85,279	96,802	100,245
Financial result	(15)	(31,020)	(12,614)	(46,987)
Extraordinary income	(21)	21,690	0	0
Income before taxes		**676,981**	**444,405**	**296,085**
Income taxes	(16)	185,853	106,755	42,853
Net income before minority interests		**491,128**	**337,650**	**253,232**
Minority interests		(26,174)	(23,581)	(8,318)
Net income		**464,954**	**314,069**	**244,914**
Net income per ordinary share (in DM)		10.25	6.93	5.40

See accompanying notes to the consolidated financial statements

adidas-Salomon AG and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands of DM)

	Year ended December 31,		
	1997	1996	1995
Operating activities:			
Income before taxes and minority interests	676,981	444,405	296,085
Adjustments for:			
Depreciation and amortization	81,508	64,474	52,584
Unrealized foreign exchange (gains) losses, net	6,532	(15,895)	1,460
Interest income	(14,324)	(9,109)	(9,310)
Interest expense	47,663	43,108	47,247
Gains on sales of property and equipment, net	(222)	(320)	(613)
Operating profit before working capital changes	**798,138**	**526,663**	**387,453**
Increase in receivables and other current assets	(328,550)	(149,129)	(61,592)
Increase in inventories	(465,244)	(185,997)	(127,373)
Increase in accounts payable and other current liabilities	257,152	102,730	20,651
Cash provided by operations	**261,496**	**294,267**	**219,139**
Interest paid	(45,825)	(48,181)	(46,771)
Income taxes paid	(137,803)	(45,572)	(41,387)
Net cash provided by operating activities	**77,868**	**200,514**	**130,981**
Investing activities:			
Purchase of goodwill and other intangible assets	(58,038)	(81,133)	(105,860)
Purchase of property and equipment	(90,768)	(73,907)	(58,446)
Proceeds from sale of property and equipment	5,762	10,358	9,791
Acquisition of adidas Salomon France S.A. (see note 3)	(941,976)	0	0
Acquisition of adidas Korea net of cash acquired	0	41,347	0
(Increase) decrease in other investments and long-term assets	(1,287)	(17,861)	3,143
Interest received	14,324	9,109	9,310
Net cash used in investing activities	**(1,071,983)**	**(112,087)**	**(142,062)**
Financing activities:			
Decrease in long-term bank borrowings, net	(4,952)	(14,837)	(148,156)
Dividends of adidas-Salomon AG (see note 11)	(49,884)	(11,338)	0
Dividends to minority shareholders	(12,502)	(9,032)	(4,280)
Increase (decrease) in short-term borrowings, net	1,051,160	(10,692)	167,261
Net cash provided by (used in) financing activities	**983,822**	**(45,899)**	**14,825**
Effect of exchange rates on cash (see note 18)	**(10,109)**	**613**	**(1,588)**
Net increase (decrease) in cash and cash equivalents	(20,402)	43,141	2,156
Cash and cash equivalents at beginning of year	83,976	40,835	38,679
Cash and cash equivalents at end of year	**63,574**	**83,976**	**40,835**

See accompanying notes to the consolidated financial statements

adidas-Salomon AG and Subsidiaries
Notes to Consolidated Financial Statements

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

1. General

The accompanying consolidated financial statements of adidas-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") and comply with the Company's significant accounting policies described herein.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below. As compared to the previous year, these principles have been applied consistently in all material respects except the accounting treatment of unrealized gains and losses on hedging contracts for future commercial transactions (see note 15). In order to improve the presentation clarity of the consolidated income statements certain accounts have been reclassified. These reclassifications do not individually or together significantly affect the comparability. Therefore the respective prior year figures have not been adjusted.

Principles of consolidation:

The consolidated financial statements include the accounts of adidas-Salomon AG and its significant direct and indirect subsidiaries. The companies of the Salomon group will be consolidated beginning January 1, 1998, the date at which effective control transferred to adidas-Salomon AG. Further, a consolidation in 1997 for the period December 22, 1997 to December 31, 1997 would have been associated with unreasonably high costs and time constraints and the impact on the consolidated income statements would have been insignificant with respect to the short period of time.

The Company's investments in companies not included in consolidation are accounted for at cost. All significant intercompany transactions and accounts are eliminated in consolidation.

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

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

Goodwill and intangible assets:

Goodwill and intangible assets are valued at cost less accumulated amortization. Goodwill resulting from the excess of the acquisition cost over the fair value of the net assets of businesses acquired in purchase transactions and intangible assets are amortized over their expected useful economic lives up to 20 years.

* The change of the name was registered in the Commercial Register on December 19, 1997.

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 in the fashion industry. These costs are also not significant to the Company's financial position.

The Company spent approximately DM 49.1 million, DM 37.4 million and DM 35.3 million on product research and development in 1997, 1996 and 1995, respectively.

Currency translation:

Assets and liabilities of the Company's non-Deutsche-Marks functional currency subsidiaries are translated into Deutsche Marks at closing exchange rates at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the year. All cumulative differences 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 Marks for major currencies in which the Company operates is as follows:

	Average rate for the year ended December 31,			Year-end spot rate at December 31,	
	1997	**1996**	**1995**	**1997**	**1996**
1 USD	1.7334	1.5035	1.4377	1.7921	1.5548
100 FRF	29.7084	29.4103	28.7151	29.8830	29.6380
1 GBP	2.8399	2.3487	2.2787	2.9820	2.6267
100 ESP	1.1843	1.1878	1.1493	1.1814	1.1866
1,000 ITL	1.0170	0.9742	0.8740	1.0177	1.0174
1 AUD	1.2883	1.1763	1.0611	1.1740	1.2400
100 KRW	0.1824	0.1870	–	0.1090	0.1841

Inventories:

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

Property and equipment and depreciation:

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

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

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

Recognition of revenues:

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

Advertising and promotional expenditures:

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. Other media campaign costs 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 whole term of the agreement.

Income taxes:

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

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

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

The Company will adopt International Accounting Standard No. 12 (revised 1996) for the fiscal year beginning January 1, 1998.

The application of the new standard will result in significantly higher deferred tax assets. This is mainly due to the capitalization of deferred tax assets arising from tax loss carryforwards, which will be re-assessed in any period subsequent to the loss. Deferred tax expense will increase accordingly, mainly due to the utilization of tax loss carryforwards in Germany.

3. Acquisitions

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

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

Effective October 1, 1997 adidas assumed full ownership over its former joint venture company adidas Benelux, Netherlands and its fully owned subsidiary adidas Belgium through the acquisition of the remaining interest. The purchase price totalled 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 of adidas-Salomon AG.

Effective December 22, 1997 the Company acquired 100% of the 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 of DM 942 million is accounted for at cost under investments (see notes 8 and 22). The Salomon group will be consolidated with effect from January 1, 1998.

Salomon is a world leader in winter sports equipment, specifically alpine and cross-country skiing. In addition the company has a line of summer equipment (golf, hiking shoes and cycle components), which represents approximately half its revenues. The main brands of the group are *Salomon*, *Taylor Made* and *Mavic*. In the fiscal year ending March 31, 1997, the group generated net sales of FRF 4.42 billion (approximately DM 1.32 billion) and net income of FRF 214 million (approximately DM 64 million).

In 1997 no further significant acquisitions have been made.

4. Inventories

Inventories by major classification are as follows:

(in DM 000)	**Dec. 31, 1997**	**Dec. 31, 1996**
Finished goods and merchandise	1,591,891	1,071,798
Work-in-process	3,656	6,270
Raw materials	10,554	9,980
	1,606,101	**1,088,048**

Inventories are net of reserves for the excess of cost over the net realizable value of certain finished goods and merchandise inventories based on changing trends in the industry and excess stock. These reserves aggregated approximately DM 159 million and DM 141 million as of December 31, 1997 and 1996, respectively.

5. Receivables and other current assets

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

(in DM 000)	Dec. 31, 1997	Dec. 31, 1996
Trade accounts receivable, gross	960,349	713,167
less: allowance for doubtful accounts	72,093	62,620
Trade accounts receivable, net	**888,256**	**650,547**
Receivables from unconsolidated affiliates	5,020	93
Prepaid and other current assets	253,177	142,990
Cash deposits	11,251	24,177
	1,157,704	**817,807**

Prepaid and other current assets are essentially comprised of refundable taxes, prepaid expenses mainly for promotion agreements, as well as premiums for interest and currency options. Cash deposits refer to adidas Korea.

6. Property and equipment, net

Property and equipment consist of the following:

(in DM 000)	Dec. 31, 1997	Dec. 31, 1996
Land, land rights and buildings	241,312	228,574
Technical equipment and machinery	67,598	58,672
Other equipment, furniture and fittings	285,575	223,050
	594,485	**510,296**
less: allowances for depreciation	325,540	276,825
	268,945	**233,471**
Construction in progress, net	5,640	7,620
	274,585	**241,091**

A reconciliation of the carrying amounts of property and equipment is shown in attachment II to these notes. Depreciation expenses were DM 60 million, DM 45 million and DM 36 million for the years ended December 31, 1997, 1996 and 1995, respectively.

7. Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following:

(in DM 000)	Dec. 31, 1997	Dec. 31, 1996
Goodwill (net of accumulated amortization of DM 54,064 and DM 34,664 at December 31, 1997 and 1996, respectively)	223,926	185,331
Trademarks and similar rights and licenses to such rights (net of accumulated amortization of DM 29,128 and DM 25,042 at December 31, 1997 and 1996, respectively)	10,884	8,838
	234,810	**194,169**

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

Goodwill and intangible asset amortization expense of DM 21 million, DM 20 million and DM 17 million for the years ended December 31, 1997, 1996 and 1995, respectively, is included in depreciation and amortization.

8. Investments and other long-term assets

Investments and other long-term assets consist of the following:

(in DM 000)	Dec. 31, 1997	Dec. 31, 1996
Investments, carried at cost	943,819	2,580
Cash deposits	6,820	22,858
Long-term receivables and other long-term assets	6,847	5,018
	957,486	**30,456**

Investments primarily relate to the purchase price of DM 942 million for the acquisition of the Salomon Family Holding Company (now adidas Salomon France S.A.) (see notes 3 and 22).

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

9. Borrowings and credit lines

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

Of the total borrowings of DM 1,525 million, borrowings in the amount of DM 935 million were incurred on the acquisition of adidas Salomon France S.A. (the former Sport Développement S.C.A.) in December 1997.

As of December 31, 1997, principal borrowings were in DM (54%), USD (22%), FRF (6%), ESP (5%) and GBP (3%).

Month-end weighted average interest rates on borrowings ranged from 4.8% to 5.6% and from 4.8% to 6.2% for the years ended December 31, 1997 and 1996, respectively.

Credit lines:

Prior to the announcement of the acquisition of the Salomon group, the Company had cash credit lines of approximately DM 2.4 billion and separate lines for the issuance of letters of credit, which are used primarily to support the Company's sourcing activities in Asia, in an amount of approximately DM 1.3 billion.

In connection with the acquisition of the Salomon group, the Company arranged additional credit lines in a total amount of DM 3.35 billion.

Out of the total cash credit lines of DM 5.75 billion, lines in a total amount of approximately DM 1.5 billion are documented as committed medium-term lines, which carry a facility fee of 0.09% p.a. and provide for agreed maximum margins on drawings. These committed medium-term lines initially run till November 30, 2001, but contain a provision for an annual extension. The Company can cancel these committed medium-term lines annually, for the first time on November 30, 1998.

As of December 31, 1997, unused cash credit lines amounted to approximately DM 4.2 billion, of which DM 1.5 billion were expected to be needed for the purchase of the remaining shares of Salomon S.A.

As to the protection against interest rate risks, refer to note 14 below.

10. Other current liabilities

Other current liabilities consist of the following:

(in DM 000)	Dec. 31, 1997	Dec. 31, 1996
Income taxes payable	133,336	90,790
Amounts due to unconsolidated affiliates	923	864
Other accrued liabilities:		
Outstanding invoices	57,719	43,294
Payroll, commissions and employee benefits	109,878	72,597
Restructuring	21,038	16,297
Marketing	80,640	54,790
Taxes, other than income taxes	43,521	30,735
Returns, allowances, warranty	43,016	30,238
Interest	2,220	382
Other	104,004	99,133
Total other accrued liabilities	**462,036**	**347,466**
	596,295	**439,120**

Other current liabilities mainly consist of credit balances in accounts receivable, customs duties, provisions for anticipated losses from pending purchase and other transactions, obligations under capital lease as well as provisions for risks from pending law suits.

11. Shareholders' equity

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

a) DM 83,700,000 for cash consideration with the right of existing shareholders to subscribe for the shares;

b) DM 22,600,000 for cash consideration which, with the consent of the Supervisory Board, shareholders can be excluded from the subscription of shares; and

c) DM 7,000,000 for cash consideration or contribution-in-kind for the purpose of granting the right to subscribe shares to key management.

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.

The amendment of the Articles of Association was sent to the Commercial Register, however has not yet been registered.

The following is a summary of the consolidated statement of shareholders' equity for the years ended December 31, 1997, 1996 and 1995:

(in DM 000)	Share capital	Capital surplus	Retained earnings (including foreign currency translation adjustments)[1]	Total
Balance at January 1, 1995	**147,800**	**93,727**	**181,505**	**423,032**
Net effect on equity of alH merger	–	–	(83,427)	(83,427)
Net effect on equity of changes in companies included in consolidation	–	–	(451)	(451)
Share capital increase	78,946	(78,946)	–	–
Net income	–	–	244,914	244,914
Other – net, primarily translation adjustments	–	–	(7,482)	(7,482)
Balance at December 31, 1995	**226,746**	**14,781**	**335,059**	**576,586**
Net effect on equity of changes in companies included in consolidation	–	–	84	84
Net income	–	–	314,069	314,069
Dividend payment	–	–	(11,338)	(11,338)
Other – net, primarily translation adjustments	–	–	24,927	24,927
Balance at December 31, 1996	**226,746**	**14,781**	**662,801**	**904,328**
Net effect on equity of changes in companies included in consolidation	–	–	42	42
Net income	–	–	464,954	464,954
Dividend payment	–	–	(49,884)	(49,884)
Other – net, primarily translation adjustments	–	–	32,413	32,413
Balance at December 31, 1997	**226,746**	**14,781**	**1,110,326**	**1,351,853**

[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 28, 1997, the Company's shareholders approved the distribution of a dividend of DM 1.10/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, 1997 should be appropriated as follows (in thousands):

Dividend of DM 1.65 per ordinary share	DM 74,826
Allocation to revenue reserves	DM 379,641
Unappropriated earnings of adidas-Salomon AG as of December 31, 1997	**DM 454,467**

12. Leasing arrangements

The Company leases space for its offices, warehouses and equipment under leases expiring from one to eight years. Rent expense aggregated DM 80 million, DM 61 million and DM 49 million for the years ended December 31, 1997, 1996 and 1995, respectively. Amounts of future minimum lease payments under significant non-cancellable operating leases for the succeeding five years 1998 through 2002 are approximately DM 65 million, DM 42 million, DM 26 million, DM 15 million and DM 12 million, respectively. Amounts of future minimum lease payments after 2002 are approximately DM 21 million.

Additionally, the Company conducts a portion of its operations from leased facilities in France. The lease, which is for fifteen years expiring in 2004, is classified as a capital lease. The value of facilities under this capital lease, net of accumulated depreciation, of approximately DM 4 million and DM 5 million at December 31, 1997 and 1996, respectively, is included in land, land rights, and buildings. The future minimum lease payments under this capital lease, which are payable through the year 2004, amounted to approximately DM 2 million at December 31, 1997.

13. Employee benefit plans

The Company sponsors and/or contributes to various pension plans, primarily in Germany. The Company's plans cover substantially all German employees. The liabilities related to these plans of approximately DM 60 million and DM 38 million at December 31, 1997 and 1996, respectively, are included in other long-term liabilities. The aggregate amounts vested in Germany under these plans were DM 33 million and DM 20 million at December 31, 1997 and 1996, respectively. Additionally, the Company borrowed approximately DM 17 million at December 31, 1997 and 1996, respectively, from its pension trust fund in Germany. This amount is also included in other long-term liabilities. As of January 1, 1997, this amount bears interest at the average Deutsche Bundesbank public bond rate of 5.25% (1996: 5.46%) as fixed at the beginning of the year. The Company's plans include both defined contribution plans and defined benefit plans as described below.

The Company sponsors and contributes to a defined benefit plan in Germany. The employee benefits of this plan are based on years of service. Pension costs are generally funded currently, subject to German regulatory funding limitations. The pension accruals of adidas-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 7% in 1997 and 1996, respectively, and an expected compensation growth rate between 2.2% 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.

The actuarial valuations of the plans described herein are made at the end of each reporting period. The actuarial valuations of the plan are dated December 10, 1997, December 11, 1997 and February 10, 1998.

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

Pension expense totalled DM 28 million, DM 13 million and DM 14 million for the years ended December 31, 1997, 1996 and 1995, respectively.

14. Financial instruments

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

Management of foreign exchange risk:

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 caused by the high share of product sourcing from suppliers in the Far East, which invoice in USD, and the majority of sales being invoiced in European currencies.

It is the Company's policy to hedge currency risks due to future operations when it becomes exposed.

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

Exchange gains and losses on forward contracts and currency options which hedge anticipated future transactions are deferred, whereas exchange gains and losses on forward contracts and currency options which were discontinued or no longer serve as a hedge for an anticipated future transaction are credited/charged to current income as incurred.

To limit the premium payments for currency options, the Company applies, in its hedging via options, a combination of the purchase of USD call options with the sale of USD put options with lower strike rates. The Company's portfolio of currency options is actively managed. In 1997, the Company incurred option premium payments in a total amount of DM 29.7 million, equal to approximately 1.7% of the total amount of purchases of USD against other currencies, or approximately 0.8% of the cost of goods sold.

Of the currency hedges in the total amount of DM 1.7 billion, which were outstanding on December 31, 1997, DM 1.6 billion were for the purchase of USD. Of these, approximately DM 400 million were for the purchase of USD versus DM, at an effective worst-case rate of 1.688. Since most of the hedging is via options, the Company would benefit from a decline of the USD-DM rate in the exchange markets below this level.

The USD hedges, which were outstanding on December 31, 1997, covered approximately 90% of the USD needs, which the Company anticipated for the period till the end of October 1998, i.e. till the end of the sourcing for the last selling season in 1998.

	December 31, 1997		
(in DM millions)	**Notional amounts**	**Fair value**	**Book value**
Forward contracts	295	9.7	0.0
Currency options	1,416	64.3	19.7
	1,711	**74.0**	**19.7**

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

Management of interest rate risks:

As of December 31, 1997, most of the Company's financing concerned the acquisition of adidas Salomon France S.A. (the former Sport Développement S.C.A.) and the Company's inventories and receivables. Taking advantage of lower short-term rates of most major currencies, the Company has concentrated its borrowings in short maturities, but it has limited its exposure with regard to possible future interest rate increases with the purchase of interest rate cap spreads for a basket of currencies in a structure which approximates the currency composition of its worldwide borrowings. These contracts protect the Company's borrowings in a notional amount of DM 1.7 billion against a rise of the weighted average interest rate above 5.5%. Out of this amount, the protection ends for DM 1.3 billion at a weighted average rate of 8.4%. The lifetime of these caps ranges from 3 to 6 years, with a weighted average of 4 years.

	December 31, 1997		
(in DM millions)	**Notional amounts**	**Fair value**	**Book value**
Interest rate caps	1,700	9.8	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 were determined on the basis of the market conditions on the reporting date. The fair value of the interest rate caps on the reporting date was assessed by the financial institutions which these caps had been arranged with.

Credit risk:

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

15. Financial result

Financial result consists of the following:

	Year ended December 31,		
(in DM 000)	**1997**	**1996**	**1995**
Interest income	14,215	9,063	9,216
Interest expense	47,663	43,108	47,247
Interest expense, net	**33,448**	**34,045**	**38,031**
Income from investments	109	46	94
Other – net, primarily net exchange (gains)/losses	(2,319)	(21,385)	9,050
	31,020	**12,614**	**46,987**

In 1996, unrealized gains and losses due to changes in the fair value of outstanding currency options, which hedge future commercial transactions, were recognized in income as part of net financial expenses. With effect from January 1, 1997, the accounting treatment was changed. Unrealized gains or losses on hedging contracts, which hedge future commercial transactions, are now recorded upon maturity of each hedging transaction as part of the cost base of such transactions. If the Company's 1996 accounting treatment for currency options had been continued in 1997, the Company would have accounted for an additional exchange gain on outstanding currency options in an amount of DM 36.6 million for the year ended December 31, 1997.

16. Income taxes

The Company computes its income tax liabilities in accordance with International Accounting Standards No. 12. The Company's corporate statutory tax rate was 48.375% (45% plus 7.5% surtax thereon) for the years ended December 31, 1997, 1996 and 1995. In addition, the Company's statutory trade tax rate was 15%. The statutory trade tax is deductible for corporate tax purposes. The Company's effective tax rates were 27.5%, 24.0% and 14.5% for the years ended December 31, 1997, 1996 and 1995, respectively. The differences between statutory and effective tax rates result primarily from earnings in jurisdictions taxed at rates different from statutory German rates and the benefits of prior year operating loss carryforwards of adidas-Salomon AG and of adidas North America Inc. realized in the current years.

During the period ended December 31, 1997 the Company realized net deferred tax assets previously unrecognized, principally from net operating loss carryforwards (approximately DM 129 million).

The cumulative amounts of unremitted earnings of international subsidiaries are expected to be mainly required for use in the international operations.

The Company netted the tax effect of certain temporary differences between the book value of the Company's assets and liabilities and the related tax bases of those assets and liabilities including the effect of the operating loss carryforwards as of December 31, 1997 and 1996 (note 2).

The Company had unrecognized deferred tax assets from operating loss carryforwards of approximately DM 185 million and DM 284 million at December 31, 1997 and 1996, respectively. The Company's utilization of approximately DM 36 million of such deferred taxes is substantially limited, primarily in the US due to a change in ownership of adidas AG in 1993. Furthermore there are approximately DM 68 million deferred tax assets in the US which can be utilized within ten years. The deferred tax assets from operating loss carryforwards of adidas-Salomon AG of approximately DM 61 million at December 31, 1997 have an unlimited carryforward period.

17. Segmental information

The Company operates predominantly in one industry segment, that being the design, wholesale and marketing of athletic and active lifestyle products. Information about the Company's operations by geographic markets is presented below. Revenues are classified on the basis of the Company's geographic reporting structure and since 1997 in the geographic market in which the revenues from third parties are realized; prior year figures were adjusted accordingly. Sales between geographic regions are at cost plus a sourcing fee. Inter-geographic assets were eliminated to arrive at the consolidated amounts.

(in DM 000)	Europe	America	Asia/Pacific	Latin America	Total
Year ended December 31, 1997:					
Total revenues	4,617,326	1,700,828	3,652,616	169,959	10,140,729
less: inter-geographic revenues	(489,966)	(1,440)	(2,949,478)	(1,568)	(3,442,452)
Revenues from third parties	**4,127,360**	**1,699,388**	**703,138**	**168,391**	**6,698,277**
Total assets	**3,040,922**	**796,040**	**352,030**	**105,268**	**4,294,260**
Year ended December 31, 1996:					
Total revenues	3,610,928	1,029,448	2,158,100	109,480	6,907,956
less: inter-geographic revenues	(452,030)	(3,452)	(1,741,987)	(1,055)	(2,198,524)
Revenues from third parties	**3,158,898**	**1,025,996**	**416,113**	**108,425**	**4,709,432**
Total assets	**1,599,750**	**417,806**	**353,578**	**84,413**	**2,455,547**
Year ended December 31, 1995:					
Total revenues	2,766,353	774,402	1,497,885	98,334	5,136,974
less: inter-geographic revenues	(373,637)	(7,109)	(1,248,474)	(7,514)	(1,636,734)
Revenues from third parties	**2,392,716**	**767,293**	**249,411**	**90,820**	**3,500,240**
Total assets	**1,242,558**	**325,302**	**152,894**	**56,569**	**1,777,323**

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

18. Cash flow statement

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

Furthermore, adidas Korea held cash with maturities of 12 months or less in the amount of DM 11 million, which is included in other current assets (see note 5), and cash with maturities exceeding 12 months in the amount of DM 7 million, which is included in other long term assets (see note 8).

The negative effect of exchange rates on cash is mainly influenced by the devaluation of the Korean currency in the last quarter of 1997.

19. Commitments and contingencies

As of December 31, 1997 the Company has bills discounted in the amount of approximately DM 9 million and is contingently liable for guarantees of indebtedness for liabilities due to banks in the amount of approximately DM 5 million.

The Company has other financial commitments for promotion and advertising contracts, together with fixed asset investment commitments for the succeeding five years 1998 through 2002 of approximately DM 237 million, DM 208 million, DM 177 million, DM 147 million and DM 107 million, respectively. Amounts of future payments after 2002 are approximately DM 124 million. These commitments have remaining terms of up to 8 years from December 31, 1997.

The Company is currently engaged in various lawsuits resulting from the normal course of business. Although it is reasonably possible that some of the matters could be decided unfavorably against the Company, in the opinion of management, the outcome of the pending lawsuits will not result in a significant impact on the consolidated financial position as of December 31, 1997.

20. 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 said club. The promotion contracts are similar to those entered into with other clubs.

21. Special Reward and Incentive Plan (SRIP)

adidas-Salomon AG has implemented a one-time offer share option plan during the second quarter 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 could have been exercised immediately after the implementation of the plan. The other options are to be exercised in tranches by 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 year 1997 of DM 21,690,000 is shown as extraordinary income; the respective expenses of the same amount are included in the selling, general and administrative expenses.

The difference between realized share price and exercise price for options exercised by board members amounted to DM 4,117,000.

22. Subsequent events

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 any and 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 has acquired over 95% of the shares of Salomon S.A. Under French law the Company has now the right to launch a going private offer followed by a mandatory repurchase after which Salomon's shares would be delisted.

Herzogenaurach, February 11, 1998

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, 1997 and 1996, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 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 at December 31, 1997 and 1996, and the related consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1997 in accordance with International Accounting Standards.

Frankfurt am Main, February 11, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dieter Kuhn
Wirtschaftsprüfer

Dr. Bert Böttcher
Wirtschaftsprüfer

Attachment I to the Notes

Shareholdings of adidas-Salomon AG, Herzogenaurach

As at December 31, 1997 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	in %
Germany					
1	erima Sportbekleidungs GmbH Reutlingen	DEM	16,466	directly	100
2	adidas Versicherungs-Vermittlungs GmbH Herzogenaurach	DEM	50	directly	100
Europe (incl. Africa and Middle East)					
3	adidas (UK) Ltd. [1)] Stockport (Great Britain)	GBP	35,893	directly	100
4	adidas (ILKLEY) Ltd. [1) 12)] Stockport (Great Britain)	GBP		3	100
5	Larasport (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		3	100
6	Sarragan (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		3	100
7	Trefoil Trading (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		3	100
8	Three Stripes (U.K.) Ltd. [1) 12)] Stockport (Great Britain)	GBP		3	100
9	adidas Sarragan France S.a.r.l. Landersheim (France)	FRF	261,538	directly	100
10	adidas Espana S.A. Zaragoza (Spain)	ESP	1,966,129	directly	100
11	adidas Italia S.r.l. Monza (Italy)	ITL	43,509,000	directly	50
12	adidas Norge A/S Gjovik (Norway)	NOK	107,996	directly	100
13	adidas Sport GmbH Lindau (Switzerland)	CHF	16,247	directly	100
14	adidas Sverige AB Hägersten (Sweden)	SEK	60,926	directly	100
15	adidas Austria Gesellschaft mbH Klagenfurt (Austria)	ATS	117,080	directly 13	95.89 4.11
16	adidas Benelux B.V. Etten-leur (Netherlands)	NLG	19,344	directly	100
17	adidas Belgium N.V. Zellik (Belgium)	BEF	86,023	16	100
18	BIG L.A. N.V. [10)] Houthalen (Belgium)	BEF	6,341	17	50
19	adidas International B.V. Amsterdam (Netherlands)	USD	83,355	directly 9	96.2 3.8
20	adidas CR s.r.o. Prague (Czech Republic)	CSK	201,943	directly	100
21	adidas Egypt Ltd. Cairo (Egypt)	USD	419	directly	100

As at December 31, 1997 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	 in %
22	adidas Hellas S.A. Thessaloniki (Greece)	GRD	2,057,237	directly	50
23	adidas Gulf L.L.C. Dubai (United Arab Emirates)	USD	(453)	9 indirectly	49 51
24	adidas Budapest Kft. [2] Budapest (Hungary)	HUF	1,491,405	directly	85
25	Predator Kft. [2] Budapest (Hungary)	HUF		24	100
26	A.T.P. Kft. [2] Budapest (Hungary)	HUF		24	100
27	Questra Kft. [2] Budapest (Hungary)	HUF		24	100
28	adidas (Ireland) Ltd. [3] Dublin (Ireland)	IEP	2,779	directly	100
29	Fortstewart Ltd. [3] [12] Dublin (Ireland)	IEP		28	100
30	Three Stripes Export Ltd. [3] [12] Dublin (Ireland)	IEP		28	100
31	adidas Israel Ltd. Tel Aviv (Israel)	USD	705	directly	100
32	adidas Lebanon SAL [9] [12] Beirut (Lebanon)	USD	(173)	indirectly	100
33	adidas Middle East SAL Beirut (Lebanon)	USD	2,854	9	100
34	adidas Moscow Ltd. Moscow (Russia)	RUR	39,935,249	directly	100
35	adidas Poland Sp. z. o. o. Warsaw (Poland)	PLZ	26,408	directly	100
36	adidas Portugal Lda. Lisbon (Portugal)	PTE	681,789	directly	51
37	adidas Slovakia s.r.o. [9] [12] Bratislava (Slovak Republic)	SKK	[11]	directly	100
38	adidas (South Africa) (Pty) Ltd. Cape Town (South Africa)	ZAR	25,186	directly	100
39	adidas Ukraine Kiev (Ukraine)	UAH	1,189	directly	100
40	adidas Sarragan Sports E.u.r.l. Pont Sainte Marie (France)	FRF	12,234	9	100
41	erima France S.a.r.l. Schiltigheim (France)	FRF	1,853	1	100
42	Le Coq Sportif International S.A. [9] [12] Schiltigheim (France)	FRF	(2,206)	directly	100
43	Sarragan S.A. Fribourg (Switzerland)	CHF	2,495	directly	100
44	SOFAG-Sporting S.A. Paris (France)	FRF	2,011	9	100

As at December 31, 1997 Company and domicile	Currency	Equity 000 currency units	Share in capital held by	in %
America				
45 adidas North America Inc. [4)] Portland, Oregon (USA)	USD	93,210	directly	100
46 adidas America Inc. [4)] Spartanburg, South Carolina (USA)	USD		45	100
47 adidas Distribution Center Inc. [4)] Lansing, Michigan (USA)	USD		46	100
48 Sports Inc. [4) 12)] Portland, Oregon (USA)	USD		45	100
49 adidas Retail Outlets Inc. [4)] Portland, Oregon (USA)	USD		46	100
50 adidas Sales Inc. [4)] Portland, Oregon (USA)	USD		46	100
51 adidas (Canada) Ltd. Toronto (Canada)	CAD	16,038	45	100
52 adidas Golf U.S.A. Inc. [9)] Portland, Oregon (USA)	USD	(487)	directly	100
53 LXZA Inc. [5) 9) 12)] (formerly LCS America Inc.) Spartanburg, South Carolina (USA)	USD	46	directly	100
54 LXZDO Inc. [5) 9) 12)] (formerly LCS Design Outlets Inc.) Spartanburg, South Carolina (USA)	USD		53	100
55 Sarragan Holding Inc. [5) 9) 12)] Princeton, New Jersey (USA)	USD		directly	100
Asia/Pacific				
56 adidas Australia Pty. Ltd. Mulgrave (Australia)	AUD	36,953	directly	100
57 adidas Korea Ltd. Seoul (Korea)	KRW	24,512,000	directly	51
58 adidas Asia/Pacific Ltd. (Hong Kong)	USD	75,258	directly	100
59 adidas China Holding Co. Ltd. [9) 12)] (Hong Kong)	HKD	(510)	directly	50
60 Guangzhou adi Sporting Goods Ltd. Guangzhou (China)	CNY	(345)	directly indirectly	90 10
61 adidas Hong Kong Ltd. (Hong Kong)	HKD	21,620	directly	100
62 adidas India Private Ltd. [6)] New Delhi (India)	INR	(82,475)	directly 19	99 1
63 adidas India Trading Private Ltd. [6)] New Delhi (India)	INR		62	80
64 P.T. Trigaris Sportindo (adidas Indonesia) Jakarta (Indonesia)	IDR	(2,053,872)	indirectly	70

As at December 31, 1997 Company and domicile		Currency	Equity 000 currency units	Share in capital held by	in %
65	adidas Malaysia Sdn. Bdn. Kuala Lumpur (Malaysia)	MYR	6,747	directly	60
66	adidas New Zealand Pty. Ltd. Auckland (New Zealand)	NZD	1,354	directly	100
67	adidas Philippines Inc. Manila (Philippines)	PHP	107,929	directly	100
68	adidas Singapore Pte. Ltd. (Singapore)	SGD	55	directly	100
69	adidas Taiwan Ltd. Taipei (Taiwan)	TWD	46,461	directly	100
70	adidas (Thailand) Co., Ltd. Bangkok (Thailand)	THB	114,467	directly	50
Latin America					
71	adidas Argentina S.A. Buenos Aires (Argentina)	ARS	3,249	directly	100
72	adidas do Brasil Ltda. São Paulo (Brazil)	BRL	3,170	directly 13	12.17 87.83
73	adidas Chile Ltda. Santiago de Chile (Chile)	CLP	706,476	directly 2	99 1
74	adidas de Mexico S.A. de C.V. [7] Mexico City (Mexico)	MXP	42,071	directly	100
75	adidas Industrial S.A. de C.V. [7] Mexico City (Mexico)	MXP		directly	100
76	adidas Latin America S.A. Panama City (Panama)	USD	5,848	directly	100
77	3 Stripes S.A. (adidas Uruguay) Montevideo (Uruguay)	UYU	8,469	directly	100
78	adidas Corp. de Venezuela [8] Caracas (Venezuela)	VEB	607,794	directly	100
79	adidas Margarita S.A. [8] Porlamar, Marg. (Venezuela)	VEB		78	100
Salomon group [13]					
Europe					
80	adidas Salomon France S.A. (formerly Sport Développement S.C.A.) Metz-Tessy (France) (March 31, 1997)	FRF	280,305	directly 19	83 17
81	Salomon S.A. Annecy (France) (Salomon group at March 31, 1997)	FRF	1,995,633	80	38.87
82	Salomon Österreich GmbH Salzburg (Austria)	ATS		81	100
83	Salomon Schweiz A.G. Stans (Switzerland)	CHF		81	100

As at December 31, 1997 Company and domicile	Currency	Equity 000 currency units	Share in capital held by	in %
84 Salomon GmbH Munich	DEM		81	100
85 Salomon Italia S.p.A. Bergamo (Italy)	ITL		81	99.9
86 Salomon San Giorgio S.p.A. Treviso (Italy)	ITL		81 85	68.8 31.2
87 Salomon Romania Srl Timisoara (Romania)	ROL		81	100
88 Salomon Sport AB Svenljunga (Sweden)	SEK		81	100
89 Salomon Norge A/S Oslo (Norway)	NOK		81	100
90 Salomon Sport Finland Oy Helsinki (Finland)	FIM		81	100
91 Taylor Made Ltd. [12] Basingstoke (UK)	GBP		81	100
92 Salomon Taylor Made Ltd. Basingstoke (UK)	GBP		91	100
93 Mavic S.A. Saint-Trivier-Sur-Moignans (France)	FRF		81	100
94 Catidom S.A.S. Annecy (France)	FRF		93	100
95 Mavic sports S.A.S. Saint-Trivier-Sur-Moignans (France)	FRF		93	100
America				
96 Salomon North America, Inc. Georgetown, Massachusetts (USA)	USD		81	99.9
97 Salomon Canada Sports Ltd. Montreal (Canada)	CAD		81	100
98 Salomon Design Center Inc. Boulder, Colorado (USA)	USD		81	100
99 Taylor Made Golf Co., Inc. Carlsbad, California (USA)	USD		81	99.9
100 Bonfire Snowboarding Inc. Portland, Oregon (USA)	USD		99	100
Asia				
101 Salomon & Taylor Made Co., Ltd. Tokyo (Japan)	JPY		81	78.5

[1] Sub-group UK
[2] Sub-group Hungary
[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] Eight companies have not been included in the consolidated financial statements of adidas-Salomon AG due to their insignificance.
[10] Associated company; due to its insignificance no equity valuation was made.
[11] Newly founded companies, from which no financial statements are available yet.
[12] Companies with no active business.
[13] The first inclusion of the Salomon group in the consolidated financial statements of adidas-Salomon AG will be at January 1, 1998.

Attachment II to the Notes

adidas-Salomon AG and Subsidiaries
Statement of Movements of Property and Equipment

(in DM 000)

	Acquisition and production costs					
	Balance at Jan. 1, 1997	**Currency effect**	**Additions**	**Transfers**	**Disposals**	**Balance at Dec. 31, 1997**
Property and equipment						
Land, land rights and buildings	228,574	2,670	10,941	(16)	857	241,312
Technical equipment and machinery	58,672	3,223	3,769	3,280	1,346	67,598
Other equipment, furniture and fittings	223,050	6,532	68,607	3,231	15,845	285,575
Construction in progress	7,620	710	7,451	(6,853)	1,168	7,760
	517,916	**13,135**	**90,768**	**(358)**	**19,216**	**602,245**

Accumulated depreciation	Book value		
Balance at Dec. 31, 1997	Net book value Dec. 31, 1997	Net book value Dec. 31, 1996	Depreciation for the year
100,368	140,944	135,007	7,397
45,971	21,627	20,109	6,322
179,201	106,374	78,355	44,309
2,120	5,640	7,620	2,120
327,660	**274,585**	**241,091**	**60,148**

Report of the Supervisory Board

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

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

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

The financial statements for the year ended December 31, 1997 have been approved by the Supervisory Board. The Supervisory Board has expressed its agreement with the management report and especially with the outlook for the future development of the Company. The financial statements are thus approved.

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

Glenn Bennett, Herbert Hainer, Dean Hawkins, Erich Stamminger and Jan Valdmaa were appointed members of the Board of Directors at the meeting of the Supervisory Board on March 6, 1997.

At its meeting on September 15, 1997 the Supervisory Board approved the acquisition of Salomon S.A., a French corporation registered in Annecy, France, through the purchase by adidas of the Family Holding Company, Sport Développement S.C.A., holding 39 per cent of the capital and 56 per cent of the voting rights in Salomon S.A.

Immediately preceding the Extraordinary Shareholders` Meeting in Nuremberg on December 15, 1997, the Supervisory Board extended the term of office of the Chairman of the Board of Directors, Robert Louis-Dreyfus, and that of Christian Tourres, who has been appointed Deputy Chairman of the Board of Directors, by another five years until 2003.

At the same Supervisory Board meeting, it was proposed to appoint Jean-François Gautier, Chief Executive Officer of Salomon S.A., to the Board of Directors of adidas-Salomon AG.

1997 was another landmark year for adidas. We very much appreciate the work of the Board of Directors, the Management Boards of the Group companies, the Works Council and all employees and thank them all for their commitment to adidas.

Herzogenaurach,
March 4, 1998

The Supervisory Board
Henri Filho
(Chairman)

adidas AG

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Conception:

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Design and Realization:

Advantage, Frankfurt

Photo Credits:

Allsport, London

Deutsche Telekom AG, Bonn

Leagas Delaney, London

Out of concern for the environment, this paper was processed with a non-chlorine bleaching process.

Printed in Germany