**TIGHT OPERATING WORKING CAPITAL MANAGEMENT** Due to a comparatively low level of fixed assets required in our business, operating working capital management is a major focus of our efforts to improve the efficiency of the Group's balance sheet. We have made major strides in this area through tight working capital management focused on continuously improving our Group's inventories, accounts receivable and accounts payable.

Our key metric is operating working capital as a percentage of net sales. Monitoring the development of this key metric facilitates the measurement of our progress in improving the efficiency of our business cycle. We strive to manage our inventory levels to meet market demand and ensure fast replenishment. Inventory ageing is controlled to reduce inventory obsolescence and to optimize clearance activities. As a result, stock turn development is the key performance indicator as it measures the number of times the average inventory is sold during a year, highlighting the amount of capital locked in products in relation to our Group's business. To minimize capital tied up in accounts receivable, we strive to continuously improve collection efforts in order to reduce the Days of Sales Outstanding (DSO) and improve the ageing of accounts receivable. Likewise, we strive to continuously optimize payment terms with our suppliers to best manage our accounts payable.

**CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS** Improving the effectiveness of the Group's capital expenditure is another lever to maximize the Group's free cash flow. Our capital expenditure is controlled with a top-down, bottom-up approach: In a first step, Group Management defines focus areas and an overall investment budget based on investment requests by brand management. Our operating units then align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value or internal rate of return method, in relation to the cost of capital. Specific investments are assessed according to the principles of risk-weighted returns. For large investment projects, timelines and deviations versus budget are monitored on a monthly basis throughout the course of the project.

**M & A ACTIVITIES FOCUS ON LONG-TERM VALUE CREATION POTENTIAL** We expect the majority of our Group's growth to come from organic business. However, as part of our commitment to ensuring sustainable profitable development, we regularly review merger and acquisition options that may provide additional commercial and operational opportunities. Acquisitive growth focus is primarily related to a potential for increasing market penetration, strengthening our Group's positioning within a sports category or addressing new consumer segments. The strategies of any potential acquisition candidate must correspond with the Group's long-term direction. Maximizing return on invested capital above the cost of capital is a core consideration in our decision-making process. Of particular importance is evaluating the potential impact on our Group's free cash flow. We assess current and future projected key financial metrics to evaluate a target's contribution potential. In addition, careful consideration is given to any potential financing implications which may be required to complete a prospective acquisition.

**COST OF CAPITAL METRIC USED TO MEASURE INVESTMENT POTENTIAL** Creating value for our shareholders by earning a return on invested capital above the cost of that capital is a guiding principle of our Group strategy. We source capital from equity and debt markets. Therefore, we have a responsibility that our return on capital meets the expectations of both equity shareholders and creditors. Our Group calculates the cost of capital utilizing the weighted average cost of capital (WACC) formula. This metric allows us to calculate the minimum required financial returns of planned capital investments. The cost of equity is computed utilizing the risk-free rate, market risk premium and beta. Cost of debt is calculated using the risk-free rate, credit spread and average tax rate.

**STRUCTURED PERFORMANCE MEASUREMENT SYSTEM** Our Group has developed an extensive performance measurement system, which utilizes a variety of tools to measure the performance of the adidas Group and our brand segments. To evaluate the Group's current sales and profitability development, we monitor our annual budget on a monthly basis, addressing shortfalls and identifying additional opportunities. Further, we monitor operating margin developments at all brands on a monthly basis. To optimize the Group's balance sheet, we control operating working capital movement via a monthly monitoring system. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. In addition, we benchmark the Group and brand results with those of our major competitors on a quarterly basis. We measure the Group's future top-line development on the basis of our order backlog development. Order backlogs comprise orders received within a period of up to nine months in advance of the actual sale. Our order book represents approximately 70 % of future anticipated revenues. Also increasingly important are other indicators such as our own-retail activities and at-once business, which are not represented in the order book. We provide updates on these developments as part of our quarterly reports.

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