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adidas delivers strong operational and financial performance in 2017

Major developments in FY 2017[1] [2]:

- **Currency-neutral revenues increase 16%**
- **Operating margin increases 1.2pp to 9.8%**
- **Net income from continuing operations grows 32% to € 1.430 billion**
- **Basic EPS from continuing operations increases 31% to € 7.05**
- **Management proposes dividend of € 2.60 per share**

Outlook[2]:

- **Currency-neutral sales to increase by around 10%**
- **Operating margin to increase to between 10.3% and 10.5%**
- **Net income from continuing operations to increase between 13% and 17%**
- **2020 profitability target upgraded: Net income from continuing operations now expected to increase between 22% and 24% on average per year (2015-2020)**

"2017 was a strong year – financially and operationally. We made great progress toward achieving our mission to be the best sports company in the world. Our strategic growth areas – North America, Greater China and Digital Commerce – were the main drivers of our performance," said adidas CEO Kasper Rorsted. "2018 is a key milestone on the road to achieving our long-term targets for 2020. We expect quality growth, with overproportionate bottom-line improvements. This will enable an even stronger increase in profitability by 2020 and allows us to upgrade our long-term target yet again."

Financial Performance in 2017

Currency-neutral sales increase 16% in 2017

In 2017, adidas delivered another year of strong performance, increasing currency-neutral revenues by 16%. This development mainly reflects an 18% increase at brand adidas, which was mainly driven by double-digit sales increases in the running category as well as at adidas Originals and adidas neo. In addition, high-single-digit sales increases in the training

1 Due to the divestiture of the TaylorMade (including the TaylorMade, Adams Golf and Ashworth brands) and CCM Hockey businesses, all income and expenses of the TaylorMade and CCM Hockey businesses are reported as discontinued operations at the end of December 2017. For the sake of comparability, all figures related to the 2016 financial year refer to the company's continuing operations unless otherwise stated. However, a restatement of the 2016 balance sheet items is not permitted under IFRS.

2 2017 and 2018 figures and growth rates for net income as well as earnings per share are stated excluding the negative one-time tax impact of € 76 million in 2017, arising from a revaluation of the company's US deferred tax assets, following the implementation of the US tax reform.

category also contributed to this development. Revenues at the Reebok brand grew 4%, driven by double-digit sales increases in Classics as well as low-single-digit growth in the running category. While the brand's international revenues grew at a double-digit rate in 2017, sales in the US declined, reflecting the significant amount of store closures in the market. From a channel perspective, the company's revenue growth was driven by double-digit increases in all distribution channels, with particularly strong support from e-commerce, where revenues grew 57%. In euro terms, sales for the company were up 15% to € 21.218 billion in 2017 (2016: € 18.483 billion).

Double-digit growth in almost all regions

On a currency-neutral basis, the combined sales of the adidas and Reebok brands grew at double-digit rates in nearly all regions. Growth in the company's key regions Greater China and North America was particularly strong, with currency-neutral sales increases of 29% and 27%, respectively. While currency-neutral revenues in Western Europe increased 13%, sales in Latin America were up 12%. Currency-neutral revenues in MEAA and Japan increased 10% each. Sales in Russia/CIS declined 13%, reflecting the ongoing challenging consumer sentiment as well as additional store closures during the year.

Operating margin increases 1.2 percentage points to 9.8%

The company's gross margin increased 1.2 percentage points to 50.4% (2016: 49.2%). This development was due to the positive effects from a better pricing and product mix, which more than offset negative currency effects as well as higher input costs. While other operating income declined 49% to € 133 million (2016: € 262 million), reflecting the non-recurrence of two one-time gains in 2016, other operating expenses were up 13% to € 8.882 billion (2016: € 7.885 billion). This development reflects an increase in marketing expenditure as well as higher operating overhead expenditure. As a percentage of sales, however, other operating expenses decreased 0.8 percentage points to 41.9% (2016: 42.7%). The company's operating profit grew 31% to € 2.070 billion (2016: € 1.582 billion), representing an operating margin increase of 1.2 percentage points to 9.8% (2016: 8.6%). The company's tax rate in 2017 reached a level of 33.0%, representing an increase of 3.5 percentage points compared to the prior year level of 29.6%. This development was solely driven by a negative one-time tax impact in the amount of € 76 million, reflecting a revaluation of the company's US deferred tax assets, which became necessary following the implementation of the US tax reform. Excluding this negative, non-cash-relevant tax impact, the company's tax rate decreased 0.3 percentage points to 29.3%. Excluding the negative one-time tax impact, net income from continuing operations increased 32% to € 1.430 billion (2016: € 1.082 billion). Basic EPS from continuing operations increased 31% to € 7.05 from € 5.39 in 2016. Losses from discontinued operations, mainly related to the divestiture of the TaylorMade and CCM Hockey businesses, amounted to € 254 million (2016: € 62 million). As a result, net income attributable to shareholders, excluding the negative one-time tax impact, grew 15% to € 1.173 billion (2016: € 1.017 billion), resulting in basic EPS from continuing and discontinued operations of € 5.79, up 14% compared to € 5.08 in 2016.

Average operating working capital as a percentage of sales decreases

At the end of December 2017, inventories decreased 2% to € 3.692 billion (2016: € 3.763 billion). On a currency-neutral basis, inventories grew 4%. Inventories from continuing operations increased 2% (+8% currency-neutral). Average operating working capital as a percentage of sales from continuing operations decreased 0.7 percentage points to 20.4% (2016: 21.1%), reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management.

Net cash position of € 484 million

Net cash amounted to € 484 million, representing an improvement of € 587 million compared to the prior year (2016: net borrowings of € 103 million). This development was driven by the increase in cash generated from operating activities as well as proceeds arising from the disposal of TaylorMade and CCM Hockey, partly offset by the utilization of cash for the purchase of fixed assets as well as the dividend paid to shareholders and the repurchase of adidas AG shares. In addition, the conversion of convertible bonds into adidas AG shares also contributed to this improvement.

Strong focus on driving shareholder return

As a result of the strong operational and financial performance in 2017, the company's strong financial position as well as Management's confidence in adidas' short- and long-term growth aspirations, the Executive and Supervisory Boards will recommend paying a dividend of € 2.60 per dividend-entitled share to shareholders at the Annual General Meeting on May 9, 2018. This represents an increase of 30% compared to the prior year dividend (2016: € 2.00) and a payout ratio of 37.1% (2016: 37.4%) of net income from continuing operations excluding the negative one-time tax impact in 2017. This is within the target range of between 30% and 50% of net income from continuing operations as defined in the company's dividend policy. In addition, adidas decided to launch a multi-year share buyback program of up to € 3.0 billion in total until May 11, 2021. Starting on March 22, the company plans to buy back shares worth up to € 1.0 billion in 2018. Both the company's dividend policy as well as the share buyback program reflect adidas' commitment to sustainably creating long-term value for its shareholders.

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Financial Performance in the Fourth Quarter of 2017

Currency-neutral sales increase 19% in the fourth quarter of 2017

During the fourth quarter, adidas revenues increased 19% on a currency-neutral basis, driven by a 22% increase at brand adidas. This development reflects strong double-digit sales growth in the running, football and outdoor categories as well as at adidas Originals and adidas neo. In addition, a mid-single-digit sales increase in the training category also contributed to this development. Revenues at the Reebok brand declined 1%, as double-digit increases in the running category as well as in Classics were more than offset by declines in the training category. In euro terms, sales for the company were up 12% to € 5.056 billion in 2017 (2016: € 4.500 billion).

Strong double-digit growth in key regions

On a currency-neutral basis, the combined sales of the adidas and Reebok brands grew at particularly strong rates in Greater China (+32%) and North America (+31%). In addition, currency-neutral revenues in Western Europe (+17%) and Latin America (+19%) also increased at double-digit rates. While currency-neutral revenues in MEAA increased 7%, sales in Japan were up 4%. Currency-neutral sales in Russia/CIS declined 14%.

Operating margin increases 1.7 percentage points to 2.6%

The company's gross margin increased 2.2 percentage points to 51.7% (2016: 49.5%), mainly due to the positive effects from a better pricing and channel mix. Other operating expenses were up 13% to € 2.559 billion (2016: € 2.265 billion). This development reflects a significant increase in marketing expenditure as well as higher operating overhead expenditure. As a percentage of sales, other operating expenses increased 0.3 percentage points to 50.6% (2016: 50.3%). The company's operating profit increased strongly to € 132 million from € 41 million in 2016, representing an operating margin increase of 1.7 percentage points to 2.6% (2016: 0.9%). Excluding the negative one-time tax impact of € 76 million, net income from continuing operations increased to € 72 million (2016: € 4 million). Basic EPS from continuing operations increased to € 0.35 from € 0.02 in 2016. Losses from discontinued operations amounted to € 38 million (2016: € 14 million). As a result, net income attributable to shareholders, excluding the negative one-time tax impact, grew to € 34 million (2016: net loss of € 10 million), resulting in basic EPS from continuing and discontinued operations of € 0.17, compared to a loss of € 0.05 per share in 2016.

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Outlook

Changes to segmental reporting

To sustainably win the consumer in the dynamic Asian business environment and to provide consumers with a consistent best-in-class brand experience across all channels and markets, the company aims at further driving simplicity and consistency across Asia. In this context, effective January 1, 2018, adidas has consolidated its former four Asia/Pacific markets Greater China, Japan, South Korea and Southeast Asia/Pacific to one operating segment Asia/Pacific. As a consequence and from the first quarter of 2018 onwards, in the company's financial reporting, the combined operating activities of the adidas and Reebok brands are divided into the six market segments North America, Asia/Pacific, Western Europe, Latin America, Emerging Markets and Russia/CIS.

adidas expects strong top- and bottom-line expansion in 2018

The company expects sales to increase at a rate of around 10% on a currency-neutral basis in 2018. Currency-neutral revenues are projected to grow at double-digit rates in North America and Asia/Pacific, while currency-neutral sales in Western Europe and Latin America are forecast to improve at a mid-single-digit rate each. In addition, currency-neutral revenues in Emerging Markets are expected to grow at a low-single-digit rate. Currency-neutral sales in Russia/CIS are projected to be around the prior year level.

The company's gross margin is forecast to increase up to 0.3 percentage points to a level of up to 50.7% (2017: 50.4%). This, together with a forecast decline in other operating expenses as a percentage of sales, is expected to drive an increase in operating profit of between 9% and 13%. Consequently, the company projects the operating margin to increase between 0.5 and 0.7 percentage points to a level between 10.3% and 10.5% (2017: 9.8%). Net income from continuing operations is projected to increase to a level between € 1.615 billion and € 1.675 billion. This development reflects an increase of between 13% and 17% compared to the prior year level of € 1.430 billion, excluding the negative one-time tax impact recorded in 2017. Basic EPS from continuing operations is expected to increase at a rate between 12% and 16% compared to the prior year level of € 7.05, excluding the negative one-time tax impact in 2017.

Long-term profitability target upgraded

Following the strong operational and financial performance in 2017, the company has also upgraded its 2020 profitability target. While adidas continues to forecast currency-neutral revenues to grow between 10% and 12% on average per year between 2015 and 2020, the company now projects net income from continuing operations to grow by an average of 22%

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to 24% per year (previously: 20% to 22%) between 2015 and 2020. As a result, the company now expects to reach an operating margin of up to 11.5% by 2020 (previously: 11%).

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adidas AG Consolidated Income Statement (IFRS)[1)]

€ in millions	Fourth quarter 2017	Fourth quarter 2016	Change	Negative one-time tax impact 2017	Fourth quarter 2017 excl. negative one-time tax impact	Fourth quarter 2016	Change excl. negative one-time tax impact
Net sales	5,056	4,500	*12.4 %*		5,056	4,500	*12.4 %*
Cost of sales	2,443	2,274	*7.4 %*		2,443	2,274	*7.4 %*
Gross profit	**2,613**	**2,226**	***17.4 %***		**2,613**	**2,226**	***17.4 %***
(% of net sales)	51.7%	49.5 %	*2.2 pp*		51.7%	49.5 %	*2.2 pp*
Royalty and commission income	29	23	*27.6 %*		29	23	*27.6 %*
Other operating income	48	57	*(15.1%)*		48	57	*(15.1%)*
Other operating expenses	2,559	2,265	*13.0 %*		2,559	2,265	*13.0 %*
(% of net sales)	50.6%	50.3 %	*0.3 pp*		50.6%	50.3 %	*0.3 pp*
Operating profit	**132**	**41**	***219.3 %***		**132**	**41**	***219.3 %***
(% of net sales)	2.6 %	0.9 %	*1.7 pp*		2.6 %	0.9 %	*1.7 pp*
Financial income	11	8	*33.2 %*		11	8	*33.2 %*
Financial expenses	19	39	*(52.2%)*		19	39	*(52.2%)*
Income before taxes	**124**	**10**	***1,084.9 %***		**124**	**10**	***1,084.9 %***
(% of net sales)	2.5 %	0.2 %	*2.2 pp*		2.5 %	0.2 %	*2.2 pp*
Income taxes	127	7	*1,853.2 %*	76	52	7	*693.7 %*
(% of income before taxes)	102.7 %	62.3 %	*40.4 pp*		41.7 %	62.3 %	*(20.6pp)*
Net income from continuing operations	**(3)**	**4**	*n.a.*	**(76)**	**72**	**4**	*1,731.1 %*
(% of net sales)	(0.1%)	0.1 %	*(0.2pp)*		1.4 %	0.1 %	*1.3 pp*
Losses from discontinued operations, net of taxes	38	14	*175.2 %*		38	14	*175.2 %*
Net income	**(41)**	**(10)**	***(321.3%)***	**(76)**	**35**	**(10)**	***n.a.***
(% of net sales)	(0.8%)	(0.2%)	*(0.6pp)*		0.7 %	(0.2%)	*0.9 pp*
Net income attributable to shareholders	**(41)**	**(10)**	***(315.8%)***	**(76)**	**34**	**(10)**	***n.a.***
(% of net sales)	(0.8%)	(0.2%)	*(0.6pp)*		0.7 %	(0.2%)	*0.9 pp*
Net income attributable to non-controlling interests	**1**	**0**	***118.7 %***		**1**	**0**	***118.7 %***
Basic earnings per share from continuing operations (in €)	**(0.02)**	**0.02**	***n.a.***		**0.35**	**0.02**	***1,819.7 %***
Diluted earnings per share from continuing operations (in €)	**(0.02)**	**0.04**	***n.a.***		**0.35**	**0.04**	***773.2 %***
Basic earnings per share from continuing and discontinued operations (in €)	**(0.20)**	**(0.05)**	***(309.5%)***		**0.17**	**(0.05)**	***n.a.***
Diluted earnings per share from continuing and discontinued operations (in €)	**(0.20)**	**(0.03)**	***(676.1%)***		**0.17**	**(0.03)**	***n.a.***

Net Sales

€ in millions	Fourth quarter 2017	Fourth quarter 2016	Change	Change (currency-neutral)
Western Europe	1,283	1,105	*16.1 %*	*16.6 %*
North America	1,175	969	*21.3 %*	*30.8 %*
Greater China	922	741	*24.4 %*	*31.7 %*
Russia/CIS	146	175	*(16.2%)*	*(13.9%)*
Latin America	510	471	*8.3 %*	*18.6 %*
Japan	251	271	*(7.3%)*	*4.3 %*
MEAA	616	618	*(0.4%)*	*6.9 %*
Other Businesses	152	149	*1.9 %*	*7.2 %*
adidas brand	4,562	3,953	*15.4 %*	*21.9 %*
Reebok brand	435	462	*(6.0%)*	*(0.7%)*

1) Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey business.
Rounding differences may arise.

adidas AG Consolidated Income Statement (IFRS)[1)]

€ in millions	Full Year 2017	Full Year 2016	Change	Negative one-time tax impact 2017	Full Year 2017 excl. negative one-time tax impact	Full Year 2016	Change excl. negative one-time tax impact
Net sales	21,218	18,483	*14.8 %*		21,218	18,483	*14.8 %*
Cost of sales	10,514	9,383	*12.1 %*		10,514	9,383	*12.1 %*
Gross profit	**10,703**	**9,100**	***17.6 %***		**10,703**	**9,100**	***17.6 %***
(% of net sales)	50.4%	49.2%	*1.2 pp*		50.4%	49.2%	*1.2 pp*
Royalty and commission income	115	105	*9.6 %*		115	105	*9.6 %*
Other operating income	133	262	*(49.3%)*		133	262	*(49.3%)*
Other operating expenses	8,882	7,885	*12.6 %*		8,882	7,885	*12.6 %*
(% of net sales)	41.9%	42.7%	*(0.8pp)*		41.9%	42.7%	*(0.8pp)*
Operating profit	**2,070**	**1,582**	***30.8 %***		**2,070**	**1,582**	***30.8 %***
(% of net sales)	9.8 %	8.6%	*1.2 pp*		9.8%	8.6%	*1.2 pp*
Financial income	46	28	*67.6 %*		46	28	*67.6 %*
Financial expenses	93	74	*25.7 %*		93	74	*25.7 %*
Income before taxes	**2,023**	**1,536**	***31.7 %***		**2,023**	**1,536**	***31.7 %***
(% of net sales)	9.5 %	8.3%	*1.2 pp*		9.5%	8.3%	*1.2 pp*
Income taxes	668	454	*47.2 %*	76	593	454	*30.6 %*
(% of income before taxes)	33.0 %	29.6%	*3.5 pp*		29.3%	29.6%	*(0.3pp)*
Net income from continuing operations	**1,354**	**1,082**	*25.2 %*	**(76)**	**1,430**	**1,082**	*32.2 %*
(% of net sales)	6.4 %	5.9 %	*0.5 pp*		6.7%	5.9%	*0.9 pp*
Losses from discontinued operations, net of tax	254	62	*310.0 %*		254	62	*310.0 %*
Net income	**1,100**	**1,020**	***7.9 %***	**(76)**	**1,175**	**1,020**	***15.3 %***
(% of net sales)	5.2 %	5.5 %	*(0.3pp)*		5.5 %	5.5%	*0.0 pp*
Net income attributable to shareholders	**1,097**	**1,017**	***7.8 %***	**(76)**	**1,173**	**1,017**	***15.3 %***
(% of net sales)	5.2 %	5.5 %	*(0.3pp)*		5.5 %	5.5%	*0.0 pp*
Net income attributable to non-controlling interests	**3**	**2**	***21.4 %***		**3**	**2**	***21.4 %***
Basic earnings per share from continuing operations (in €)	**6.68**	**5.39**	***23.9 %***		**7.05**	**5.39**	***30.8 %***
Diluted earnings per share from continuing operations (in €)	**6.63**	**5.29**	***25.2 %***		**7.00**	**5.29**	***32.2 %***
Basic earnings per share from continuing and discontinued operations (in €)	**5.42**	**5.08**	***6.7 %***		**5.79**	**5.08**	***14.0 %***
Diluted earnings per share from continuing and discontinued operations (in €)	**5.38**	**4.99**	***7.8 %***		**5.75**	**4.99**	***15.2 %***

Net Sales

€ in millions	Full Year 2017	Full Year 2016	Change	Change (currency-neutral)
Western Europe	5,883	5,291	*11.2 %*	*12.6 %*
North America	4,275	3,412	*25.3 %*	*27.4 %*
Greater China	3,789	3,010	*25.9 %*	*29.5 %*
Russia/CIS	660	679	*(2.8%)*	*(12.8%)*
Latin America	1,907	1,731	*10.2 %*	*12.3 %*
Japan	1,056	1,007	*4.8 %*	*9.9 %*
MEAA	2,907	2,685	*8.3 %*	*10.1 %*
Other Businesses	739	667	*10.7 %*	*12.2 %*
adidas brand	18,993	16,334	*16.3 %*	*18.1 %*
Reebok brand	1,843	1,770	*4.1 %*	*4.4 %*

1) Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey business.
Rounding differences may arise.

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adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	December 31, 2017	December 31, 2016	Change in %
Cash and cash equivalents	1,598	1,510	5.8
Short-term financial assets	5	5	0.2
Accounts receivable	2,315	2,200	5.2
Other current financial assets	393	729	(46.1)
Inventories	3,692	3,763	(1.9)
Income tax receivables	71	98	(27.4)
Other current assets	498	580	(14.1)
Assets classified as held for sale	72	-	n.a.
Total current assets	**8,645**	**8,886**	**(2.7)**
Property, plant and equipment	2,000	1,915	4.5
Goodwill	1,220	1,412	(13.6)
Trademarks	1,309	1,680	(22.1)
Other intangible assets	154	167	(7.5)
Long-term financial assets	236	194	21.8
Other non-current financial assets	219	96	127.3
Deferred tax assets	630	732	(14.0)
Other non-current assets	108	94	14.7
Total non-current assets	**5,877**	**6,290**	**(6.6)**
Total assets	**14,522**	**15,176**	**(4.3)**
Short-term borrowings	137	636	(78.5)
Accounts payable	1,975	2,496	(20.9)
Other current financial liabilities	362	201	80.5
Income taxes	424	402	5.3
Other current provisions	741	573	29.3
Current accrued liabilities	2,180	2,023	7.8
Other current liabilities	473	434	8.9
Liabilities classified as held for sale	-	-	n.a.
Total current liabilities	**6,291**	**6,765**	**(7.0)**
Long-term borrowings	983	982	0.1
Other non-current financial liabilities	22	22	1.1
Pensions and similar obligations	298	355	(16.3)
Deferred tax liabilities	275	387	(28.8)
Other non-current provisions	80	44	81.7
Non-current accrued liabilities	85	120	(29.4)
Other non-current liabilities	53	46	14.6
Total non-current liabilities	**1,796**	**1,957**	**(8.2)**
Share capital	204	201	1.2
Reserves	(81)	749	n.a.
Retained earnings	6,327	5,521	14.6
Shareholders' equity	6,450	6,472	(0.3)
Non-controlling interests	(15)	(17)	13.6
Total equity	**6,435**	**6,455**	**(0.3)**
Total liabilities and equity	**14,522**	**15,176**	**(4.3)**
Additional balance sheet information			
Operating working capital	4,033	3,468	16.3
Working capital	2,354	2,121	11.0
Net cash/(Net borrowings)	484	(103)	n.a.
Financial leverage	(7.5)%	1.6%	(9.1pp)

Rounding differences may arise.