



CREATING THE NEW >> FOCUS >> ACCELERATION >> CREATING THE NEW >> EFFORT >> EXCELLENCE >>
NEW >> HARD WORK >> PASSION >> EFFORT >> EXCELLENCE >>
ENCE >> CREATING THE NEW >> FOCUS >> ACCELERATION >> CREATING THE NEW >> EFFORT >> EXCELLENCE >>

3 GROUP MANAGEMENT REPORT FINANCIAL REVIEW

Internal Management System	092
Business Performance	095
Economic and Sector Development	095
Income Statement	096
Statement of Financial Position and Statement of Cash Flows	100
Treasury	104
Financial Statements and Management Report of adidas AG	107
Disclosures pursuant to § 315a Section 1 and § 289a Section 1 of the German Commercial Code and Explanatory Report	109
Business Performance by Segment	114
Europe	114
North America	114
Asia-Pacific	115
Russia/CIS	115
Latin America	116
Emerging Markets	116
Outlook	117
Risk and Opportunity Report	120
Illustration of Risks	125
Illustration of Opportunities	128
Management Assessment of Performance, Risks and Opportunities, and Outlook	130

References to external sources, such as our website, in the Group Management Report were not part of the scope of KPMG's audit.

INTERNAL MANAGEMENT SYSTEM

We are committed to increasing shareholder value. We strive to create value by converting sales and operating profit growth into strong operating cash flow, while at the same time managing our asset base proactively. Our company's planning and controlling system is therefore designed to provide a variety of tools to assess our current performance and to align future strategic and investment decisions to best utilize commercial and organizational opportunities in the interest of our shareholders.

INTERNAL MANAGEMENT SYSTEM DESIGNED TO DRIVE SHAREHOLDER VALUE

In order to drive and steer creation of shareholder value, the company's Management focuses on a set of major financial Key Performance Indicators (KPIs). Sales and operating profit growth, paired with a focus on management of operating working capital, are the main contributors to operating cash flow improvements. At the same time, value-enhancing capital expenditure benefits future operating profit and cash flow development. In addition, the development of the company's net income position, as well as earnings per share (EPS), is of high importance as it directly drives returns in the interest of our shareholders. [SEE DIAGRAM 53](#) Our strong focus on shareholder value creation is reflected in the fact that our Management's variable compensation is closely linked to the company's growth in sales, profitability and net income. [SEE COMPENSATION REPORT, P. 30](#)

OPERATING MARGIN AS MAJOR KPI FOR OPERATIONAL PROGRESS

Operating margin (defined as operating profit as a percentage of net sales) is one of our company's major KPIs to drive and improve our operational performance. It highlights the quality

of our top line and operational efficiency. The primary drivers to enhance operating margin are as follows:

- **Sales and gross margin development:** Management focuses on identifying and exploiting growth opportunities that not only provide for future top-line improvements, but also have potential to increase our gross margin. Major levers for enhancing our sales and gross margin include:
 - Planning pricing and clearance activities according to market realities.
 - Optimizing our product mix.
 - Improving the quality of distribution, with a particular focus on e-commerce and *controlled space*. [SEE GLOSSARY](#)
- **Operating expense control:** Management puts high emphasis on tightly controlling operating expenses to leverage sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the company's cost base. *Marketing expenditure* [SEE GLOSSARY](#) is one of our largest operating expenses and at the same time one of the most important mechanisms for driving brand desirability and top-line growth sustainably. Therefore, we are committed to improving the efficiency

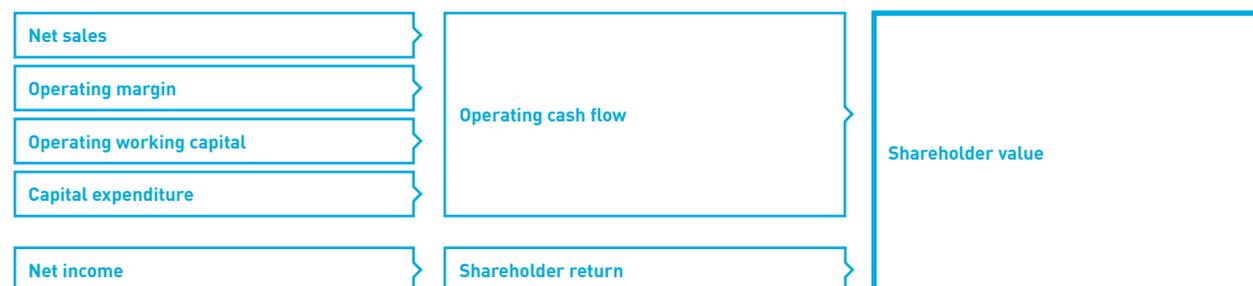
of our marketing investments. This includes concentrating our communication efforts on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs, federations, athletes and artists. We also aim to increase operational efficiency by tightly managing *operating overhead expenses*. [SEE GLOSSARY](#) In this respect, we regularly review our operational structure – harmonizing business processes, standardizing systems, eliminating redundancies and leveraging the scale of our organization.

TIGHT OPERATING WORKING CAPITAL MANAGEMENT

Due to a comparatively low level of fixed assets required in our business, the efficiency of the balance sheet depends to a large degree on our operating working capital management. Operating working capital comprises accounts receivable plus inventories minus accounts payable. [SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 100](#)

Major financial Key Performance Indicators (KPIs)

53



In this context, our key metric is average operating working capital as a percentage of net sales. Monitoring the development of this metric facilitates the measurement of our progress in improving the efficiency of our business cycle.

We strive to proactively manage our inventory levels to meet market demand and ensure fast replenishment. Inventory aging is controlled carefully to reduce inventory obsolescence and to minimize clearance activities. As a result, Inventory Days Lasting (IDL) is monitored and assessed regularly as it measures the average number of days goods remain in inventory before being sold, highlighting the efficiency of capital locked up in products. To optimize capital tied up in accounts receivable, we strive to improve collection efforts in order to reduce the Days of Sales Outstanding (DSO) and improve the aging of accounts receivable. Likewise, we strive to optimize payment terms with our suppliers to best manage our accounts payable.

CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS

Improving the effectiveness of capital expenditure is another major lever to maximize our operating cash flow. We control capital expenditure with a top-down, bottom-up approach. In a first step, Management defines focus areas within the framework of our strategic business plan 'Creating the New' and an overall investment budget based on investment requests from various functions within the organization. Then, in a second step, our operating segments align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value method. Risk is accounted for, adding a risk premium to the cost of capital and thus reducing our estimated future earnings streams where appropriate. By means of scenario planning, the sensitivity of investment returns is tested against changes in initial assumptions. For large investment projects, timelines and deviations versus

budget are monitored on a monthly basis throughout the course of the project. In addition to optimizing return on investments, we evaluate larger projects upon completion and document learnings for future capital expenditure decisions.

FOCUS ON NET INCOME IN THE INTEREST OF OUR SHAREHOLDERS

Beyond our ambition to maximize operating cash flow, we are committed to a continuous improvement in the company's bottom line. We are convinced that, by doing so, we place an even stronger focus on the interests of our shareholders. Consequently, Management closely monitors the development of both net income and earnings per share (EPS) and executes against these two KPIs. ■ [SEE DIAGRAM 53](#) Our strong focus on driving sustainable expansion to the company's bottom line is also reflected in the fact that, as part of the Long-Term Incentive Plan 2019/2020, the variable compensation for our Management is directly linked to the company's net income growth.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

In addition to the major financial KPIs to assess the performance and operational success of our company, as outlined above, we have identified a set of non-financial KPIs that help us track our progress in areas that are critical for our long-term success but are not directly reflected in the financial statements. These non-financial KPIs are assessed on a regular basis and managed by the respective business functions. Non-financial KPIs which we are closely monitoring include, amongst others, *Net Promoter Score (NPS)* ■ [SEE GLOSSARY](#), market share, backlogs and sell-through data as well as our customer delivery performance (On-Time In-Full), employee engagement and a set of KPIs in the area of our sustainability performance.

Net Promoter Score (NPS): ■ Maintaining and enhancing brand desirability through the creation of strong brand identities is crucial for sustaining and driving profitable growth. Therefore, mainly on a market and category level, we invest in primary qualitative and quantitative research such as trend scouting and consumer surveys to determine brand loyalty and brand strength. Measures that are tracked include brand awareness, likeability and purchase intent.

Furthermore, within the framework of 'Creating the New', we implemented an NPS system, which strengthens our capabilities to more carefully review brand advocacy as NPS tells us how likely it is that consumers will recommend our brands. NPS is a key pillar in transforming our company into a consumer-centric organization. It represents a holistic and transparent measure of brand performance and has been successfully applied in other industries and organizations.

Our efforts around NPS (both our own NPS as well as the NPS of our major competitors) are driven by an independent agency and monitored by our internal global consumer insights teams on a regular basis. In addition, NPS is measured across many of our own-retail stores as well as our own e-commerce platform. We firmly believe that advocacy will create sustained growth for our brands, underpinned by the fact that brand advocates on average buy more than non-advocates. In addition, a large part of our consumers rely on referrals by friends or family when making purchase decisions. ■

Market share: To measure the operational performance of our brands relative to our major competitors, we continuously collect, on a market and category level, market share data. The findings provide detailed insights for our senior management team regarding in which markets and categories we have been able to gain market share relative to our peers, enabling us to leverage those insights across the organization.

■ [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130](#) In addition, the results help us to define clear roles and responsibilities for each of our markets and categories within our long-term strategic aspirations, based on their overall positioning within the sporting goods industry.

Backlogs and sell-through data: To manage demand planning and better anticipate our future performance, backlogs comprising orders received up to nine months in advance of the actual sale are monitored closely. However, due to the growing share of own retail (including our own e-commerce channel) in our business mix, fluctuating order patterns among our customers as well as an increasing part of our business being realized under significantly shortened lead times, orders received from our retail partners are less indicative of anticipated revenues for adidas compared to the past. Therefore, qualitative feedback from our retail partners on the sell-through success of our products at the point of sale as well as such data received from our own-retail activities is becoming increasingly important.

On-Time In-Full (OTIF): OTIF measures the company's delivery performance toward customers and our own-retail stores. Managed by our Global Operations function, OTIF assesses to what degree customers received what they ordered and if they received it on time. ■ [SEE GLOBAL OPERATIONS, P. 63](#) It helps us to investigate improvement potential in the area of order book management and logistics processes. It therefore also helps us to improve our delivery performance, which is a major aspect when it comes to customer satisfaction. The OTIF assessment covers both the adidas and Reebok brands in most of our key markets.

Employee engagement: ▣ To measure the level of engagement and motivation of our employees, adidas carries out employee engagement surveys. These surveys aim to provide key insights into how well we, as an employer, are doing in

engaging our employees. They thus enable us to develop the right focus and future people strategies across our organization, helping us to create a world-class employee experience and continue to attract and retain top talent. In 2019, we continued to fine-tune our approach and system platform for measuring the level of employee engagement that was implemented in 2017. ▣ ■ [SEE PEOPLE AND CULTURE, P. 70](#)

Sustainability performance: ▣ We have a strong commitment to enhance the social and environmental performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation, but also increase its economic value. We therefore follow a comprehensive roadmap with clear targets and regularly track our progress toward these targets. ■ [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130](#) A major focus lies on measuring the environmental footprint of our own sites globally as well as monitoring and rating our supplier factories with regard to social and environmental compliance with our Workplace Standards. ■ [SEE SUSTAINABILITY, P. 78](#) We have a strong track record in sustainability disclosure, providing regular updates about our sustainability performance in this Annual Report as well as on our corporate website. ▣

➔ [ADIDAS-GROUP.COM/S/SUSTAINABILITY-REPORTS](https://www.adidas-group.com/s/sustainability-reports)

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM

We have developed an extensive performance measurement system, which utilizes a variety of tools to measure the company's performance. Key performance indicators as well as other important financial metrics are regularly monitored and compared against initial targets as well as rolling forecasts on a monthly basis. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimize the development of our operating performance. To assess current sales and

profitability development, Management continuously analyzes the performance of our operating segments. We also benchmark our financial results with those of our major competitors on a regular basis.

Taking into account year-to-date performance as well as opportunities and risks, the company's expected full year financial performance is assessed on a monthly basis. In this respect, also backlogs and sell-through data as well as feedback from customers and own-retail stores are assessed as available. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

BUSINESS PERFORMANCE

In 2019, adidas recorded strong operational and financial improvements. Revenues increased 6% on a currency-neutral basis, reflecting high-single-digit growth at the adidas brand and a low-single-digit sales increase at Reebok. All major market segments recorded currency-neutral sales increases. The gross margin increased 0.2 percentage points to 52.0%. Other operating expenses as a percentage of sales were down 0.2 percentage points to 41.6%, predominantly driven by lower marketing expenditure as a percentage of sales. The company's operating margin increased 0.4 percentage points to 11.3%, reflecting both the gross margin increase and the decrease in other operating expenses as a percentage of sales. Net income from continuing operations increased 12% to € 1.918 billion, including the negative impact from the first-time application of IFRS 16. This translates into basic EPS from continuing operations of € 9.70, representing an increase of 15% versus the prior year period.

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMIC GROWTH SLOWS IN 2019¹

The global economy slowed down in 2019, with global gross domestic product (GDP) growing at 2.4%. Despite recent de-escalation, an overall increase in the level of tariffs and heightened policy uncertainty weakened both international trade and investment. Global manufacturing activity moderated, while monetary policy accommodation increased. Developed economies grew 1.6% in 2019, supported by robust labor markets and some remaining fiscal stimuli. Nevertheless, trade tensions and associated policy uncertainty such as the Brexit negotiations remained a political overhang and a drag on economic activity. Developing economies in aggregate grew 3.5%, as resilient consumption somewhat

cushioned subdued productivity growth. Furthermore, growth in both commodity exporters and importers decelerated last year. Across the globe, risks of re-escalating geopolitical tensions, in particular around trade and tariffs, remain.

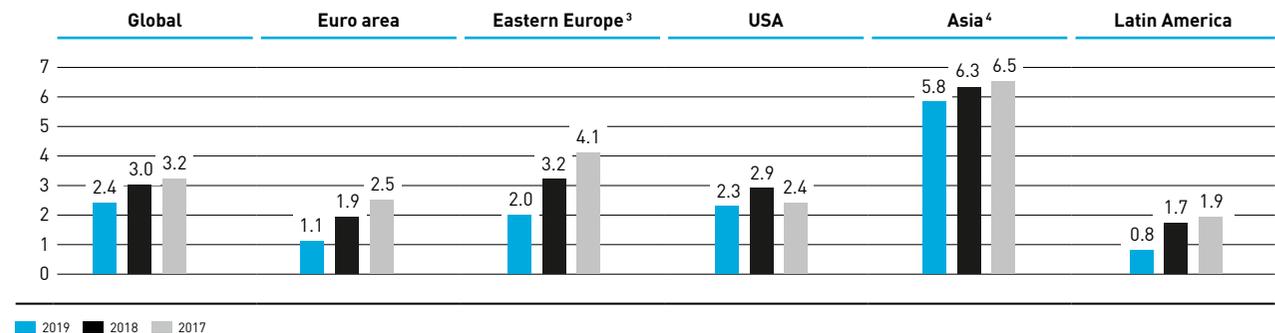
ROBUST GROWTH IN THE SPORTING GOODS INDUSTRY CONTINUES

The global sporting goods industry continued to grow at robust rates in 2019. China outgrew the global industry again, while North America posted robust growth rates. Europe maintained its moderate pace of expansion. Most other markets also grew, driven by continued global trends such as increasing penetration of sportswear ('athleisure' [SEE GLOSSARY](#)), increasing sports participation rates and rising awareness for health and wellness. Moreover, the evolution of

digital offerings such as social fitness or membership programs with seamless personal experiences remained a predominant theme. Sustainability stayed in focus, as consumers showed increasing interest in sustainable companies and products. The e-commerce channel saw further expansion amid growing investments into consumer insights generation and brand building. From a category perspective, athletic footwear continued to be a significant growth driver for the industry in 2019, as various casual and running styles remained in high demand. Growth in athletic apparel remained robust, as consumers continued to purchase sports-inspired fashion. For the sporting goods industry, too, risks of re-escalating geopolitical tensions, in particular around trade and tariffs, remain.

Regional GDP development^{1,2} in %

54



¹ Real change in percent versus prior year; 2018 and 2017 figures restated compared to prior year.
² Source: World Bank.
³ Includes Emerging Europe and Central Asia.
⁴ Includes East Asia and Pacific.

INCOME STATEMENT

The income statement for the financial year 2019 reflects the first-time application of IFRS 16. Prior year figures are not restated, leading to limited comparability of certain items.

ADIDAS DELIVERS STRONG PERFORMANCE IN 2019

In 2019, revenues increased 6% on a currency-neutral basis. In euro terms, revenues grew 8% to € 23.640 billion from € 21.915 billion in 2018. [SEE DIAGRAM 55](#) From a market perspective, revenues increased in all segments. Currency-neutral sales were up at double-digit rates in Asia-Pacific and Emerging Markets, while increasing at high-single-digit rates in North America, Russia/CIS and Latin America. Currency-neutral sales in Europe grew at a low-single-digit rate. [SEE BUSINESS PERFORMANCE BY SEGMENT, P. 114](#)

ADIDAS BRAND REVENUES GROW AT A HIGH-SINGLE-DIGIT RATE

Currency-neutral revenues for the adidas brand increased 7%, with high-single-digit sales growth in *Sport Inspired* [SEE GLOSSARY](#) as well as a mid-single-digit gain in *Sport Performance*. [SEE GLOSSARY](#) In euro terms, adidas brand revenues grew 8% to € 21.505 billion compared to € 19.851 billion in 2018. Currency-neutral Reebok brand sales were up 2% versus the prior year, as a decline in Sport was more than offset by low-single-digit sales growth in Classics. In euro terms, Reebok sales increased 4% to € 1.748 billion (2018: € 1.687 billion).

Net sales
+6%
C.N.
€ 23.640 bn

adidas brand net sales
+7%
C.N.
€ 21.505 bn

Reebok brand net sales
+2%
C.N.
€ 1.748 bn

Net sales¹ € in millions 55

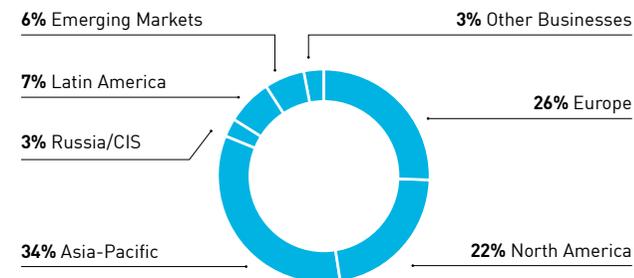
2019	23,640
2018	21,915
2017	21,218
2016	18,483
2015	16,915

¹ 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

Net sales by segment € in millions 56

	2019	2018	Change	Change (currency-neutral)
Europe	6,071	5,885	3%	3%
North America	5,313	4,689	13%	8%
Asia-Pacific	8,032	7,141	12%	10%
Russia/CIS	658	595	11%	8%
Latin America	1,660	1,634	2%	7%
Emerging Markets	1,302	1,144	14%	13%
Other Businesses	605	829	(27%)	(28%)
Total	23,640	21,915	8%	6%

Net sales by segment in % of net sales 57



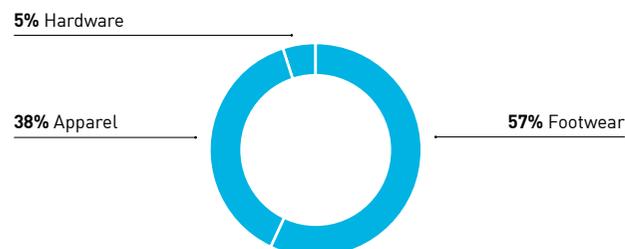
SALES GROW IN FOOTWEAR AND APPAREL

Currency-neutral footwear sales grew 4% in 2019 as a result of mid-single-digit sales growth in both Sport Inspired and Sport Performance. Apparel revenues grew 7% on a currency-neutral basis reflecting double-digit increases in Sport Inspired and high-single-digit sales growth in Sport Performance. Currency-neutral hardware sales were up 25%. [SEE DIAGRAM 58](#)

Net sales by product category € in millions 58

	2019	2018	Change	Change (currency- neutral)
Footwear	13,521	12,783	6%	4%
Apparel	8,963	8,223	9%	7%
Hardware	1,156	910	27%	25%
Total	23,640	21,915	8%	6%

Net sales by product category in % of net sales 59

**COST OF SALES INCREASES IN LINE WITH
NET SALES**

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2019, cost of sales was € 11.347 billion, representing an increase of 8% compared to the prior year level of € 10.552 billion. This development mainly reflects the growth of our business.

**GROSS MARGIN IMPROVES 0.2 PERCENTAGE
POINTS**

In 2019, gross profit increased 8% to € 12.293 billion from € 11.363 billion in 2018, representing a gross margin increase of 0.2 percentage points to 52.0% (2018: 51.8%). [SEE DIAGRAM 60](#) Higher air freight costs to mitigate the supply chain shortages and a less favorable pricing mix were more than offset by positive effects from lower sourcing costs, positive currency developments as well as a better product and channel mix.

Gross margin^{1,2} in % 60

¹ Gross margin = (gross profit / net sales) × 100.

² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

**ROYALTY AND COMMISSION INCOME
AND OTHER OPERATING INCOME INCREASE**

In 2019, royalty and commission income increased 19% to € 154 million (2018: € 129 million). Other operating income was up 17% to € 56 million from € 48 million in 2018.

**OTHER OPERATING EXPENSES AS A
PERCENTAGE OF SALES DOWN
0.2 PERCENTAGE POINTS**

Other operating expenses, including depreciation and amortization, mainly consist of marketing and point-of-sale, distribution and selling as well as general and administration

expenses. In 2019, other operating expenses were up 7% to € 9.843 billion (2018: € 9.172 billion). [SEE NOTE 32, P. 196](#) As a percentage of sales, other operating expenses decreased 0.2 percentage points to 41.6% from 41.9% in 2018. [SEE DIAGRAM 61](#) Marketing and point-of-sale expenses amounted to € 3.042 billion in 2019 compared to € 3.001 billion in the prior year, representing an increase of 1% compared to the 2018 level. As a percentage of sales, marketing and point-of-sale expenses decreased 0.8 percentage points to 12.9% (2018: 13.7%). [SEE DIAGRAM 62](#) Distribution and selling expenses increased 12% to € 4.997 billion in 2019 from € 4.450 billion in the prior year, driven by overproportionate growth in the direct-to-consumer channel. As a percentage of sales, distribution and selling expenses increased 0.8 percentage points to 21.1% from 20.3% in 2018. General and administration expenses were up 5% to € 1.652 billion (2018: € 1.576 billion), as the positive effects of overheads cost control were more than offset by continued investments into the scalability of the company's business model. As a percentage of sales, general and administration expenses decreased 0.2 percentage points to 7.0% (2018: 7.2%).

Other operating expenses^{1,2} in % of net sales 61

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

Marketing and point-of-sale expenses^{1,2} in % of net sales **62**

2019		12.9
2018		13.7
2017		12.8
2016		13.0
2015		13.9

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

EBITDA INCREASES 33%

Earnings before interest, taxes, depreciation and amortization as well as impairment losses/reversal of impairment losses on property, plant and equipment, right-of-use and intangible assets (EBITDA) increased 33% to € 3.845 billion in 2019 versus € 2.882 billion in 2018.  [SEE DIAGRAM 63](#) Total depreciation and amortization as well as impairment losses/reversal of impairment losses for tangible and intangible assets increased 142% to € 1.177 billion in 2019 (2018: € 486 million). This development is mainly due to the depreciation of right-of-use assets related to the first-time application of IFRS 16 in the amount of € 664 million.

EBITDA^{1,2,3} € in millions **63**

2019		3,845
2018		2,882
2017		2,511
2016		1,953
2015		1,475

¹ EBITDA = income before taxes (IBT) + net interest expenses + depreciation and amortization + impairment losses - reversal of impairment losses.

² First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

³ 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

OPERATING MARGIN INCREASES TO 11.3%

Operating profit grew 12% to € 2.660 billion in 2019 versus € 2.368 billion in 2018.  [SEE DIAGRAM 64](#) The first-time application of IFRS 16 had a positive impact on operating profit of € 24 million. The operating margin increased 0.4 percentage points to 11.3% compared to the prior year level of 10.8%.  [SEE DIAGRAM 65](#)

This development was due to the gross margin increase and the decrease in other operating expenses as a percentage of sales.

Operating profit^{1,2,3} € in millions **64**

2019		2,660
2018		2,368
2017		2,070
2016		1,582
2015		1,094

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

³ 2015 excluding goodwill impairment of € 34 million.

Operating margin^{1,2,3,4} in % **65**

2019		11.3
2018		10.8
2017		9.8
2016		8.6
2015		6.5

¹ Operating margin = (operating profit / net sales) × 100.

² First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

³ 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

⁴ 2015 excluding goodwill impairment of € 34 million.

NET FINANCIAL RESULT DECREASES

Financial income increased 11% to € 64 million in 2019 (2018: € 57 million), while financial expenses were up 253% to € 166 million compared to € 47 million in 2018. This development was mainly due to higher interest expenses related to the first-time application of IFRS 16. As a result, the company recorded a net financial result of negative € 102 million, compared to positive € 10 million in 2018.  [SEE NOTE 34, P. 197](#)

Net financial result¹ € in millions **66**

2019		(102)
2018		10
2017		(47)
2016		(46)
2015		(21)

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

TAX RATE DECREASES 3.1 PERCENTAGE POINTS TO 25.0%

The company's tax rate decreased 3.1 percentage points to 25.0% in 2019 (2018: 28.1%).  [SEE NOTE 36, P. 197](#)

NET INCOME FROM CONTINUING OPERATIONS UP 12% TO € 1.918 BILLION

Including the negative impact from the first-time application of IFRS 16 in the amount of € 54 million, net income from continuing operations increased 12% to € 1.918 billion versus € 1.709 billion in the prior year. [SEE DIAGRAM 67](#) Basic earnings per share (EPS) from continuing operations increased 15% to € 9.70 from € 8.46 in 2018. [SEE DIAGRAM 68](#) Diluted EPS from continuing operations was up 15% to € 9.70 in 2019 (2018: € 8.45). The adoption of IFRS 16 reduced year-over-year net income and EPS growth by approximately 3 percentage points in 2019.

Net income from
continuing operations

+12%
€ 1.918 bn

Net income from continuing operations^{1,2,3} **67**
€ in millions

2019	1,918
2018	1,709
2017	1,430
2016	1,082
2015	720

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 2017 excluding negative one-time tax impact of € 76 million.

³ 2015 excluding goodwill impairment of € 34 million.

Basic earnings per share^{1,2,3,4} in € **68**

2019	9.70
2018	8.46
2017	7.05
2016	5.39
2015	3.54

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² Figures reflect continuing operations.

³ 2017 excluding negative one-time tax impact of € 76 million.

⁴ 2015 excluding goodwill impairment of € 34 million.

The total number of shares outstanding decreased by 3,201,958 shares to 195,969,387 at the end of 2019. This development was a result of shares repurchased as part of the company's share buyback program. [SEE TABLE 'FINANCIAL HIGHLIGHTS', P. 4](#) Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 197,606,107 (2018: 201,759,012).

GAINS FROM DISCONTINUED OPERATIONS AMOUNT TO € 59 MILLION

In 2019, adidas incurred gains from discontinued operations of € 59 million, net of tax, mainly related to the remeasurement of outstanding earn-out components in connection with the divestiture of the TaylorMade business in 2017 (2018: losses of € 5 million).

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS INCREASES 16% TO € 1.976 BILLION

The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the gains from discontinued operations, grew 16% to € 1.976 billion (2018: € 1.702 billion). As a result, basic EPS from continuing and discontinued operations increased 19% to € 10.00 versus € 8.44 in 2018. Diluted EPS from continuing and discontinued operations grew 19% to € 10.00 (2018: € 8.42).

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

ASSETS

At the end of December 2019, total assets were up 32% to € 20.680 billion versus € 15.612 billion in the prior year, mainly driven by an increase in non-current assets due to the first-time application of IFRS 16. [SEE TABLE 69](#)

Structure of statement of financial position^{1,2} in % of total assets **69**

	2019	2018
Assets (€ in millions)	20,680	15,612
Cash and cash equivalents	10.7%	16.8%
Accounts receivable	12.7%	15.5%
Inventories	19.8%	22.1%
Fixed assets ³	39.2%	30.7%
Right-of-use assets (IFRS 16) ⁴	36.2%	–
Other assets	17.7%	14.9%

¹ For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 134.

² First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

³ Fixed assets = property, plant and equipment + right-of-use assets + goodwill + trademarks + other intangible assets + long-term financial assets.

⁴ As a percentage of fixed assets.

Total current assets increased 11% to € 10.934 billion at the end of December 2019 compared to € 9.813 billion in 2018. Cash and cash equivalents were down 16% to € 2.220 billion at the end of December 2019 from € 2.629 billion in the prior year, as net cash generated from operating activities was more than offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 30 million. Inventories increased 19% to € 4.085 billion at the end of December 2019 from € 3.445 billion in 2018. [SEE NOTE 09, P. 157](#), [SEE DIAGRAM 70](#)

Inventories € in millions	70
2019	4,085
2018	3,445
2017	3,692
2016	3,763
2015	3,113

On a currency-neutral basis, inventories increased 18%, reflecting lower inventories in the prior year and the timing of inbound and outbound product deliveries. Accounts receivable increased 9% to € 2.625 billion at the end of December 2019 (2018: € 2.418 billion). [SEE NOTE 07, P. 156](#), [SEE DIAGRAM 71](#) On a currency-neutral basis, receivables were up 8%. Other current financial assets remained virtually unchanged at € 544 million (2018: € 542 million). [SEE NOTE 08, P. 156](#) Other current assets were up 48% to € 1.076 billion at the end of December 2019 (2018: € 725 million), mainly due to an increase in tax receivables other than income taxes. [SEE NOTE 36, P. 197](#)

Accounts receivable € in millions	71
2019	2,625
2018	2,418
2017	2,315
2016	2,200
2015	2,049

Total non-current assets increased 68% to € 9.746 billion at the end of December 2019 from € 5.799 billion in 2018, mainly related to the first-time application of IFRS 16. Fixed assets increased 69% to € 8.100 billion at the end of December 2019 versus € 4.798 billion in 2018. The application of IFRS 16 led to the recognition of right-of-use assets in the amount of € 2.931 billion at the end of December 2019 (including already existing IAS 17 leases from the prior year in the amount of € 82 million). Furthermore, additions of € 711 million, primarily related to own-retail activities were only partly offset by depreciation and amortization, impairment losses/reversal of impairment losses of € 522 million. Other non-current financial assets increased 76% to € 450 million from € 256 million at the end of 2018. [SEE NOTE 16, P. 164](#) This development was mainly due to an increase in derivatives used to fully hedge the economic exposure related to the equity-neutral convertible bond. Deferred tax assets were up 68% to € 1.093 billion from € 651 million in 2018, due to an increase in the tax base of non-current assets during 2019.

LIABILITIES AND EQUITY

Total current liabilities increased 28% to € 8.754 billion at the end of December 2019 from € 6.834 billion in 2018. Short-term borrowings declined 35% to € 43 million at the end of December 2019 (2018: € 66 million), mainly reflecting a decrease in bank loans. Accounts payable were up 18% to € 2.703 billion at the end of December 2019 versus € 2.300 billion in 2018, mainly reflecting improved payment terms with the company's vendors. [SEE TABLE 72](#) On a currency-neutral basis, accounts payable increased 17%. Current lease liabilities amounted to € 733 million at the end of December 2019, due to the first-time application of IFRS 16. Other current financial liabilities were up 26% to € 235 million from € 186 million in 2018, mainly as a result of an increase in the fair value of financial instruments. [SEE NOTE 08, P. 156](#) Other current provisions increased 17% to € 1.446 billion at the end of December 2019 versus € 1.232 billion in 2018, mainly due

to an increase in the provision for returns. Current accrued liabilities grew 6% to € 2.437 billion at the end of December 2019 from € 2.305 billion in 2018, mainly as a result of an increase in accruals for customer discounts as well as accruals for invoices not yet received. Other current liabilities were up 13% to € 538 million at the end of December 2019 from € 477 million in 2018. [SEE NOTE 23, P. 167](#)

Structure of statement of financial position^{1,2} in % of total liabilities and equity **72**

	2019	2018
Liabilities and equity (€ in millions)	20,680	15,612
Short-term borrowings	0.2%	0.4%
Accounts payable	13.1%	14.7%
Long-term borrowings	7.7%	10.3%
Other liabilities	44.9%	33.8%
Current and non-current lease liabilities (IFRS 16) ³	33.8%	–
Total equity	34.1%	40.8%

¹ For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 134.
² First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
³ As a percentage of other liabilities.

Accounts payable € in millions **73**

2019	2,703
2018	2,300
2017	1,975
2016	2,496
2015	2,024

Total non-current liabilities increased 102% to € 4.868 billion at the end of December 2019 from € 2.414 billion in the prior year, mainly related to the first-time application of IFRS 16. Long-term borrowings were down 1% to € 1.595 billion at the end of December 2019 from € 1.609 billion in the prior year.

[SEE NOTE 18, P. 164](#) Non-current lease liabilities amounted to € 2.399 billion at the end of December 2019, due to the first-time application of IFRS 16. Other non-current financial liabilities were down 10% to € 92 million at the end of December 2019 from € 103 million in the prior year (2018: thereof € 81 million for liabilities relating to finance leases). Other non-current provisions increased 100% to € 257 million at the end of December 2019 from € 128 million in the prior year, mainly as a result of an increase in provisions for personnel. Non-current accrued liabilities decreased 54% to € 9 million from € 19 million in 2018. [SEE NOTE 22, P. 166](#)

Shareholders' equity increased 7% to € 6.796 billion at the end of December 2019 versus € 6.377 billion in 2018, mainly driven by the net income generated during the year. This development was partly offset by the repurchase of adidas AG shares for a consideration of € 815 million, the dividend of € 664 million paid to shareholders for the 2018 financial year, and a decrease in hedging reserves of € 147 million. The equity ratio decreased to 32.9% compared to 40.8% in the prior year, as the increase in shareholders' equity was more than offset by the balance sheet extension due to the first-time application of IFRS 16. [SEE NOTE 27, P. 171](#), [SEE DIAGRAM 74](#)

Equity ratio^{1, 2} in % **74**

2019	32.9
2018	40.8
2017	43.0
2016	42.6
2015	42.5

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
² Based on shareholders' equity.

OPERATING WORKING CAPITAL

Operating working capital increased 12% to € 4.007 billion at the end of December 2019 compared to € 3.563 billion in 2018. On a currency-neutral basis, operating working capital was up 11%. Average operating working capital as a percentage of sales decreased 0.9 percentage points to 18.1% (2018: 19.0%). This development mainly reflects an increase in payables, which is a direct result of improved payment terms with our vendors. [SEE DIAGRAM 75](#)

Average operating working capital^{1, 2} in % of net sales **75**

2019	18.1
2018	19.0
2017	20.4
2016	21.1
2015	20.5

¹ Average operating working capital = sum of operating working capital at quarter-end/4.
Operating working capital = accounts receivable + inventories – accounts payable.
² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

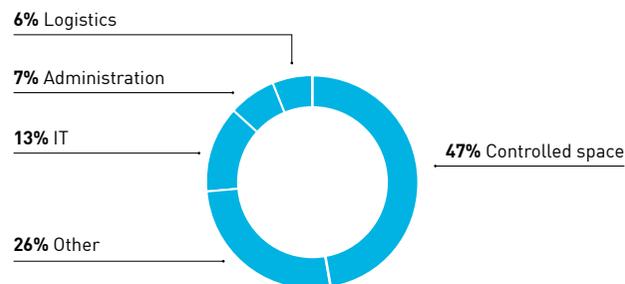
INVESTMENT ANALYSIS

Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions and right-of-use assets according to IFRS 16). Capital expenditure decreased 11% to € 711 million (2018: € 794 million). Capital expenditure for property, plant and equipment was down 14% to € 599 million compared to € 699 million in the prior year. The company invested € 112 million in intangible assets, representing a 17% increase compared to the prior year (2018: € 96 million). Depreciation and amortization excluding impairment losses/reversal of impairment losses of tangible and intangible assets increased 9% to € 511 million in 2019 (2018: € 470 million).

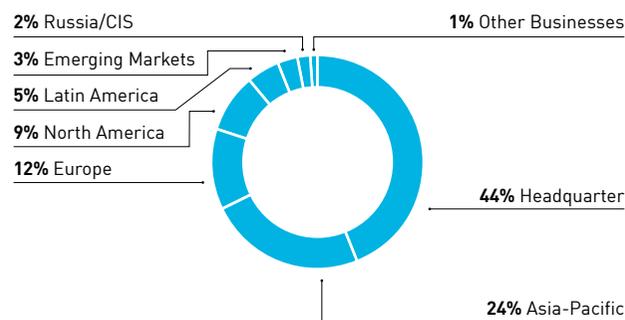
Controlled space initiatives, which comprise investments in new or remodeled own-retail and franchise stores as well as in shop-in-shop presentations of our brands and products in our customers' stores, accounted for 47% of total capital expenditure (2018: 32%). Expenditure for IT and logistics represented 13% and 6%, respectively (2018: 13% and 12%, respectively). In addition, expenditure for administration accounted for 7% (2018: 7%). Other investments mainly reflected the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai. These represented 26% of total capital expenditure (2018: 36%).

SEE DIAGRAM 76

Capital expenditure by type in % of total CAPEX 76



Capital expenditure by segments in % of total CAPEX 77



LIQUIDITY ANALYSIS

In 2019, net cash generated from operating activities increased to € 2.819 billion (2018: € 2.686 billion). SEE TABLE 'FINANCIAL HIGHLIGHTS', P. 4 Net cash generated from continuing operating activities rose to € 2.828 billion (2018: € 2.706 billion). This increase was driven by higher income before taxes and lower income taxes paid, and the different treatment of operating leases related to the first-time application of IFRS 16, partly offset by higher operating working capital requirements.

There was a change in the presentation of interest paid in the consolidated statement of cash flows in the financial year. Due to the first-time application of IFRS 16, adidas has applied the option to show the interest paid within the net cash used in financing activities instead of the net cash generated from operating activities and, to enhance comparability, figures for the prior year were also adjusted.

Net cash used in investing activities and net cash used in continuing investing activities increased to € 925 million each (2018: € 636 million). The majority of continuing investing activities in 2019 was related to expenditure for property, plant and equipment, such as investments in controlled space initiatives, and IT systems as well as the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai. Net cash used in financing activities and net cash used in continuing financing activities grew to € 2.273 billion each (2018: € 991 million each). This development was mainly due to the repurchase of adidas AG shares, the dividend paid to shareholders as well as repayments of lease liabilities and interest payments for lease liabilities related to the first-time application of IFRS 16.

Under IFRS 16, payments for operating leases formerly disclosed under IAS 17 are no longer recognized on a straight-line basis and also not reported as cash flow from operating activities. Instead, repayments and interest payments for the

lease liabilities are recognized in the cash flow from financing activities. This resulted in a decline in cash flows from financing activities in the amount of € 692 million and an improvement in cash flows from operating activities in the amount of € 684 million. ■ [SEE NOTE 39, P. 204](#)

Exchange rate effects negatively impacted the company's cash position by € 30 million (2018: € 29 million). As a result of all these developments, cash and cash equivalents decreased by € 410 million to € 2.220 billion at the end of December 2019 compared to € 2.629 billion at the end of December 2018. ■■ [SEE DIAGRAM 79](#)

Net cash at December 31, 2019 amounted to € 873 million, compared to net cash of € 959 million in 2018, representing a decline of € 86 million compared to the prior year. The increase in cash generated from operating activities was more than offset by the utilization of cash for the purchase of fixed assets, the repurchase of adidas AG shares as well as the dividend paid to shareholders. ■ [SEE TREASURY, P. 104](#) The company's ratio of net borrowings over EBITDA amounted to –0.2 at the end of December 2019 (2018: –0.3). ■■ [SEE DIAGRAM 78](#)

Net borrowings/EBITDA^{1,2} € in millions

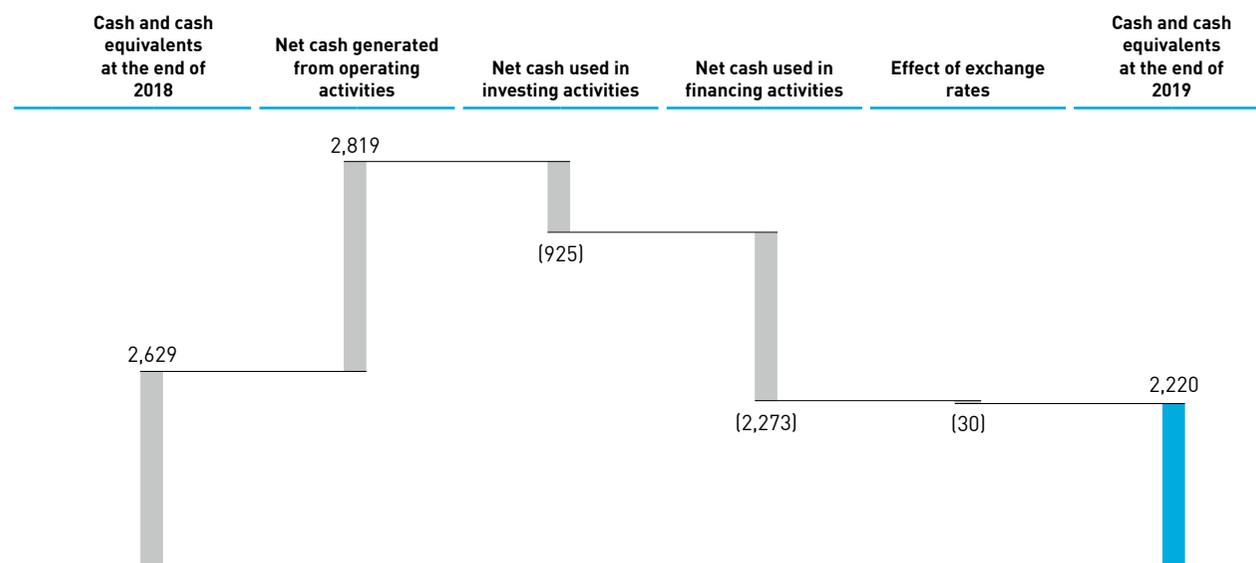
Year	Net borrowings/EBITDA
2019	(0.2)
2018	(0.3)
2017	(0.2)
2016	0.1
2015	0.3

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

² 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

Change in cash and cash equivalents € in millions

79



OFF-BALANCE-SHEET ITEMS

The company's most significant off-balance-sheet items are commitments for promotion and advertising as well as other contracts. These contracts are related to short-term leases as well as leases for offices and warehouses, which are not yet considered according to IFRS 16. Minimum future payments for other contracts were € 318 million at December 31, 2019, compared to € 2.984 billion at the end of December 2018, representing a decrease of 89%. This development is due to the first-time application of IFRS 16. ■ [SEE NOTE 21, P. 166](#) At the end of December 2019, financial commitments for promotion and advertising increased 17% to € 6.808 billion in 2019 (2018: € 5.828 billion). ■ [SEE NOTE 40, P. 205](#)

TREASURY

CORPORATE FINANCING POLICY

In order to be able to meet the company's payment commitments at all times, the major goal of our financing policy is to ensure sufficient liquidity reserves, while at the same time minimizing our financial expenses. The operating activities of our segments and the resulting cash inflows represent the company's main source of liquidity. Liquidity is planned on a rolling quarterly basis under a multi-year financial and liquidity plan. This comprises all consolidated companies. Our in-house bank concept takes advantage of any surplus funds of individual companies to cover the financial requirements of others, thus reducing external financing needs and optimizing our net interest expenses. Furthermore, by settling intercompany transactions via intercompany financial accounts, we are able to reduce external bank account transactions and thus bank charges.

TREASURY POLICY AND RESPONSIBILITIES

Our Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, financing arrangements and liquidity/asset management, currency, interest, commodity and equity risk management as well as the management of intercompany cash flows. Responsibilities are arranged in a three-tiered approach:

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Treasury Policy and provide strategic guidance for managing treasury-related topics. Major changes to our Treasury Policy are subject to the prior approval of the Treasury Committee.
- The Treasury department is responsible for specific centralized treasury transactions and for the global implementation of our Treasury Policy.
- On a subsidiary level, where applicable and economically reasonable, local managing directors and finance directors

are responsible for managing treasury matters in their respective subsidiaries. Controlling functions on a corporate level ensure that the transactions of the individual business units are in compliance with our Treasury Policy.

CENTRALIZED TREASURY FUNCTION

In accordance with our Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Treasury department. Portions of those lines are allocated to our subsidiaries and sometimes backed by adidas AG guarantees. As a result of this centralized liquidity management, the company is well positioned to allocate resources efficiently throughout the organization. The company's debt is generally unsecured and may include standard covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the company and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. ■ [SEE NOTE 02, P. 143](#) We authorize our companies to work with banks with a lower rating only in very exceptional cases. To ensure optimal allocation of the company's liquid financial resources, subsidiaries transfer excess cash to our headquarters in all instances where it is legally and economically feasible. In this regard, the standardization and consolidation of our global cash management and payment processes, including automated domestic and cross-border *cash pools* ■ [SEE GLOSSARY](#), is a key priority for our centrally managed Treasury department. Effective management of our currency exposure and interest rate risks are additional goals and responsibilities of the department.

STANDARD COVENANTS

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross-default provisions and change of control. However, our financial arrangements do not contain any financial covenants. If we failed to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As at December 31, 2019, we were in full compliance with all our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to internal and external sources of funds, will be sufficient to meet our future operating and capital needs.

FINANCIAL FLEXIBILITY

The company's financial flexibility is ensured by the availability of credit facilities, consisting of committed and uncommitted bilateral credit lines at different banks with a remaining time to maturity of up to eight years. In addition, we have an unused multi-currency commercial paper program in the amount of € 2.0 billion available (2018: € 2.0 billion). At the end of 2019, committed and uncommitted bilateral credit lines amounted to € 2.105 billion (2018: € 2.215 billion), of which € 1.940 billion was unutilized (2018: € 2.008 billion). Committed and uncommitted credit lines represent approximately 46% and 54% of total short-term bilateral credit lines, respectively (2018: 45% and 55%, respectively). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements. ■ [SEE DIAGRAM 80](#), ■ [SEE DIAGRAM 81](#), ■ [SEE DIAGRAM 82](#)

Total credit facilities € in millions **80**

	2019	2018
Bilateral credit lines	2,105	2,215
Eurobonds	986	984
Equity-neutral convertible bond	487	484
Total	3,578	3,683

■ 2019 ■ 2018

Remaining time to maturity of available facilities € in millions **81**

	2019	2018
< 1 year	1,738	1,475
1 to 3 years	785	980
3 to 5 years	621	771
> 5 years	434	457
Total	3,578	3,683

■ 2019 ■ 2018

Bilateral credit lines € in millions **82**

	2019	2018
Committed	972	987
Uncommitted	1,133	1,228
Total	2,105	2,215

■ 2019 ■ 2018

OUTSTANDING BONDS

The company has two outstanding eurobonds, both issued in 2014, and one outstanding equity-neutral convertible bond, which was issued in 2018. The seven-year eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. The equity-neutral convertible bond of € 500 million was issued on September 5, 2018, with a coupon of 0.05% and is due on September 12, 2023. [SEE OUR SHARE, P. 46](#), [SEE NOTE 18, P. 164](#), [SEE TABLE 83](#)

Issued bonds at a glance € in millions **83**

	Volume	Coupon	Maturity
Eurobond	€ 600	fixed	2021
Eurobond	€ 400	fixed	2026
Equity-neutral convertible bond	€ 500	fixed	2023

GROSS BORROWINGS DECREASE

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as the outstanding eurobonds and the equity-neutral convertible bond. Gross borrowings decreased 2% to € 1.638 billion at the end of 2019 from € 1.676 billion in the prior year. The total amount of bonds outstanding at the end of 2019 was € 1.473 billion (2018: € 1.469 billion). Bank borrowings amounted to € 165 million compared to € 207 million in the prior year. [SEE TABLE 84](#)

Financing structure € in millions **84**

	2019	2018
Cash and short-term financial assets	2,511	2,635
Bank borrowings	165	207
Eurobonds	986	984
Equity-neutral convertible bond	487	484
Gross total borrowings	1,638	1,676
Net cash	873	959

STABLE DEBT MATURITY PROFILE

Over the course of 2019, the company's financing maturity profile remained stable. In 2020, assuming unchanged maturities, debt instruments of € 43 million will mature. This compares to € 66 million which matured during the course of 2019. [SEE DIAGRAM 85](#)

Remaining time to maturity of gross borrowings € in millions 85

	2019	2018
< 1 year	43	66
1 to 3 years	636	635
3 to 5 years	525	522
> 5 years	434	453
Total	1,638	1,676

■ 2019 ■ 2018

NET CASH POSITION OF € 873 MILLION

Net cash at December 31, 2019 amounted to € 873 million, compared to net cash of € 959 million in 2018, representing a decrease of € 86 million versus the prior year. [SEE DIAGRAM 86](#) The increase in cash generated from operating activities was more than offset by the utilization of cash for the purchase of fixed assets, the repurchase of adidas AG shares as well as the dividend paid to shareholders.

Net cash/(net borrowings)¹ € in millions 86

2019	873
2018	959
2017	484
2016	(103)
2015	(460)

¹ Net cash/(net borrowings) = short-term borrowings + long-term borrowings – cash and cash equivalents – short-term financial assets.

INTEREST RATE DECREASES

The weighted average interest rate on the company's gross borrowings decreased to 1.5% in 2019 (2018: 2.1%). [SEE DIAGRAM 87](#) This development was mainly due to the € 500 million equity-neutral convertible bond with a coupon of 0.05% and a reduction of interest rates of short-term borrowings. Fixed-rate financing represented 99% of total gross borrowings at the end of 2019 (2018: 97%). Variable-rate financing accounted for 1% of total gross borrowings at the end of the year (2018: 3%).

Interest rate development¹ in % 87

2019	1.5
2018	2.1
2017	2.7
2016	2.3
2015	2.4

¹ Weighted average interest rate of gross borrowings.

**EFFECTIVE FOREIGN EXCHANGE MANAGEMENT
A KEY PRIORITY**

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. [SEE GLOBAL OPERATIONS, P. 63](#) In 2019, our Treasury department managed a net deficit of around US \$ 7.1 billion related to operational activities (2018: US \$ 6.0 billion). Thereof, around US \$ 4.7 billion was against the euro (2018: US \$ 3.8 billion). As governed by our Treasury Policy, we have established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon. We had largely covered our anticipated hedging needs for 2020 as at year-end 2019. At the same time, we have already started hedging our exposure for 2021. The use or combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, protects us against unfavorable currency movements. [SEE NOTE 30, P. 180](#)

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF ADIDAS AG

adidas AG is the parent company of the adidas Group. It includes operating business functions, primarily for the German market, as well as corporate headquarter functions such as Marketing, IT, Treasury, Taxes, Legal and Finance. adidas AG also administers the company's shareholdings.

OPERATING ACTIVITIES AND CAPITAL STRUCTURE OF ADIDAS AG

The majority of the operating business of adidas AG consists of the sale of merchandise to wholesale partners and own-retail activities.

In addition to its own trading activities, the results of adidas AG are significantly influenced by its holding function for the company as a whole. This is reflected primarily in currency effects, transfer of costs for services provided, interest result and income from investments in related companies.

The opportunities and risks as well as the future development of adidas AG largely reflect those of the company as a whole.

■ [SEE OUTLOOK, P. 117](#), ■ [SEE RISK AND OPPORTUNITY REPORT, P. 120](#)

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 44% of total assets as at December 31, 2019 related to financial assets (2018: 46%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 32% of total assets (2018: 26%) and 42% of total equity and liabilities as at December 31, 2019 (2018: 45%).

PREPARATION OF ACCOUNTS

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2019, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

INCOME STATEMENT

**Statement of income in accordance with
HGB (Condensed)** € in millions **88**

	2019	2018
Net sales	4,444	4,128
Total output	4,444	4,128
Other operating income	590	516
Cost of materials	(1,611)	(1,538)
Personnel expenses	(796)	(731)
Depreciation and amortization	(120)	(98)
Other operating expenses	(2,337)	(2,282)
Operating profit	170	(5)
Financial result	1,938	1,542
Taxes	(161)	(113)
Net income	1,947	1,424
Retained earnings brought forward	41	45
Allocation to other revenue reserves	(750)	(400)
Allocation to capital reserves	0	(9)
Utilization for the repurchase of adidas AG shares	(410)	(355)
Retained earnings	828	705

adidas AG net sales € in millions **89**

	2019	2018
Royalty and commission income	2,209	1,900
adidas Germany	1,275	1,157
Foreign subsidiaries	48	60
Central distribution	191	319
Other revenues	721	692
Total	4,444	4,128

NET SALES INCREASE 8%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas and Reebok brands as well as revenues from foreign subsidiaries. Revenues of adidas AG also include royalty and commission income, mainly from affiliated companies, revenues from central distribution, and other revenues. In 2019, adidas AG net sales grew 8% to € 4.444 billion compared to € 4.128 billion in the prior year. This growth was mainly due to higher royalty and commission income and an increase in revenues from adidas Germany. ■ [SEE TABLE 88](#), ■ [SEE TABLE 89](#)

OTHER OPERATING INCOME UP 14%

In 2019, other operating income of adidas AG increased 14% to € 590 million (2018: € 516 million). This development was primarily due to positive currency effects.

OTHER OPERATING EXPENSES INCREASE 2%

In 2019, other operating expenses for adidas AG rose 2% to € 2.337 billion (2018: € 2.282 billion). ■ [SEE TABLE 88](#) This was largely attributable to higher currency losses as well as an increase in IT and maintenance costs, partly offset by a decrease in expenses for advertising and promotion and allowances for doubtful accounts.

DEPRECIATION AND AMORTIZATION UP 22%

Depreciation and amortization for adidas AG rose 22% to € 120 million in 2019 (2018: € 98 million), mainly as a result of an increase in depreciation and amortization of software and buildings.

OPERATING RESULT INCREASES

In 2019, adidas AG generated an operating profit of € 170 million due to higher sales (2018: operating loss of € 5 million). [SEE TABLE 88](#)

FINANCIAL RESULT IMPROVES

The financial result of adidas AG improved 26% to € 1.938 billion in 2019 (2018: € 1.542 billion). The increase was attributable to higher income from dividends, partly offset by lower profit transfers from affiliated companies under profit and loss transfer agreements.

NET INCOME INCREASES SIGNIFICANTLY

Net income, after taxes of € 161 million (2018: € 113 million), amounted to € 1.947 billion in 2019 and was thus 37% above the prior year level (2018: € 1.424 billion). [SEE TABLE 88](#)

BALANCE SHEET

Balance sheet in accordance with HGB 90
(Condensed) € in millions

	Dec. 31, 2019	Dec. 31, 2018
Assets		
Intangible assets	188	162
Property, plant and equipment	706	688
Financial assets	4,427	4,361
Fixed assets	5,321	5,211
Inventories	37	47
Receivables and other assets	3,365	2,655
Cash and cash equivalents, securities	1,197	1,478
Current assets	4,599	4,180
Prepaid expenses	150	100
Active difference from asset allocation	0	5
Total assets	10,070	9,496
Equity and liabilities		
Shareholders' equity	3,107	2,634
Provisions	728	699
Liabilities and other items	6,235	6,163
Total equity and liabilities	10,070	9,496

TOTAL ASSETS ABOVE PRIOR YEAR

At the end of December 2019, total assets grew 6% to € 10.070 billion compared to € 9.496 billion in the prior year. This development was mainly a result of increases in receivables and other assets as well as financial assets, partly offset by the decline in cash and cash equivalents as well as securities.

[SEE TABLE 90](#)

SHAREHOLDERS' EQUITY UP 18%

Shareholders' equity rose 18% to € 3.107 billion at the end of 2019 (2018: € 2.634 billion). [SEE TABLE 90](#) The equity ratio increased to 30.9% (2018: 27.7%).

PROVISIONS INCREASE 4%

Provisions were up 4% to € 728 million at the end of 2019 (2018: € 699 million). [SEE TABLE 90](#) The increase primarily resulted from higher provisions for personnel.

LIABILITIES AND OTHER ITEMS UP 1%

At the end of December 2019, liabilities and other items remained virtually unchanged at € 6.235 billion, up 1% compared to the prior year (2018: € 6.163 billion). [SEE TABLE 90](#)

BUSINESS PERFORMANCE
Disclosures pursuant to § 315a Section 1
and § 289a Section 1 of the German
Commercial Code and Explanatory Report

CASH INFLOW FROM OPERATING ACTIVITIES REFLECTS CHANGE IN CASH AND CASH EQUIVALENTS

adidas AG generated a positive cash flow from operating activities of € 1.473 billion (2018: € 1.696 billion). The change versus the prior year was a result of the increase in net income, partly offset by higher receivables from affiliated companies. Net cash outflow from investment activities was € 233 million (2018: € 270 million). This was primarily attributable to capital expenditure for tangible fixed assets in an amount of € 167 million and capital expenditure for financial assets in an amount of € 66 million. Financing activities resulted in a net cash outflow of € 1.478 billion (2018: € 889 million). The net cash outflow from financing activities mainly relates to the repurchase of adidas AG shares in the amount of € 815 million (for which € 410 million was utilized from 2019 net income) and the dividend payment in an amount of € 664 million. As a result of all these developments, cash and cash equivalents of adidas AG decreased to € 636 million at the end of December 2019 compared to € 874 million at the end of the prior year.

adidas AG has bilateral credit lines of € 1.3 billion. In addition, the company has a multi-currency commercial paper program in an amount of € 2.0 billion. [SEE TREASURY, P. 104](#)

adidas AG is able to meet its financial commitments at all times.

DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT

COMPOSITION OF SUBSCRIBED CAPITAL

The nominal capital of adidas AG amounts to € 200,416,186 (as at December 31, 2019) and is divided into the same number of registered no-par-value shares with a notional pro rata amount in the nominal capital of € 1 each ('shares'). The nominal capital and the number of shares did not change in the 2019 financial year. The shares are fully paid in. Any claim on the part of the shareholders to the issuance of individual share certificates is generally excluded pursuant to § 4 section 9 of the Articles of Association unless such issuance is required in accordance with the regulations applicable at a stock exchange where the shares are admitted. Pursuant to § 67 section 2 German Stock Corporation Act (Aktiengesetz – AktG), in relation to adidas AG, only a person who is registered as such in the share register shall be deemed a shareholder. Each share grants one vote at the Annual General Meeting and determines the shareholders' share in the company's profit. All shares carry the same rights and obligations. The shareholders' individual rights and obligations follow from the provisions of the German Stock Corporation Act, in particular from §§ 12, 53a et seq., 118 et seq. and 186 AktG. As at December 31, 2019, adidas AG held 4,446,799 treasury shares, which do not confer any rights to the company in accordance with § 71b AktG. [SEE NOTE 27, P. 171](#)

In the USA, adidas AG has issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one adidas AG share.

[SEE OUR SHARE, P. 46](#)

RESTRICTIONS ON VOTING RIGHTS OR TRANSFER OF SHARES

We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct and internal guidelines of adidas AG and based on Article 19 section 11 of the Regulation (EU) No 596/2014 (Market Abuse Regulation), however, particular trade prohibitions do exist for Executive Board members with regard to the purchase and sale of adidas AG shares, in connection with the (time of) publication of half-year or year-end financial reports.

In addition, restrictions of voting rights may exist pursuant to, inter alia, § 136 AktG or for treasury shares pursuant to § 71b AktG as well as due to capital market regulations, in particular pursuant to §§ 33 et seq. German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

The shares that were issued in the context of the Stock Purchase Plan to employees of adidas AG and employees of subsidiaries participating in the Stock Purchase Plan are not subject to any lock-up periods, unless such a waiting period is stipulated in locally applicable regulations. Employees who hold the shares which they purchased themselves (investment shares) for at least one year will subsequently receive one share for every six investment shares without having to pay for such share (so-called matching share) if they are still adidas employees at that point in time. If employees transfer, pledge or hypothecate investment shares in any way during the one-year vesting period, the right to receive matching shares ceases.

BUSINESS PERFORMANCE
Disclosures pursuant to § 315a Section 1
and § 289a Section 1 of the German
Commercial Code and Explanatory Report

SHAREHOLDINGS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

We have not been notified of, and are not aware of, any direct or indirect shareholdings in the share capital of adidas AG reaching or exceeding 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS

There are no shares bearing special rights. In particular, there are no shares with rights conferring powers of control.

VOTING RIGHT CONTROL IF EMPLOYEES HAVE A SHARE IN THE CAPITAL

Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association. The shares which employees acquire in the context of the Stock Purchase Plan are held in trust centrally by a service provider on behalf of the participating employees. As long as the shares are held in trust, the trustee shall take reasonable measures to enable participating employees to directly or indirectly exercise their voting rights in respect of the shares held in trust.

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO and five further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years. [SEE EXECUTIVE BOARD, P. 11](#)

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or CEO if there is good cause, such as gross negligence of duties or a vote of no confidence by the Annual General Meeting.

As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal require a majority of at least two thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, the Mediation Committee has to present a proposal which, however, does not exclude other proposals. The appointment or dismissal is then made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which the Chairman of the Supervisory Board has two votes.

If the Executive Board does not have the required number of members, the competent court must, in urgent cases, make the necessary appointment upon application (§ 85 section 1 AktG).

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to §§ 119 section 1 number 5, 179 section 1 sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution passed by the Annual General Meeting. Pursuant to § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the nominal capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority of voting rights or capital, this is applicable. When it comes to amendments solely relating to the

wording, the Supervisory Board is authorized to make these modifications in accordance with § 179 section 1 sentence 2 AktG in conjunction with § 10 section 1 sentence 2 of the Articles of Association.

AUTHORIZATIONS OF THE EXECUTIVE BOARD

The authorizations of the Executive Board are regulated by §§ 76 et seq. AktG in conjunction with §§ 7 and 8 of the Articles of Association. The Executive Board is responsible, in particular, for managing the company and represents the company judicially and extra-judicially.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

The authorization of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions:

Authorized Capital

- Until June 14, 2021, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 4,000,000 altogether (Authorized Capital 2016). Any repurchased treasury shares of the company which are used by the company for employee stock purchase plans during the term of this authorization shall be attributed to the maximum number of 4,000,000 shares. Shareholders' subscription rights shall be excluded. The new shares may only be issued to (current and former) employees of the company and its affiliated companies as well as to (current and former) members of management bodies of the company's affiliated companies ('eligible persons').

BUSINESS PERFORMANCE
Disclosures pursuant to § 315a Section 1
and § 289a Section 1 of the German
Commercial Code and Explanatory Report

- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorized Capital 2017/I). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights.
- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorized Capital 2017/III). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights. Additionally, the Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights when issuing the new shares at a price not significantly below the stock market price of the company's shares already quoted on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the company's shares on a foreign stock exchange. The authorization to exclude subscription rights pursuant to the previous sentence may, however, only be used to the extent that the pro rata amount of the new shares in the nominal capital together with the pro rata amount in the nominal capital of other shares which have been issued by adidas AG since May 11, 2017, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorized capital or following a repurchase, or for which subscription or conversion rights or subscription or conversion obligations have been granted since May 11, 2017, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded pursuant to § 186 section 3 sentence 4 AktG, does

not exceed 10% of the nominal capital existing on the date of the entry of this authorization into the commercial register or – if this amount is lower – as at the respective date on which the resolution on utilization of the authorization is adopted. The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued against contributions in kind with the exclusion of subscription rights from the Authorized Capital 2017/II – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights.

- Until June 13, 2024, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 16,000,000 altogether (Authorized Capital 2019). The Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights. The overall volume of the shares issued with the exclusion of subscription rights based on this authorization must not exceed 10% of the nominal capital existing at the point in time when this authorization becomes effective or, in case this amount is lower, at the date of the respective issuance. The nominal capital which is attributed to the shares to be issued to service option or conversion rights or option or conversion obligations from bonds, debt securities or participation rights to the extent that they are issued during the term of the authorization until the date of the respective exercise of this authorization with the exclusion of subscription rights, or which is attributed to shares which are issued or sold during the term of the authorization until the date of the respective exercise of this authorization with the exclusion of subscription rights, has to be included in the aforementioned limit of 10%. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights. The Authorized Capital 2019 must not

be used to issue shares within the scope of compensation or participation programs for Executive Board members or employees or for members of the management bodies or employees of subsidiaries. [SEE NOTE 27, P. 171](#)

Contingent Capital

The nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2018). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued based on the resolution of the Annual General Meeting on May 9, 2018 subscription or conversion rights relating to no more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorization granted by the Annual General Meeting on May 9, 2018, the Executive Board is authorized to issue bonds with warrants and/or convertible bonds in an aggregate nominal value of up to € 2,500,000,000 with or without a limited term against contributions in cash once or several times until May 8, 2023, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for residual amounts and to exclude shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Finally, the Executive Board is authorized, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the hypothetical market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. Treasury shares which are or will be sold with the exclusion of subscription rights in accordance with § 71 section 1 no. 8 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds shall be attributed to the aforementioned limit of 10%. Shares which are or will be issued, subject to the

BUSINESS PERFORMANCE
Disclosures pursuant to § 315a Section 1
and § 289a Section 1 of the German
Commercial Code and Explanatory Report

exclusion of subscription rights pursuant to § 186 section 3 sentence 4 AktG or pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds in the context of a cash capital increase shall also be attributed to the aforementioned limit of 10%. Finally, shares for which there are option or conversion rights or obligations or a right to delivery of shares of the company in favor of the company due to bonds with warrants or convertible bonds issued by the company or its subordinated Group companies, subject to the exclusion of subscription rights in accordance with § 221 section 4 sentence 2 in conjunction with § 186 section 3 sentence 4 AktG during the term of this authorization based on other authorizations shall be attributed to the aforementioned limit of 10%. Notwithstanding the Supervisory Board's right to determine further approval requirements, the Executive Board requires the Supervisory Board's approval for the issuance of bonds with warrants and/or convertible bonds based on this authorization of the Annual General Meeting on May 9, 2018 with the exclusion of shareholders' subscription rights.

The Executive Board has so far not utilized the authorization to issue bonds with warrants and/or convertible bonds granted by the Annual General Meeting on May 9, 2018.

AUTHORIZATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES

The authorizations of the Executive Board to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorization granted by the Annual General Meeting on May 12, 2016.

Until May 11, 2021, the Executive Board is authorized to repurchase adidas AG shares in an amount totaling up to 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of

utilization of the authorization) for any lawful purpose and within the legal framework. The authorization may be used by the company but also by its subordinated Group companies or by third parties on account of the company or its subordinated Group companies or third parties assigned by the company or one of its subordinated Group companies.

The repurchase can be carried out via the stock exchange, through a public invitation to submit sale offers, through a public repurchase offer, or through granting tender rights to shareholders. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

The purposes for which treasury shares repurchased based on this authorization may be used are set out in the resolution on Item 9 of the Agenda for the Annual General Meeting held on May 12, 2016. The shares may in particular be used as follows:

- They may be sold on the stock exchange or through a public offer to all shareholders in relation to their shareholding quota; in case of an offer to all shareholders, subscription rights for residual amounts are excluded. The shares may also be sold differently, provided the shares are sold in exchange for a cash payment and at a price that, at the time of the sale, is not significantly below the stock market price of the company's shares with the same features; the prorated amount of the nominal capital which is attributable to the aggregate number of shares sold under this authorization may not exceed 10% of the nominal capital. The prorated amount of the nominal capital attributable to new shares issued between May 12, 2016 and the sale of the shares based on an authorized capital with the exclusion of shareholders' subscription rights pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG shall be attributed to the limit of 10%. Likewise, the prorated amount of the nominal capital

that is attributable to shares which may be issued due to bonds with warrants and/or convertible bonds which are linked to subscription or conversion rights or obligations or the company's right to delivery of shares, provided these bonds are issued on the basis of authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG between May 12, 2016 and the sale of the shares, shall also be attributed to the limit of 10%.

- They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies, participations in companies or other economic assets or within the scope of company mergers.
- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licenses relating to such rights, also through subordinated Group companies.
- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.
- In connection with employee stock purchase plans, up to 4,000,000 shares may be issued in favor of (current and former) employees of the company and its affiliated companies as well as in favor of (current and former) management bodies of the company's affiliated companies. The number of shares the company issues to eligible persons by partially utilizing the Authorized Capital 2016 shall be attributed to the maximum number of 4,000,000 shares.
- They may be canceled without such cancellation requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be promised or assigned to members of the Executive Board as compensation by way of a

BUSINESS PERFORMANCE
Disclosures pursuant to § 315a Section 1
and § 289a Section 1 of the German
Commercial Code and Explanatory Report

stock bonus subject to the provision that resale by the Executive Board members shall only be permitted following a retention period of at least three years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of utilization of shares for the aforementioned purposes, except for the cancelation of shares, shareholders' subscription rights are excluded.

The Supervisory Board may determine that transactions based on this authorization may only be carried out subject to the approval of the Supervisory Board or one of its committees.

In the 2018 and 2019 financial years, the Executive Board partly utilized the authorization to repurchase adidas AG shares in the context of the share buyback program 2018-2021. In a first tranche (total period from March 22, 2018 up to and including December 4, 2018) of this share buyback program, adidas AG bought back 5,089,879 adidas AG shares via the stock exchange. In a second tranche (total period from January 7, 2019 up to and including December 18, 2019), adidas AG bought back 3,223,214 adidas AG shares via the stock exchange in the year under review. [SEE NOTE 27, P. 171](#)

In the scope of the authorization resolved upon by the Annual General Meeting on May 12, 2016, the Executive Board is furthermore authorized to conduct the share buyback also by using equity derivatives which are arranged with a credit institution or financial services institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of call and put options or other equity derivatives if the option conditions ensure that the shares delivered for these equity derivatives were purchased in compliance with the principle of equal treatment. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 11, 2021. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

For excluding subscription rights, the use and cancelation of shares purchased using equity derivatives, the general provisions adopted by the Annual General Meeting (set out above) are applicable accordingly.

CHANGE OF CONTROL/COMPENSATION AGREEMENTS

Substantial agreements entered into by adidas AG containing a change-of-control clause relate to the material financing agreements. In the case of a change of control, these agreements, in accordance with common practice, entitle the creditor to termination and early calling-in of any outstanding amounts.

No compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a takeover bid.

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: Europe, North America adidas, North America Reebok, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets, adidas Golf, Runtastic and Other centrally managed businesses. While the operating segments Europe, Asia-Pacific, Russia/CIS, Latin America and Emerging Markets are reported separately, North America adidas and North America Reebok are combined to the reportable segment North America. Each reportable segment comprises all wholesale, retail and e-commerce business activities relating to the distribution and sale of products of the adidas and Reebok brands to retail customers and end consumers. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

EUROPE

In 2019, sales in Europe increased 3% on a currency-neutral basis as well as in euro terms to € 6.071 billion from € 5.885 billion in 2018. adidas brand revenues were up 4% on a currency-neutral basis. This was driven by low-single-digit sales growth in Sport Inspired and mid-single-digit sales growth in Sport Performance. Reebok brand revenues in Europe decreased 2% on a currency-neutral basis, due to declines in both Sport and Classics. [SEE TABLE 91](#)

Net sales in Europe
+3%
C.N.
€ 6.071 bn

Europe at a glance € in millions 91

	2019	2018	Change	Change (currency-neutral)
Net sales	6,071	5,885	3%	3%
adidas brand	5,599	5,405	4%	4%
Reebok brand	471	480	[2%]	[2%]
Gross margin	51.5%	47.7%	3.9pp	-
Segmental operating profit	1,408	1,176	20%	-
Segmental operating margin	23.2%	20.0%	3.2pp	-

Gross margin in Europe increased 3.9 percentage points to 51.5% from 47.7% in 2018, as positive currency effects, lower sourcing costs and a favorable channel mix more than offset an unfavorable product and pricing mix. Operating expenses were up 6% to € 1.722 billion versus € 1.628 billion in 2018, mainly reflecting an increase in operating overhead costs. Operating expenses as a percentage of sales were up 0.7 percentage points to 28.4% (2018: 27.7%). As a result of the increase in gross margin, which more than offset the negative effect of higher operating expenses as a percentage of sales, operating margin was up 3.2 percentage points to 23.2% (2018: 20.0%). Operating profit in Europe increased 20% to € 1.408 billion versus € 1.176 billion in the prior year.

[SEE TABLE 91](#)

NORTH AMERICA

Revenues in North America grew 8% on a currency-neutral basis and 13% in euro terms to € 5.313 billion from € 4.689 billion in 2018. adidas brand sales increased 7% on a currency-neutral basis, with mid-single-digit sales growth in Sport Inspired and low-single-digit sales growth in Sport Performance. Reebok brand revenues in North America grew 12% on a currency-neutral basis, driven by increases in both Sport and Classics. [SEE TABLE 92](#)

Net sales in North America

+8%
C.N.
€ 5.313 bn

North America at a glance € in millions 92

	2019	2018	Change	Change (currency-neutral)
Net sales	5,313	4,689	13%	8%
adidas brand	4,828	4,277	13%	7%
Reebok brand	485	411	18%	12%
Gross margin	40.0%	41.2%	[1.2pp]	-
Segmental operating profit	715	698	2%	-
Segmental operating margin	13.5%	14.9%	[1.4pp]	-

Gross margin in North America decreased 1.2 percentage points to 40.0% (2018: 41.2%). Higher air freight costs to mitigate the supply chain shortages and an unfavorable pricing mix were only partly offset by lower sourcing costs as well as a better product and channel mix. Operating expenses were up 14% to € 1.493 billion versus € 1.305 billion in 2018, mainly reflecting an increase in operating overhead costs. Operating expenses as a percentage of sales increased 0.3 percentage points to 28.1% (2018: 27.8%). As a result of the lower gross margin and higher operating expenses as a

percentage of sales, operating margin declined 1.4 percentage points to 13.5% from 14.9% in 2018. Operating profit in North America increased 2% to € 715 million from € 698 million in 2018. [SEE TABLE 92](#)

ASIA-PACIFIC

Sales in Asia-Pacific grew 10% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were up 12% to € 8.032 billion from € 7.141 billion in 2018. adidas brand revenues increased 11% on a currency-neutral basis. This development was due to double-digit sales growth in both Sport Inspired and Sport Performance. Reebok brand sales in Asia-Pacific decreased 15% on a currency-neutral basis, due to declines in both Sport and Classics. [SEE TABLE 93](#)

Asia-Pacific at a glance € in millions

93

	2019	2018	Change	Change (currency- neutral)
Net sales	8,032	7,141	12%	10%
adidas brand	7,736	6,805	14%	11%
Reebok brand	296	336	(12%)	(15%)
Gross margin	57.0%	56.2%	0.8pp	-
Segmental operating profit	2,703	2,339	16%	-
Segmental operating margin	33.7%	32.7%	0.9pp	-

Net sales in Asia-Pacific

+ **10%**
C.N.
€ 8.032 bn

Gross margin in Asia-Pacific increased 0.8 percentage points to 57.0% (2018: 56.2%), reflecting lower sourcing costs, positive currency effects and an improved product and channel mix, partly offset by an unfavorable pricing mix. Operating expenses were up 12% to € 1.891 billion versus € 1.688 billion in 2018, mainly driven by higher operating overhead costs. Operating expenses as a percentage of sales were down 0.1 percentage points to 23.5% (2018: 23.6%). As a result of the gross margin increase as well as lower operating expenses as a percentage of sales, operating margin was up 0.9 percentage points to 33.7% versus 32.7% in 2018. Operating profit in Asia-Pacific increased 16% to € 2.703 billion from € 2.339 billion in 2018. [SEE TABLE 93](#)

RUSSIA/CIS

Sales in Russia/CIS increased 8% on a currency-neutral basis. In euro terms, sales in Russia/CIS grew 11% to € 658 million from € 595 million in 2018. adidas brand revenues were up 7% on a currency-neutral basis. While sales in Sport Inspired grew at a double-digit rate, revenues in Sport Performance increased at a mid-single-digit rate. Reebok brand revenues in Russia/CIS increased 11% on a currency-neutral basis, driven by mid-single-digit growth in Sport and double-digit growth in Classics. [SEE TABLE 94](#)

Net sales in Russia/CIS

+ **8%**
C.N.
€ 658 m

Russia/CIS at a glance € in millions

94

	2019	2018	Change	Change (currency- neutral)
Net sales	658	595	11%	8%
adidas brand	490	446	10%	7%
Reebok brand	168	149	13%	11%
Gross margin	61.7%	65.8%	[4.2pp]	-
Segmental operating profit	167	146	14%	-
Segmental operating margin	25.4%	24.6%	0.8pp	-

Gross margin in Russia/CIS decreased 4.2 percentage points to 61.7% from 65.8% in 2018, as an unfavorable pricing and channel mix more than offset lower sourcing costs and positive currency effects. Operating expenses were down 3% to € 239 million (2018: € 245 million), reflecting a decline in both operating overhead costs and marketing expenditure. Operating expenses as a percentage of sales decreased 4.9 percentage points to 36.3% versus 41.2% in the prior year. As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin improved 0.8 percentage points to 25.4% from 24.6% in 2018. Operating profit in Russia/CIS increased 14% to € 167 million versus € 146 million in 2018. [SEE TABLE 94](#)

LATIN AMERICA

Revenues in Latin America increased 7% on a currency-neutral basis. In euro terms, sales in Latin America grew 2% to € 1.660 billion from € 1.634 billion in 2018. adidas brand sales were up 8% on a currency-neutral basis. Double-digit growth in Sport Inspired was partly offset by a low-single-digit sales decline in Sport Performance. Reebok brand sales in Latin America grew 3% on a currency-neutral basis, as a high-single-digit decline in Sport was more than offset by double-digit growth in Classics.

■ SEE TABLE 95

Latin America at a glance € in millions

95

	2019	2018	Change	Change (currency-neutral)
Net sales	1,660	1,634	2%	7%
adidas brand	1,490	1,463	2%	8%
Reebok brand	170	171	(1%)	3%
Gross margin	44.5%	44.9%	[0.4pp]	–
Segmental operating profit	295	279	6%	–
Segmental operating margin	17.8%	17.1%	0.7pp	–

Net sales in Latin America

+ 7% C.N.
€ 1.660 bn

Gross margin in Latin America decreased 0.4 percentage points to 44.5% (2018: 44.9%), as negative currency effects and an unfavorable product and channel mix were only partly offset by lower sourcing costs and a favorable pricing mix. Operating expenses were down 2% to € 444 million from € 454 million in 2018, reflecting a decrease in operating overhead costs. Operating expenses as a percentage of sales declined 1.1 percentage points to 26.7% (2018: 27.8%). As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin improved 0.7 percentage points to 17.8% from 17.1% in 2018. Operating profit in Latin America increased 6% to € 295 million versus € 279 million in 2018. ■ SEE TABLE 95

EMERGING MARKETS

Revenues in Emerging Markets were up 13% on a currency-neutral basis. In euro terms, sales in Emerging Markets grew 14% to € 1.302 billion from € 1.144 billion in 2018. adidas brand revenues increased 12% on a currency-neutral basis, driven by double-digit growth in Sport Inspired and high-single-digit growth in Sport Performance. Reebok brand revenues in Emerging Markets grew 14% on a currency-neutral basis, driven by a high-single-digit increase in Sport and double-digit growth in Classics. ■ SEE TABLE 96

Net sales in Emerging Markets

+ 13% C.N.
€ 1.302 bn

Emerging Markets at a glance € in millions

96

	2019	2018	Change	Change (currency-neutral)
Net sales	1,302	1,144	14%	13%
adidas brand	1,146	1,010	13%	12%
Reebok brand	156	134	16%	14%
Gross margin	52.3%	52.8%	[0.5pp]	–
Segmental operating profit	367	318	15%	–
Segmental operating margin	28.2%	27.8%	0.4pp	–

Gross margin in Emerging Markets decreased 0.5 percentage points to 52.3% (2018: 52.8%), as negative currency effects and an unfavorable channel mix more than offset lower sourcing costs and a favorable product and pricing mix. Operating expenses were up 10% to € 314 million versus € 286 million in 2018, reflecting an increase in marketing expenditure as well as higher operating overhead costs. As a percentage of sales, operating expenses decreased 0.8 percentage points to 24.2% from 25.0% in 2018. As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin was up 0.4 percentage points to 28.2% (2018: 27.8%). Operating profit in Emerging Markets increased 15% to € 367 million versus € 318 million in 2018. ■ SEE TABLE 96

OUTLOOK

In 2020, we expect growth of the global economy and consumer spending to reaccelerate only slightly in light of various uncertainties, yet still to provide a supportive backdrop for robust expansion of the sporting goods industry. Through our extensive pipeline of innovative products, powerful brand-building activities and tight control of both our inventory levels and our cost base, we project significant revenue growth and strong bottom-line improvements in 2020. We forecast sales to increase at a rate between 6% and 8% on a currency-neutral basis. Gross margin is projected to decline slightly compared to the prior year level of 52.0%, which is expected to be more than compensated by operating leverage. Consequently, operating margin is expected to increase between 0.2 percentage points and 0.5 percentage points to a level between 11.5% and 11.8%. As a result, net income from continuing operations is forecast to increase between 10% and 13% to a level between € 2.100 billion and € 2.160 billion. The company's outlook for 2020 does not reflect any impact from the coronavirus outbreak and is subject to change depending on further developments in this regard.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. [SEE RISK AND OPPORTUNITY REPORT, P. 120](#) In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or

positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

GLOBAL ECONOMIC GROWTH TO STABILIZE IN 2020¹

Global GDP growth is projected to reaccelerate slightly to 2.5% in 2020. Amid recent de-escalation of trade tensions, investment and trade are forecast to gradually improve, while monetary policy is expected to stay accommodative. Nevertheless, moderating activity in major economies and financial market turbulences remain existing downside risks. In addition, differences between the pace of growth in developed and developing economies affect the global GDP projection. Developing economies are forecast to see an increase of growth at 4.1%, underlined by continued monetary policy support and a stabilization of oil and other commodity prices. In contrast, growth in developed economies is projected to slow to 1.4%, reflecting continued weakness in manufacturing and limited room for additional monetary policy accommodation. On a global level, additional downside risks include an escalation of trade tensions and geopolitical conflicts as well as a lasting outbreak of the coronavirus. Associated uncertainty might dampen consumer confidence, trade and growth.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2020

In the absence of any major macroeconomic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2020. Industry growth will continue to be driven by North America and Asia-Pacific, the biggest markets by size globally. Most other markets also look set to continue their expansion at robust rates, contributing to a growing industry. Growth in developing economies is predicted to be

further supported by a growing middle class and progressing urbanization. In developed economies, robust labor markets should fuel resilient consumption and support consumer spending on sporting goods. Globally, demand for athletic performance products should be continuously supported by increasing sports participation rates and rising awareness for health and wellness. In addition, demand for athletic casual and activewear products is expected to be further driven by increasing sportswear penetration rates, as sports-inspired apparel and footwear (*athleisure*¹ [SEE GLOSSARY](#)) keeps evolving as a structural component of the broader fashion landscape. Sustainability is expected to further gain in importance, as consumers show increasing demand for sustainable companies and products. Collaborations between sportswear brands and non-athlete influencers will remain an industry growth driver. Within the supply chain, increased efficiency in manufacturing and speed-to-market capabilities should further benefit sales growth and inventory levels, as consumers' demands can be met faster and more precisely. On the distribution side, the significant expansion of the e-commerce channel is set to continue amid further investments into consumer insights generation and the creation of premium shopping experiences. Last but not least, major sporting events such as the UEFA EURO 2020 and the 2020 Olympic Games in Tokyo will support industry growth. For the sporting goods sector too, risks related to escalating trade tensions and geopolitical conflicts as well as the coronavirus outbreak remain.

OUTLOOK FOR 2020 SUBJECT TO CHANGE DUE TO CORONAVIRUS OUTBREAK IN CHINA

The company's outlook for 2020 as outlined in this report is subject to change depending on the further developments related to the coronavirus outbreak. In the first three weeks of 2020, our business in Greater China – which represents around two-thirds of our Asia-Pacific revenues and has a

¹ Source: World Bank Global Economic Prospects.

slightly higher profitability level than the segment's average – performed strongly. However, since then we have been experiencing a material negative impact on our operations in China. We have a dedicated task force team in place to assess the situation, develop mitigation actions and ensure the personal safety as well as financial security of our employees and their families, which is the company's number one priority. Since the start of the crisis, we have been working closely with the Chinese authorities to take measures to contain the epidemic and show our solidarity with the people directly affected. As a result of a significant number of store closures – both own- and partner-operated – and a pronounced traffic reduction within the remaining store fleet, business activity in Greater China has been around 85% below the prior year level since Chinese New Year on January 25,

with a corresponding revenue and bottom-line impact. In addition, the company's supply chain in China has been facing disruptions. adidas' global sourcing activities, however, have not been materially impacted so far, as production in the country is predominantly for the local market. Similarly, while we have seen some traffic declines in other markets – predominantly Japan and South Korea – we have not yet observed any major business impact outside of Greater China.

As the situation keeps evolving, the magnitude of the overall impact on our business in 2020 cannot be quantified reliably at this point in time. Accordingly, the company's outlook for 2020 as follows and outlined in this report does not reflect any impact of the coronavirus outbreak.

CURRENCY-NEUTRAL SALES TO INCREASE BETWEEN 6% AND 8% IN 2020

We expect sales to increase at a rate between 6% and 8% on a currency-neutral basis in 2020. [SEE TABLE 97](#) Despite continued uncertainties regarding the global economic outlook, the company's sales development will be favorably impacted by rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to sales growth.

CURRENCY-NEUTRAL REVENUES TO INCREASE IN ALL MARKET SEGMENTS

In 2020, we expect currency-neutral revenues to again increase in all market segments. While currency-neutral sales are projected to grow at a low-double-digit rate in North America and Russia/CIS, currency-neutral revenues in Asia-Pacific and Emerging Markets are expected to grow at a high-single-digit rate. Sales in Europe and Latin America are forecast to improve at a mid-single-digit rate in currency-neutral terms. [SEE TABLE 97](#)

GROSS MARGIN EXPECTED TO DECLINE SLIGHTLY

In 2020, the gross margin is forecast to decline slightly compared to the prior year level of 52.0%. [SEE TABLE 97](#) The gross margin development will be significantly burdened by the adverse impact from unfavorable currency developments as well as negative effects from higher sourcing costs. These headwinds will largely be compensated by a better channel mix as well as normalized use of air freight after last year's supply chain shortages were successfully mitigated.

2020 Outlook¹

97

Currency-neutral sales development (in %):	
adidas	to increase at a rate between 6% and 8%
Europe ²	mid-single-digit increase
North America ²	low-double-digit increase
Asia-Pacific ²	high-single-digit increase
Russia/CIS ²	low-double-digit increase
Latin America ²	mid-single-digit increase
Emerging Markets ²	high-single-digit increase
Gross margin	to decrease slightly compared to the prior year level of 52.0%
Operating margin	to increase between 0.2pp and 0.5pp to a level between 11.5% and 11.8%
Net income from continuing operations	to increase at a rate between 10% and 13% to a level between € 2.100 billion and € 2.160 billion
Average operating working capital in % of sales	to increase slightly
Capital expenditure	to increase to a level of around € 800 million

¹ Subject to change due to coronavirus outbreak in China.

² Combined sales of the adidas and Reebok brands.

OPERATING MARGIN TO EXPAND TO A LEVEL BETWEEN 11.5% AND 11.8%

In 2020, the operating margin is projected to increase between 0.2 percentage points and 0.5 percentage points to a level between 11.5% and 11.8%. The anticipated slight decline in gross margin is expected to be more than offset by leverage on other operating expenses. This, together with the continued top-line growth, is expected to drive a double-digit-rate improvement of the bottom line. Net income from continuing operations is projected to increase to a level between € 2.100 billion and € 2.160 billion, reflecting an increase of between 10% and 13% compared to the prior year level of € 1.918 billion. [SEE TABLE 97](#)

AVERAGE OPERATING WORKING CAPITAL AS A PERCENTAGE OF SALES TO INCREASE SLIGHTLY

In 2020, average operating working capital as a percentage of sales is projected to increase slightly compared to the significantly better-than-expected prior year level of 18.1%.

[SEE TABLE 97](#)

CAPITAL EXPENDITURE TO INCREASE TO AROUND € 800 MILLION

In 2020, capital expenditure is expected to increase to around € 800 million (2019: € 711 million). Investments will mainly focus on controlled space initiatives of the adidas and Reebok brands in both physical retail and e-commerce, the company's IT and logistics infrastructure as well as the further development of state-of-the-art corporate facilities in Herzogenaurach and Portland. [SEE TABLE 97](#)

MANAGEMENT TO PROPOSE DIVIDEND OF € 3.85

As a result of the strong operational and financial performance in 2019, our robust financial position as well as Management's confidence in our short- and long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.85 per dividend-entitled share for 2019 (2018: € 3.35) to shareholders at the Annual General Meeting (AGM) on May 14, 2020. The total payout of € 752 million (2018: € 664 million) reflects a payout ratio of 39.2% of net income from continuing operations (2018: 38.9%), based on the number of shares outstanding as at the date of preparation of the consolidated financial statements. This is within the target range of between 30% and 50% of net income from continuing operations as defined in our dividend policy.

[SEE OUR SHARE, P. 46](#)

RISK AND OPPORTUNITY REPORT

In order to remain competitive and ensure sustainable success, adidas consciously takes risks and continuously explores and develops opportunities. Our risk and opportunity management principles and system provide the framework for our company to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES

We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company’s business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company’s ability to achieve its business objectives or financial goals.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Executive Board has overall responsibility for establishing an effective risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. [SEE DIAGRAM 98](#) The Risk Management department governs, operates and develops the company’s risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the Executive Board. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board’s Audit Committee. Working independently of all other functions of the organizations, the Internal Audit department provides objective assurance to the Executive Board and the Audit Committee regarding the adequacy and effectiveness of the

company’s risk and opportunity management system on a regular basis. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company’s Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

Our risk and opportunity management system is based on frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, we have adapted our risk and opportunity management system to more appropriately reflect the structure as well as the culture of the company. This system focuses on the identification, evaluation, handling, monitoring and systematic reporting of risks and opportunities. The key objective of the risk and opportunity management system is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy

outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our company.

Risk and opportunity management is a company-wide activity which utilizes key insights from the members of the Executive Board as well as from global and local business units and functions.

Our risk and opportunity management process comprises the following steps:

- **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry, as well as internal processes, to identify risks and opportunities as early as possible. Our company-wide network of Risk Owners (at least all leaders reporting directly to the Executive Board, including the Managing Directors of our markets) ensures an effective bottom-up identification of risks and opportunities. Risk Management has defined 25 categories to assist Risk Owners in identifying risks and opportunities. The Risk Owners use various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. However, our risk and opportunity identification process is not only limited to external risk factors or opportunities; it also includes an internal perspective that

adidas risk and opportunity management system 98



considers company culture, processes, projects, human resources and compliance aspects.

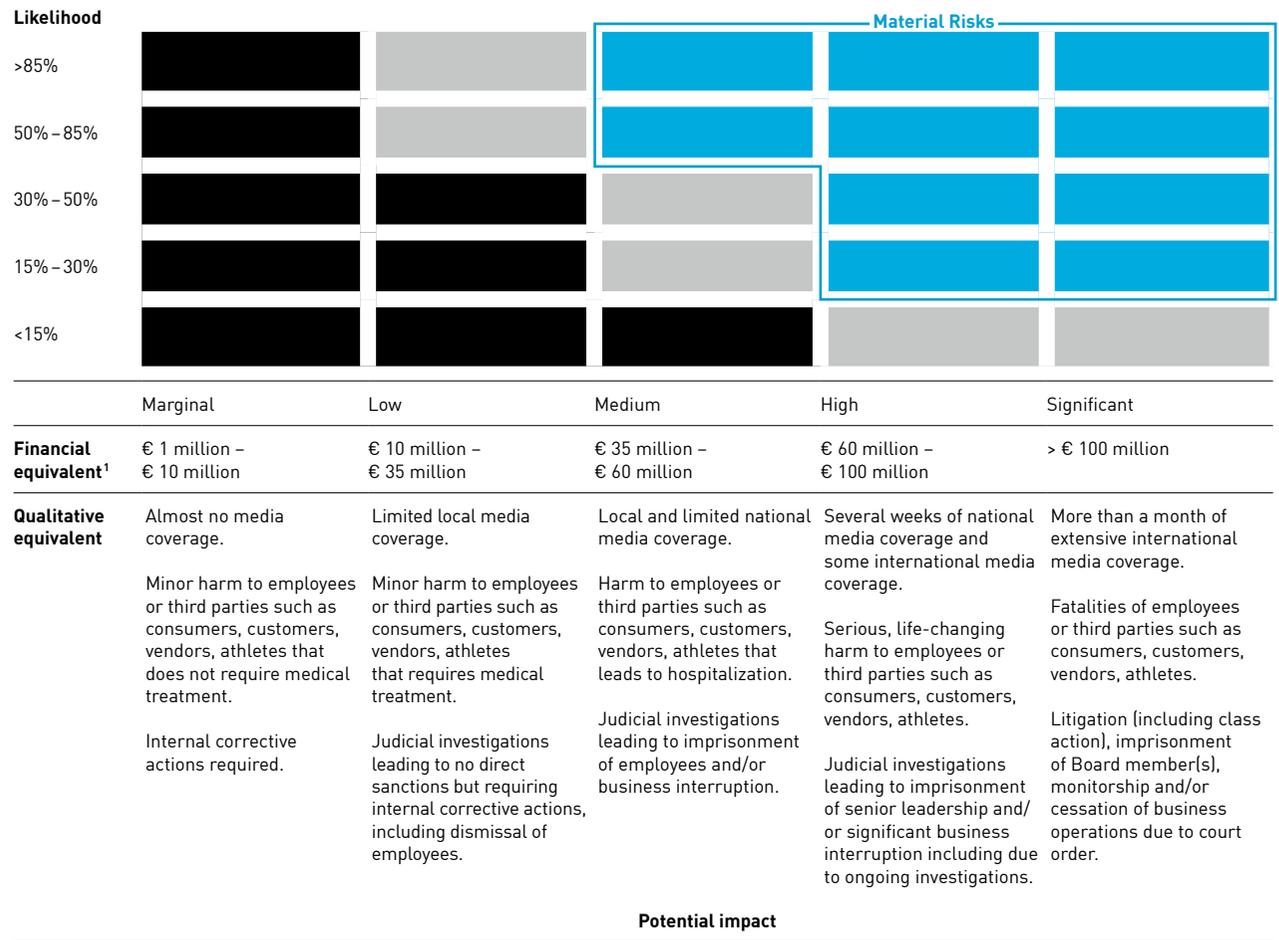
— **Risk and opportunity evaluation:** We assess identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritization as well as allocation of resources. Risk and opportunity evaluation is also part of the Risk Owners' responsibility. The Risk Management department supports and guides the Risk Owners in the evaluation process. According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materializes. Based on this evaluation, we classify risks and opportunities into three categories: minor, moderate and major.

The potential impact is evaluated using five categories: marginal, low, medium, high and significant. These categories represent financial or equivalent non-financial measurements. The financial measurements are based on the potential effect on the company's net income. Non-financial measurements used are the degree of media exposure affecting the company's reputation, brand image and employer value proposition, the degree of damage to people's health and safety, and the degree of legal and judicial consequences at the corporate and personal level. Likelihood represents the possibility that a given risk or opportunity may materialize with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: below 15%, 15%–30%, 30%–50%, 50%–85% and above 85%.

SEE DIAGRAM 99

When evaluating risks and opportunities, we also consider the earliest time period when the company's target achievement may be impacted, in order to provide a broad perspective and ensure early identification and mitigation. Short-term risks and opportunities may affect

Risk evaluation categories



Risk classification: ■ Minor ■ Moderate ■ Major

¹ Based on net income.

the achievement of the company's objectives already in the current financial year, mid-term risks and opportunities would impact the company's target achievement in the

next financial year, while long-term risks and opportunities might only have an effect on the achievement of the company's objectives after the next financial year.

We consider both gross and net risks in our risk assessments. While the gross risk reflects the inherent risk before any mitigating action, the net risk reflects the residual risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of the most relevant risks that materialized against the original assessment on a yearly basis. In this way, we ensure continuous monitoring of the accuracy of risk evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

- **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimize impact and/or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating action if applicable.

The Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action. In 2019, we introduced a formalized risk acceptance process linked to the risk classification. Depending on the risk class determined by the risk and opportunity evaluation, the authority to make decisions to accept risks resides with the Executive Board, the Risk Owners and operational management. The decision to accept material risks without taking additional mitigating action can only be made by the entire Executive Board.

- **Risk and opportunity monitoring and reporting:** Our risk and opportunity management system aims to increase the transparency of risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments but also the adequacy and effectiveness of the current risk-handling strategy on an ongoing basis.

Regular risk reporting takes place half-yearly and consists of a five-step reporting stream that is supported and facilitated by a globally used company-wide IT solution:

1. Risk Owners are required to report to Risk Management risks and opportunities that have a possible net impact of € 1 million and above, regardless of the likelihood of materializing.
2. Risk Management consolidates and aggregates the reported risks and opportunities and provides a consolidated report based on the Risk Owners' input to each member of the Executive Board concerning his or her individual area of responsibility. Each report specifically highlights substantial individual risks and opportunities. Each member of the Executive Board reviews the reported risks and opportunities of his or

her individual area of responsibility, adding his or her own assessment of risks and opportunities if necessary.

3. Risk Management provides a consolidated report to all members of the Executive Board that includes both the assessment of each member of the Executive Board and the major risks and opportunities reported by Risk Owners. The Executive Board reviews the report, jointly agrees on a final company assessment of risks and opportunities and decides if Risk Owners are required to take further action.
4. Based on the Executive Board's decision, Risk Management creates the final risk and opportunity report that is also shared with the Core Leadership Group (CLG). [SEE PEOPLE AND CULTURE, P. 70](#)
5. The Executive Board in collaboration with Risk Management presents the final risk and opportunity assessment results to the Audit Committee of the Supervisory Board.

Material changes in previously reported risks and opportunities and/or newly identified risks and opportunities that are classified as moderate or major as well as any issues identified which, due to their material nature, require immediate reporting, are also reported outside the regular half-yearly reporting stream on an ad hoc basis to the Risk Management department and the Executive Board.

COMPLIANCE MANAGEMENT SYSTEM (ADIDAS FAIR PLAY COMPLIANCE FRAMEWORK)

▣ We consider compliance with the law as well as with external and internal regulations to be imperative. The Executive Board sets the tone right from the top – every employee is required to act ethically and in compliance with the law as well as with external and internal regulations while executing

the company’s business. Violations must be avoided under all circumstances. However, we realize that it will never be possible to exclude compliance violations with absolute certainty.

The adidas Fair Play Compliance Framework is overseen by the company’s Chief Compliance Officer. We see compliance as all-encompassing, spanning all business functions throughout the entire value chain. Our central Compliance team works closely with Regional Compliance Managers and Local Compliance Officers to conduct a systematic assessment of key compliance risks on a yearly basis. In addition, the central Compliance team regularly conducts compliance reviews within selected entities.

The company’s Compliance Management System (CMS) is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises, and is designed to:

- support the achievement of qualitative and sustainable growth through good corporate governance;
- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct;
- protect and further enhance the value and reputation of the company and its brands through compliant conduct; and
- preserve diversity by fighting harassment and discrimination.

The adidas Fair Play Code of Conduct stipulates guidelines for behavior in everyday work, which all employees are obliged to comply with. It is applicable globally and for all business areas, accessible on our website and on our intranet. In 2019, we revised the Code of Conduct to ensure it remains up-to-date and reflects our business environment. [↗ ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT](#)

[COM/S/CODE-OF-CONDUCT](#)

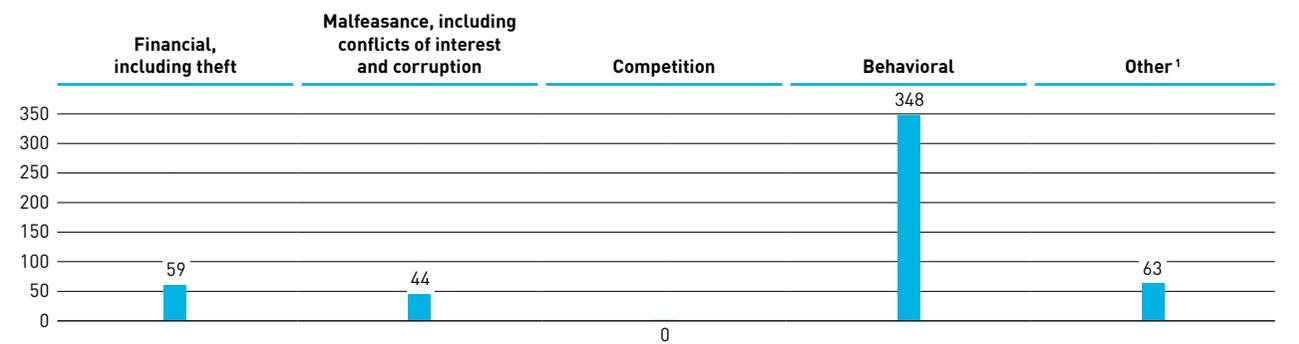
The Code of Conduct and our CMS are organized around three pillars: prevent, detect and respond.

- **Prevention:** The foundation of our CMS is the adoption and implementation of our Fair Play Code of Conduct, the Compliance Policy, and the Privacy Policy. adidas issues targeted compliance-related communication by management and the Compliance department and provides mandatory training to all employees globally during onboarding and in regular, repeated cycles. In 2019, more than 3,500 employees completed online compliance training. Furthermore, we conducted targeted in-person compliance training as appropriate with senior management and newly promoted or hired senior executives across the globe in order to further enhance the compliance ‘tone from the top’, as well as the ‘tone from the middle’. We closely monitor the completion rates for these training measures and continuously update our web-based training.
- **Detection:** adidas has whistleblowing procedures to ensure timely detection of potential infringements of statutory regulations or internal guidelines. Employees can report

compliance concerns internally to their supervisor, the Chief Compliance Officer, Regional Compliance Managers or Local Compliance Officers, the relevant HR manager or the Works Council. Employees can also report externally via an independent, confidential reporting hotline and website, and can choose to do so anonymously through the Fair Play hotline. The hotline is available at all times worldwide.

- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report potential incidents of non-compliance worldwide. In 2019, we recorded 514 potential compliance violations (2018: 410). [▮ SEE DIAGRAM 100](#), [▮ SEE DIAGRAM 101](#) Most importantly, insights gained from the investigation of past violations are used to continuously improve the CMS. Where necessary, we react promptly to confirmed compliance violations, through appropriate and effective sanctions ranging from warnings to termination of employment contracts.

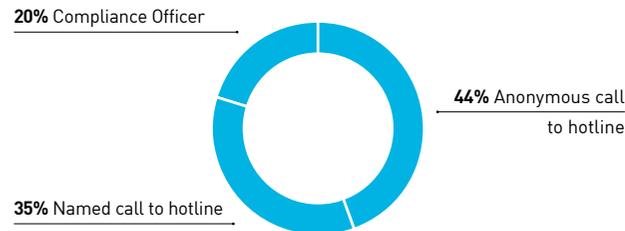
Potential compliance violations 100



¹ Includes payroll issues, intellectual property and leaks of confidential information, inter alia.

In 2019, we continued to reinforce the adidas compliance organization and activities and enhance cooperation with other governance functions, e.g. Internal Audit, Internal Controls, and Risk Management.

Reporting of potential compliance violations in % 101



The company's Chief Compliance Officer regularly reports to the Executive Board on the further development of the compliance program and on major compliance cases. In addition, the Chief Compliance Officer reports to the Audit Committee on a regular basis. In 2019, the Chief Compliance Officer attended five meetings of the Audit Committee of the Supervisory Board to report on the further development of the compliance program, major compliance cases and other relevant compliance topics. ▀

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS PURSUANT TO § 315 SECTION 4 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the company represents a process embedded within the company-wide corporate governance system. It aims to provide reasonable assurance regarding the reliability of the company's external financial reporting by ensuring company-wide compliance with statutory accounting regulations, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Finance Manual). We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, mitigation, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process. In a first step, the internal control and risk management system serves to identify, assess, limit and control risks identified in the consolidated financial reporting process which might result in the consolidated financial statements not being compliant with internal and external regulations.

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of ICoFR, the Policies and Internal Controls department and the Internal Audit department regularly review accounting-related processes. Additionally, as part of the year-end audit, the external auditor assesses the effectiveness of selected

internal controls, including IT controls. The Audit Committee of the Supervisory Board also monitors the effectiveness of ICoFR. However, due to the limitations of ICoFR, even with appropriate and functional systems absolute certainty about the effectiveness of ICoFR cannot be guaranteed.

All adidas companies are required to comply with the consolidated financial reporting policies (Finance Manual), which are available to all employees involved in the financial reporting process through the company-wide intranet. We update the Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Finance Manual are promptly communicated to all adidas companies. Clear policies serve to limit employees' scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the company. We aim to ensure compliance with the Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, the local manager responsible for the accounting process within the respective company and the respective local Managing Director confirm adherence to the Finance Manual and to IFRS in a signed representation letter to the Accounting department semi-annually.

The accounting for adidas companies is conducted either locally or by our Global Business Services. Virtually all of the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardized SAP system. Following approval by the Finance Director of the respective adidas company, the local financial statements are transferred to a central consolidation system based on SAP SEM-BCS. At the corporate level, the regularity and reliability of the financial statements prepared by adidas companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and

adherence to the reporting logic. In addition, differences between current-year and prior-year financial data as well as budget figures are analyzed on a market level. If necessary, adidas seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the adidas companies. After finalization of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analyzed with respect to trends and variances. Unless already otherwise clarified, the adidas companies are asked to explain any identified material deviations.

All financial systems used are protected against malpractice by means of appropriate authorization concepts, approval concepts and access restrictions. Access authorizations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimized through central control and monitoring of virtually all IT systems, centralized management of change processes and regular data backups.

ILLUSTRATION OF RISKS

This report includes an explanation of financial and non-financial risks that we deem to be most relevant to the achievement of the company's objectives in 2020 and beyond. According to our risk assessment methodology, risks related

to the competitive and retail environment and risks related to consumer demand and product offering are considered material. Our presentation of risks in this year's Annual Report differs from the 2018 Annual Report as we changed risk categories and therefore consolidated individual risks based on these updated categories. Changes in risk assessments are shown on a comparable basis. The risks overview table illustrates the assessment of all risks described below. [SEE TABLE 102](#)

Risks related to the competitive and retail environment

Changes in the competitive landscape and the retail environment could impact the company's success, in particular in the medium to long term. Strategic alliances amongst competitors and/or retailers, the increase in retailers' own private label businesses and intense competition for consumers, production capacity and promotion partnerships between well-established industry peers and new market entrants pose a substantial risk to adidas. This could lead to harmful competitive behavior, such

as sustained periods of discounting in the marketplace or intense bidding for promotion partnerships. Failure to recognize and respond to consolidation in the retail industry could lead to increased dependency on particular retail partners, reduced bargaining power and, consequently, margin erosion. Sustained pricing pressure in key markets could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position. The inability to adjust our distribution strategy in a timely manner to a changing retail industry, which is experiencing increasing substitution of physical retail stores by digital commerce platforms as well as increasing connectivity between physical and digital retail, could result in sales and profit shortfalls. A decline in the attractiveness of particular shopping locations such as shopping malls could lead to sales shortfalls in our customers' and our own stores, higher inventory in the marketplace, increased clearance activity and margin pressure.

Corporate risks overview

102

Risk categories 2019	Risk categories 2018	Potential impact	Change (2018 rating) ¹	Likelihood	Change (2018 rating) ¹
Risks related to the competitive and retail environment	Competition risks; Risks related to distribution strategy	High	↑ (Medium)	30% – 50%	
Risks related to consumer demand and product offering	Consumer demand risks	High		15% – 30%	
Macroeconomic, sociopolitical, regulatory and currency risks	Macroeconomic, sociopolitical, and regulatory risks; Currency risks	Significant		<15%	
IT and cyber security risks	IT and cyber security risks	Significant		<15%	
Risks related to tax and customs regulations	Risks related to customs and tax regulations	Significant	↑ (High)	<15%	↓ (15% – 30%)
Compliance risks	Fraud and corruption risks; Data privacy risks	Significant		<15%	
Risks related to organizational structure and change	–	Medium		30% – 50%	↑ (15% – 30%)

¹ 2018 rating on comparable basis reflecting evaluation of risks as if updated risk categories had been applied in 2018.

To mitigate these risks, we continuously monitor and analyze information on our competitors and markets in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to such changes. This enables us to proactively adjust our marketing and sales activities (e.g. product launches, selective pricing adjustments) when needed. We also continuously and closely monitor numerous indicators (e.g. order placement, sell-through rates at the point of sale, average selling prices, discounts, store traffic) that help us identify changes in the retail environment and quickly take appropriate action such as closing or remodeling own stores. We constantly adjust our segmentation strategies to ensure that the right product is sold at the right point of sale to the right consumer at an appropriate price. Continuous investment in research and development ensures that we remain innovative and distinct from competitors. ■ [SEE INNOVATION, P. 67](#) We also pursue a strategy of entering into long-term agreements with key promotion partners such as Real Madrid or James Harden, as well as adding new partners to refresh and diversify our portfolio, e.g. Mikaela Shiffrin or Boca Juniors. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth and strengthen our brands' market position.

Risks related to consumer demand and product offering

Our success largely depends on our ability to continuously create new, innovative footwear and apparel products. Consumer demand changes can be sudden and unexpected, particularly when it comes to the more fashion-related part of our business. Therefore, we face a risk of short-term revenue loss in cases where we are unable to anticipate consumer demand or respond quickly to changes. In addition, creating and offering products that do not resonate with consumers and our retail partners is a critical risk to the success of our brands, especially considering our strategy to focus on key product franchises. ■ [SEE ADIDAS BRAND STRATEGY, P. 55](#) In the short term, we consider this risk most relevant in our key markets

Asia-Pacific and North America. Even more critical in the long term, however, are the risks of continuously overlooking new consumer trends, failing to introduce new product innovation and failing to continuously generate consumer excitement with our product offering and marketing activities.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brand and sales organizations and, in particular, of the respective Risk Owners. Therefore, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process. By putting the consumer at the center of our decision-making we intend to create higher brand advocacy. As part of our adidas brand advocacy program, we continuously monitor the *Net Promoter Score (NPS)* ■ [SEE GLOSSARY](#) and strive to understand consumers' perception. ■ [SEE ADIDAS BRAND STRATEGY, P. 55](#) We continuously expand our consumer analytics efforts to read and quickly react to changes in demand or trend shifts. In addition, direct touchpoints with consumers via our own digital channels and direct communication with consumers on social media platforms strengthen our understanding of consumer preferences and behavior and, as a result, help us to reduce our vulnerability to changes in demand. Through continuous monitoring of sell-through data and disciplined product lifecycle management, in particular for our major product franchises, we are able to better detect demand patterns and prevent overexposure. Our Speed programs also help us mitigate the risk as they enable us to be faster in case of demand shifts. By leveraging our promotion partnerships for launches of key product franchises and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Open Source also helps us utilize external insights and capabilities in product creation and to drive consumer demand, brand desire, market share and profitability. ■ [SEE CORPORATE STRATEGY, P. 50](#)

Macroeconomic, sociopolitical, regulatory and currency risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, financial market turbulence, currency exchange rate fluctuations and sociopolitical factors such as military conflicts, changes of government, civil unrest, pandemics, nationalization or expropriation, in particular in regions where adidas is strongly represented, therefore could negatively impact the company's business activities and top- and bottom-line performance. Currency risks, for example, are a direct result of multi-currency cash flows within the company, in particular the mismatch of the currencies required for sourcing our products versus the denominations of our sales. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. ■ [SEE NOTE 30, P. 180](#) In addition, substantial changes in the regulatory environment (e.g. trade restrictions, economic and political sanctions, regulations concerning product compliance, environmental regulations) could lead to potential sales shortfalls or cost increases.

To mitigate these macroeconomic, sociopolitical and regulatory risks, adidas strives to balance sales across key regions and also between developed and emerging markets. We continuously monitor the macroeconomic, political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be a reallocation of manufacturing of our products to alternative countries, a reallocation of investments to alternative, more attractive markets, changes in product prices, closure of own-retail stores, more conservative product purchasing, tight working capital management and an increased focus on cost control. To mitigate the risk related to fluctuations in currency

exchange rates, we utilize a centralized currency risk management system and hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-months horizon. ■ [SEE TREASURY, P. 104](#) By building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators in their efforts to liberalize global trade and curtail trade barriers and also in order to proactively adapt to significant changes in the regulatory environment

IT and cyber security risks

Theft, leakage, corruption or unavailability of critical information (e.g. consumer data, employee data, product data) and systems could lead to reputational damage, regulatory penalties or the inability to perform key business processes. Key business processes, including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting, are all dependent on IT systems. Significant outages, application failures or cyber security threats to our infrastructure, or that of our business partners, could therefore result in considerable business disruption or impact to business-critical data.

To mitigate these risks, our IT organization proactively engages in system preventive maintenance, service continuity planning, adherence to IT policies and maintenance of a comprehensive information security program. Information security governance, data security, security architecture design, continuity management and employee awareness programs help us to protect the company adequately. We have also secured limited insurance coverage for damage resulting from cyber security incidents.

Risks related to tax and customs regulations

Numerous laws and regulations regarding customs and taxes as well as changes in such laws and regulations affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties. Changes in regulations regarding customs and taxes may also have a substantial impact on the company's sourcing costs or income taxes. Therefore, we also create provisions in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities. The increase in the potential impact of risks relating to tax and customs regulations in 2019 reflects the increasingly aggressive positions being taken by customs and tax authorities in audits.

To proactively manage such risks, we constantly seek expert advice from specialized law and tax advisory firms. We closely monitor changes in legislation in order to properly adopt regulatory requirements regarding customs and taxes. In addition, our internal legal, customs and tax departments advise our operational management teams to ensure appropriate and compliant business practices. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and import regulations and obtain the required clearance of products to fulfill sales demand.

Compliance risks

As a globally operating company, adidas is subject to various laws and regulations. Non-compliance with such laws and regulations could lead to penalties and fines and cause significant reputational damage. For example, non-compliance with laws and regulations concerning data

protection and privacy, such as the EU General Data Protection Regulation, may result in substantial fines. In addition, publication of failure to comply with data protection and privacy regulations could cause significant reputational damage and result in a loss of consumer trust in our brands. We also face the risk that members of top management as well as our employees breach rules and standards that guide appropriate and responsible business behavior. This includes the risks of fraud, financial misstatements or manipulation, anti-competitive business practices, bribery, corruption, discrimination and harassment at the workplace.

Our Fair Play Compliance Framework helps us to prevent, detect and adequately respond to these risks. Our Global Policy Manual provides a framework for basic work procedures and processes and our Fair Play Code of Conduct stipulates that every employee and our business partners shall act ethically in compliance with the laws and regulations of the legal systems where they conduct company business. In addition, our regional compliance managers and local compliance officers guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilize controls such as segregation of duties in IT systems and data analytics technology to prevent or detect fraudulent activities. We are also working with external partners and law firms to ensure we are informed about legal requirements across the globe, and we take appropriate action to ensure compliance. To mitigate the risk of non-compliance with laws and regulations concerning data protection and privacy, we have developed a global privacy management framework that introduces the company's privacy principles and provides guidance for the use and deletion of personal information. This framework applies to all adidas businesses worldwide and also sets our expectations of third-party business partners for managing personal information for or on behalf of adidas. Our global privacy officer and the global privacy department are establishing both the framework and

monitoring capabilities to track and report its implementation. In addition, they are continuously providing further implementation guidance and training.

Risks related to organizational structure and change

Operating in a dynamic and fast-moving competitive environment, the company needs to cope with constantly changing requirements in respect of the workforce (e.g. adaptability, learning, skillsets, mobility, diversity) and workplace (e.g. flexibility and space management). Improper planning and inadequate or untimely execution of reorganization and transformation initiatives may reduce employee engagement, cause business disruption and inefficiencies, and negatively affect business performance. Frequent organizational changes could cause fatigue among the workforce and lead to reduced efficiency and productivity. A complex organizational structure and unclear roles and responsibilities can lead to delayed or sub-optimal decision-making, as well as inefficient and ineffective processes.

We mitigate these risks through continuous, open and transparent communication with our employees. Our Executive Board members as well as the senior management team across the company regularly update employees on organizational changes and openly explain the reasons for change. To adequately manage change and to ensure clarity about roles and responsibilities throughout the organization, we also utilize internal and external experts in project management, change management and communication, who actively educate and engage the workforce to embrace and support new organizational structures and processes. To increase flexibility and adaptability in the workforce and workplace and thereby reduce risks related to organizational change, we implement various mitigating measures such as strategic workforce planning, tailored on-the-job learning programs and development plans for our employees. Through People Pulse we continuously monitor employee satisfaction

and identify potential challenges related to organizational structure and change, which allows us to take appropriate action as early as possible. [SEE PEOPLE AND CULTURE, P. 70](#)

ILLUSTRATION OF OPPORTUNITIES

In this report, we illustrate opportunities considered most relevant in 2020 and beyond. According to our assessment methodology, macroeconomic, sociopolitical, regulatory and currency opportunities as well as opportunities related to sustainability are considered material. Our presentation of opportunities in this year's Annual Report differs slightly from the 2018 Annual Report as we changed risk and opportunity categories and therefore consolidated individual opportunities based on these updated categories. Changes in risk assessment are shown on a comparable basis. The assessment is illustrated in the opportunities overview table.

[SEE TABLE 103](#)

Macroeconomic, sociopolitical, regulatory and currency opportunities

Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements (e.g. between the European Union and Vietnam) can create cost savings or

potentially open up new channels of distribution and, as a result, positively impact profitability. Changes in local tax or customs regulations (e.g. reduction of tax rates on private incomes, reduction of import duties) could lead to increased consumer spending and consequently positively affect our sales or result in additional cost savings. Favorable exchange rate developments can potentially have a positive impact on the company's financial results. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might also positively impact our company's financial performance. [SEE TREASURY, P. 104](#)

Opportunities related to sustainability

We believe that a continued focus on sustainability represents an opportunity for the company, in particular in the medium to long term. While we have already been very successful with our sustainability efforts, we see further upside potential leveraging our leadership position. [SEE SUSTAINABILITY, P. 78](#) Consumers are increasingly looking for products composed of more sustainable materials and manufactured in an innovative and yet socially and environmentally responsible way. By further strengthening our sustainability focus in our marketing

Corporate opportunities overview

103

Opportunity categories 2019	Opportunity categories 2018	Potential impact	Change (2018 rating) ¹	Likelihood	Change (2018 rating) ¹
Macroeconomic, sociopolitical, regulatory and currency opportunities	Macroeconomic, sociopolitical and regulatory opportunities; Favorable financial market changes	Significant		15% – 30%	↓ (30% – 50%)
Opportunities related to sustainability	Organic growth opportunities	High	↑ (Medium)	30% – 50%	
Opportunities related to distribution strategy	Organic growth opportunities	Medium	↓ (High)	30% – 50%	↑ (15% – 30%)
Opportunities related to tax regulations	–	Significant	↑ (Low)	< 15%	↓ (50% – 85%)
Opportunities related to data analytics	Opportunities related to organizational and process improvements	Low	↓ (High)	50% – 85%	↑ (15% – 30%)
Opportunities related to process optimization	Opportunities related to organizational and process improvements	Low		50% – 85%	↑ (30% – 50%)

¹ 2018 rating on comparable basis reflecting evaluation of opportunities as if updated opportunity categories had been applied in 2018.

and product creation activities, for example in the Outdoor category, we may generate additional sales growth and drive profitability improvements.

Opportunities related to distribution strategy

The sporting goods retail environment is changing constantly. We therefore continue to adapt our distribution strategy and have made *controlled space* [SEE GLOSSARY](#) initiatives a priority. This includes the further expansion of our own e-commerce activities, the optimization of our network of wholesale partners with a clear focus on partners that provide consumers with the best shopping experience and customer service, retail space management with key accounts (online and brick & mortar), as well as the introduction and roll-out of new own-retail store formats. Successful results from these initiatives could enable us to accelerate top- and bottom-line growth. [SEE SALES AND DISTRIBUTION STRATEGY, P. 61](#)

Opportunities related to tax regulations

The potential release of valuation allowances on deferred tax assets, for example in the US, could result in an increase of deferred tax assets and positively impact income tax expense. In addition, changes in local tax regulations may offer the company the option to realize benefits that could result in a reduction of tax expenses and higher net income.

Opportunities related to data analytics

Data and analytics play a crucial role in enabling fact-based decision-making. Therefore, we have a dedicated Data & Analytics team to drive business decision-making by leveraging the power of data. The continuous enhancement of our existing capabilities to build and scale insights-driven use cases and the use of the latest technology could bring value to our business operations across the entire company. As a result, we see the opportunity to become faster and more efficient in our operations. We may increase visibility and understanding of consumer preferences, increase full-price sales, reduce discounts and optimize order book management, inventory management and purchasing. This could result in improved financial performance.

Opportunities related to process optimization

Continued optimization of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still a substantial opportunity to improve process efficiency and effectiveness and further streamline cost structures throughout our company. Consequently, we will continue to focus on driving the standardization and harmonization of processes, as reflected by the company's 'ONE adidas' initiative. [SEE CORPORATE STRATEGY, P. 50](#)

MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

ASSESSMENT OF PERFORMANCE VERSUS TARGETS

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2019, the company delivered a strong operational and financial performance. Sales development was favorably impacted by rising consumer spending on sporting goods, supported by global trends such as increasing penetration of sportswear ('athleisure'), increasing health awareness and rising sports participation rates. [SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 95](#)

The continued brand momentum, supported by innovative product launches and inspiring marketing campaigns, as well as the successful execution of the company's strategic business plan 'Creating the New' drove robust sales growth and strong profitability improvements. We maintained our full-year outlook throughout the year and delivered top- and bottom-line results within the respective guidance ranges.

[SEE TABLE 104](#)

In 2019, revenues increased 6% on a currency-neutral basis, in line with our guidance of 5%-8% growth. This development was driven by increases across all market segments including Europe, which returned to growth in the second half of the year. Our direct-to-consumer business grew at a double-digit rate, with e-commerce recording another year of exceptional growth. Supply chain shortages, which we had experienced following a strong increase in demand for mid-priced apparel, weighed on our top-line growth, particularly in the first half of the year. Consequently, revenues grew 4% on a currency-neutral basis in the first six months of 2019 before accelerating

Company targets versus actual key metrics

104

	2018 Results	2019 Targets ¹	2019 Results	2020 Outlook ²
Currency-neutral sales development	8%	to increase at a rate between 5% and 8%	6%	to increase at a rate between 6% and 8%
Gross margin	51.8%	to increase to a level of around 52.0%	52.0% <i>0.2pp</i>	to decrease slightly compared to the prior year level of 52.0%
Operating margin	10.8%	to increase between 0.5pp and 0.7pp to a level between 11.3% and 11.5%	11.3% <i>0.4pp</i>	to increase between 0.2pp and 0.5pp to a level between 11.5% and 11.8%
Net income from continuing operations ³ (€ in millions)	1,709	to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion	1,918 <i>12%</i>	to increase at a rate between 10% and 13% to a level between € 2.100 billion and € 2.160 billion
Average operating working capital in % of net sales	19.0%	slight increase	18.1% <i>(0.9pp)</i>	slight increase
Capital expenditure ⁴ (€ in millions)	794	to increase to a level of up to € 900 million	711 <i>(11%)</i>	to increase to a level of around € 800 million

¹ As published on March 13, 2019.

² Subject to change due to coronavirus outbreak in China.

³ 2019 including negative impact from accounting change according to IFRS 16; excluding this impact, net income from continuing operations was expected to increase at a rate between 10% and 14% to a level between € 1.880 billion and € 1.950 billion.

⁴ Excluding acquisitions and leases.

in the second half of the year as our mitigating actions showed the planned effect and we resolved the issue. The gross margin ended the year at 52.0%, as expected, reflecting an increase of 0.2 percentage points. Lower sourcing costs, positive currency developments as well as a better product and channel mix more than offset higher air freight costs to mitigate supply chain shortages and a less favorable pricing mix. The operating margin also developed as anticipated. At the beginning of the year we guided for an increase to 11.3%-11.5% and achieved a level of 11.3%. On top of the gross margin increase, lower other operating expenses as a percentage of sales supported this development. Net income from continuing operations increased 12% to € 1.918 billion, including the negative impact from the first-time application of IFRS 16, and as such reached the upper end of our guidance of 8%-12% growth. [SEE INCOME STATEMENT, P. 96](#)

In 2019, average operating working capital as a percentage of sales ended the year at a level of 18.1%, which reflects a year-over-year improvement of 0.9 percentage points. Our guidance for operating working capital was for a slight increase. The better-than-expected development mainly reflects an increase in payables, which is a direct result of improved payment terms with our vendors. Capital expenditure amounted to € 711 million in 2019, compared to our guidance of up to € 900 million. Investments were mainly focused on controlled space initiatives of the adidas and Reebok brands, aimed at further strengthening our own-retail activities in our own stores and e-commerce, franchise store presence and shop-in-shop presentations. Other areas of investment included logistics infrastructure and IT systems as well as the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai.

[SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 100](#)

Beyond our financial performance, we also actively monitor non-financial KPIs. [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

▣ In 2019, our Net Promoter Score (NPS) stayed on high levels, reflecting the strength of our brands. ▾ Also from a market share perspective, we continue to be very encouraged by our strong performance in key categories and key markets, as defined in the company's strategic business plan. In our two strategic growth markets, North America and Greater China, we once again saw market share gains. ▣ Our diligence and discipline in sustainability matters continues to yield strong recognition for our company. In 2019, adidas was again represented in a variety of high-profile sustainability indices. For the 20th consecutive time, we were selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. adidas was assessed to be among the global top 10% best-performing companies in its industry in economic, environmental and social criteria, and received industry-best scores in criteria including Brand Management, Environmental Policy & Management Systems, Operational Eco-Efficiency and Social Reporting. [SEE SUSTAINABILITY, P. 78](#) As we are convinced that our employees' feedback plays a crucial role in our pursuit of creating a desirable work environment, we continued to leverage insights that we gain from 'People Pulse', our global approach and system platform for quarterly measurement of the level of employee satisfaction. In 2019, People Pulse saw again high response rates. On average, our employee Net Promoter Score (eNPS) remained stable in 2019 compared to the previous year. People Pulse results are not only leveraged for general feedback on the employee experience at adidas, but also as a tool to gather employee insights regarding important elements of our strategy. [SEE PEOPLE AND CULTURE, P. 70](#)

Finally, we continue to enjoy an overall strong level of on-time in-full (OTIF) deliveries to our customers and own-retail stores. In 2019, OTIF remained stable compared to the prior year level. [SEE GLOBAL OPERATIONS, P. 63](#)

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities reported by Risk Owners and Executive Board members through the half-yearly risk and opportunity assessment process. Results from this process are analyzed and reported to the Executive Board accordingly. In addition, the Executive Board discusses and assesses risks and opportunities on a regular basis. [SEE RISK AND OPPORTUNITY REPORT, P. 120](#) Taking into account the potential financial impact as well as the likelihood of the risks explained in this report materializing, and considering the strong balance sheet as well as the current business outlook, we do not foresee any material jeopardy to the viability of the company as a going concern. This assessment is also supported by the historical response to our financing demands. adidas therefore has not sought an official rating by any of the leading rating agencies. We remain confident that our earnings strength forms a solid basis for our future business development and provides the resources necessary to pursue the opportunities available to the company. Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. The changes in risks and opportunities balance out, leaving the overall adidas risk profile largely unchanged compared to the prior year.

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2015, adidas unveiled 'Creating the New', our 2020 strategic business plan, which defines strategic priorities and objectives for the period up to 2020. The strategy is designed to drive brand desirability which, in turn, is expected to spur top- and bottom-line growth.

In March 2017, 'Creating the New' was updated with complementary initiatives in order to grow the top and bottom line even faster than initially projected. Consequently, we had increased our financial targets for 2020. We project currency-neutral revenues to increase at a rate of 10% to 12% on average per year until 2020 compared to the 2015 results. Net income from continuing operations is expected to grow at a higher rate than the top line. While in March 2017 we projected net income from continuing operations to expand by 20% to 22% on average per year during the five-year period, we once again upgraded our long-term profitability target in March 2018 following the strong operational and financial performance in 2017. As a result, we expect net income from continuing operations to grow by 22% to 24% on average per year in the period between 2015 and 2020. [SEE CORPORATE STRATEGY, P. 50](#)

Our successes since initiating 'Creating the New', as measured by financial as well as non-financial KPIs, are a direct consequence of our relentless execution and focus on this strategy. Throughout 2020, the whole organization will stay focused on successfully completing our current strategic business plan, before we announce details on the next strategic cycle in November 2020.

Against the background of rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas, we project further significant top-line improvements in 2020. The revenue increase is to be driven by our extensive pipeline of

new product launches paired with brand-building activities. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to the sales growth. Last but not least, major sporting events such as the UEFA EURO 2020 and the 2020 Olympic Games in Tokyo will support this positive development. In combination with tight control of both our inventory levels and our cost base, we expect to generate strong profitability improvements also in 2020. Supported by further operating margin expansion, our bottom line is again expected to increase at a double-digit rate in 2020. [SEE OUTLOOK, P. 117](#)

We believe our outlook for 2020 realistically describes the underlying development of the company. However, the outlook for 2020 as outlined in this report is subject to change depending on the further developments related to the coronavirus outbreak. Our business in Greater China performed strongly in the first three weeks of 2020. However, since then we have been experiencing a material negative impact on our operations in China. As the situation keeps evolving, the magnitude of the overall impact on our business in 2020 cannot be quantified reliably at this point in time. Accordingly, the company's outlook for 2020 as outlined in this report does not reflect any impact of the coronavirus outbreak.

[SEE OUTLOOK, P. 117](#)

In addition, ongoing uncertainties regarding the economic outlook and consumer sentiment in both developed and emerging economies as well as persisting high levels of currency volatility represent risks to the achievement of our stated financial goals and aspirations. [SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 95](#) No other material event between the end of 2019 and the publication of this report has altered our view.