3

GROUP MANAGEMENT REPORT
FINANCIAL REVIEW

INTERNAL MANAGEMENT SYSTEM

We are committed to generating shareholder value. We strive to create value by converting sales and 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. While this focus on creating shareholder value will remain, the launch of our new strategy 'Own the Game' for the period until 2025 will have an impact on the internal management system, which will be adjusted accordingly in the course of 2021. ▸ SEE STRATEGY

Impact of the covid-19 pandemic

In 2020, adidas faced serious challenges arising from the global outbreak of the coronavirus pandemic. Throughout the year, sports events were canceled, a significant number of stores were closed and many of our employees were confined to working from home. We saw a material decline in sales from our physical channels and a corresponding reduction in cash. This unprecedented situation led to a temporary adjustment of our internal management system and required a strong focus on the most important priorities:

- Ensuring the health and safety of our employees, consumers, wholesale customers and partners.
- Safeguarding the liquidity of our company through a strict focus on cash flows and financing activities.
- Doubling down on our e-commerce business to drive net sales and cash generation in times of store closures and reduced retail traffic.

Internal management system designed to drive shareholder value

In order to drive and steer the 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 from continued operations position as well as of earnings per share (EPS) is of high importance as it directly drives returns in the interest of our shareholders. 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 from continued operations. ▸ SEE COMPENSATION REPORT

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 and channel mix.

  - Improving the quality of distribution, with a particular focus on our direct-to-consumer business.

- **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. This flexibility helped us in managing through the covid-19 pandemic in 2020, where we adopted a disciplined approach to both marketing and operating overhead expenses. More broadly, marketing expenditure 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. In this respect, we regularly review our operational structure – harmonizing business processes, standardizing systems, eliminating redundancies, and leveraging the scale of our organization.

Tight cash flow and operating working capital management

In 2020, with at times a large portion of our own as well as our wholesale customers' store fleet closed, a clear focus on liquidity, cash flow and operating working capital was even more important compared to a normal business environment. This required a close monitoring of the cash and working capital situation and disciplined execution of mitigation measures to manage the company through the crisis. Generally, 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

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 strategy 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. Management closely monitors the development of both net income from continued operations and earnings per share (EPS) and executes against these two KPIs. 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 2018/2020, the variable compensation for our Management is directly linked to the growth of the company's net income from continued operations.

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, among others, 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 have implemented an NPS system, which strengthened our capabilities to more carefully review brand advocacy as NPS tells us how likely it is that consumers will recommend our brands. 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.

Given the exceptional circumstances in 2020, NPS has only served as a KPI until the end of the first quarter. Amid a global pandemic and with a new strategic cycle ahead, the company decided to stop gathering NPS data through our external provider.

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. 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. ► SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

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. 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 most of our key markets. ▶ SEE GLOBAL OPERATIONS

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. ▶ SEE OUR PEOPLE

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. 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. 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. ▶ SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK ▶ SEE SUSTAINABILITY ▶ 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, backlogs and sell-through data as well as feedback from customers and own-retail stores are also assessed where available. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

In view of the covid-19 pandemic, the situation required that we adjusted to the greater information needs of senior management within this time of uncertainty through e.g. more frequent forecasts to ensure the quality of decision making. In 2020 overall, our performance management system has proven to be effective.

BUSINESS PERFORMANCE

While adidas recorded strong operational improvements in 2020, exceptional growth in e-commerce could only partially compensate for temporary physical store closures. Revenues decreased 14% on a currency-neutral basis, reflecting double-digit declines at both the adidas and Reebok brands. Revenues in Russia/CIS remained flat, while currency-neutral sales were down in all other major market segments. The gross margin decreased 2.3 percentage points to 49.7%. Other operating expenses as a percentage of sales were up 4.9 percentage points to 46.5%, predominantly due to higher operating overhead expenses as a percentage of sales. The company's operating margin decreased 7.5 percentage points to 3.8%, reflecting the decrease in both gross margin and other operating expenses as a percentage of sales. The financial results were significantly impacted by the negative effects of the coronavirus pandemic. Net income from continuing operations decreased 78% to € 429 million. This translates into basic EPS from continuing operations of € 2.15, representing a decrease of 78% versus the prior year period.

ECONOMIC AND SECTOR DEVELOPMENT

Global economy slumps in 2020 due to coronavirus pandemic[17]

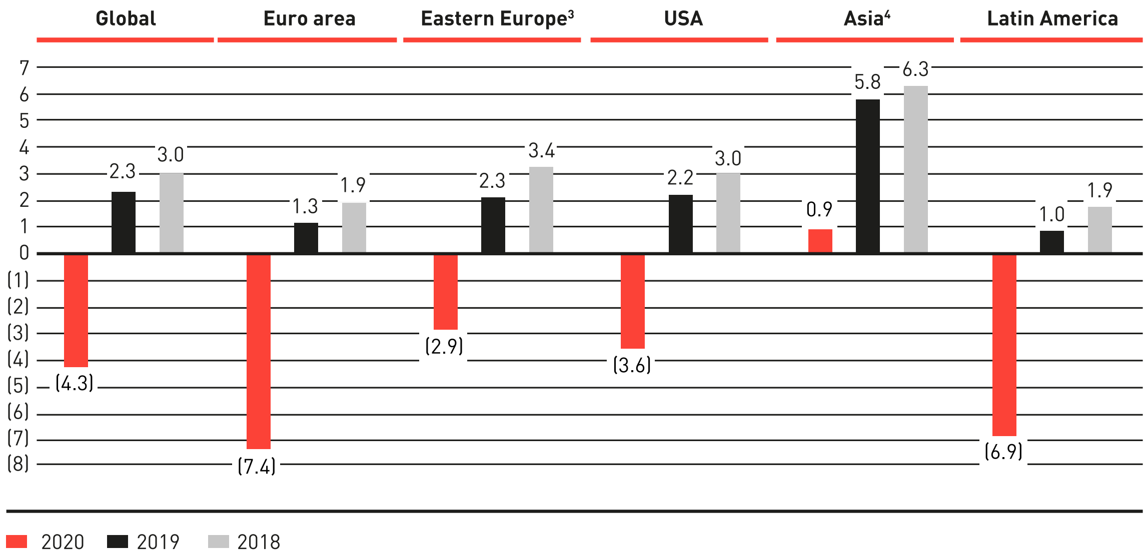
The global economy slipped into a recession in 2020, with global gross domestic product (GDP) contracting 4.3%. Despite recent progress in the development of effective vaccines, the spread of the coronavirus continued to overwhelm policy makers and health care systems alike. Far-reaching lockdown measures and other restrictions to slow the spread of the virus led to a contraction in output, consumption, and trade. Developed economies declined 5.4% in 2020 mainly driven by sharp declines in the demand and supply of services, despite unprecedented fiscal and monetary policy accommodation. Developing economies in aggregate were down 2.6% amid a slump in private consumption and retail sales. Furthermore, consumer confidence plummeted amid falling labor incomes and rising unemployment rates. Across the globe, risks of re-escalating trade tensions and a delay in the pandemic recovery remain.

Sporting goods industry negatively impacted in 2020

The global sporting goods industry was adversely affected by lockdown and quarantine measures across many parts of the world for the majority of 2020. Demand for sporting goods was pressured amid disturbed consumer purchasing behavior due to the drop in economic activity, cancellations of major sports events and physical stores partially closed. Even as stores re-opened, traffic rates remained below prior year levels due to necessary hygiene and safety measures. These adverse impacts were partially compensated by the acceleration of existing global trends such as increasing penetration of sportswear ('athleisure') as well as rising awareness for health and wellness. Moreover, purchasing behavior continued to shift toward online channels and sustainability remained a predominant theme. Ultimately, the evolution of digital platforms, such as social fitness or membership programs with seamless personal experiences, facilitated consumer dialogue and brand building in times of social distancing. For the sporting goods industry, too, risks of re-escalating trade tensions and a delay in the pandemic recovery remain.

17 Source: World Bank Global Economic Prospects.

Regional GDP development[1,2] in %



1 Real change in percent versus prior year; 2019 and 2018 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

Coronavirus pandemic weighs on adidas' performance in 2020

In 2020, revenues decreased 14% on a currency-neutral basis. In euro terms, revenues were down 16% to € 19.844 billion from € 23.640 billion in 2019. From a market perspective, currency-neutral sales decreased in all segments except for Russia/CIS, where revenues remained flat. Currency-neutral sales were down at double-digit rates in Europe, Asia-Pacific, Latin America and Emerging Markets, while decreasing at a high-single-digit rate in North America. ► SEE BUSINESS PERFORMANCE BY SEGMENT

Net sales

–14% C.N.

€ 19.844 bn

adidas brand revenues decline at a double-digit rate

Currency-neutral revenues for the adidas brand decreased 13%, with double-digit sales declines in both Sport Inspired and Sport Performance. In euro terms, adidas brand revenues were down 16% to € 18.095 billion compared to € 21.505 billion in 2019. Currency-neutral Reebok brand sales decreased 16% versus the prior year, as revenues declined at double-digit rates in both Sport and Classics. In euro terms, Reebok sales decreased 19% to € 1.409 billion (2019: € 1.748 billion).

adidas brand net sales

–13% C.N.

€ 18.095 bn

Reebok brand net sales

–16% C.N.

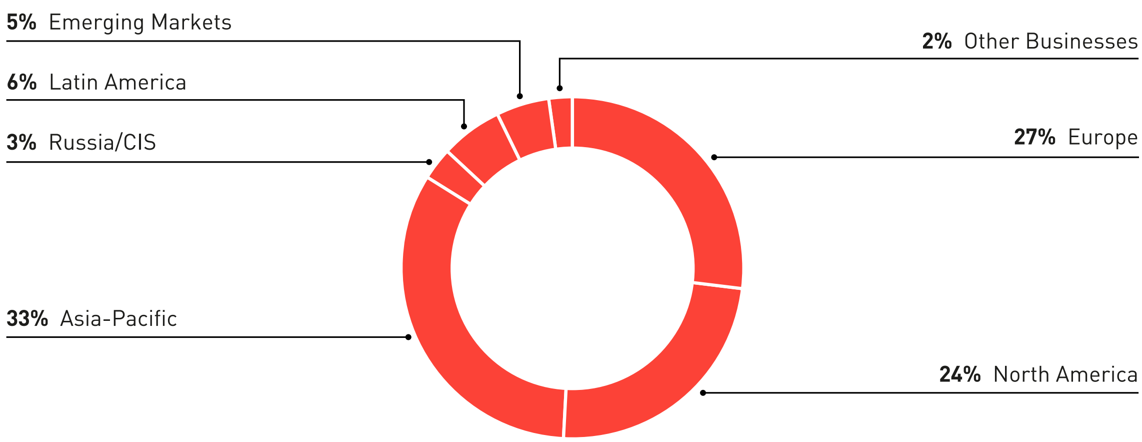
€ 1.409 bn

Net sales € in millions

Net sales by segment € in millions

	2020	2019	Change	Change (currency-neutral)
Europe	5,320	6,071	(12%)	(12%)
North America	4,762	5,313	(10%)	(9%)
Asia-Pacific	6,546	8,032	(18%)	(17%)
Russia/CIS	584	658	(11%)	0%
Latin America	1,158	1,660	(30%)	(16%)
Emerging Markets	998	1,302	(23%)	(18%)
Other Businesses	476	605	(21%)	(20%)
Total	**19,844**	**23,640**	**(16%)**	**(14%)**

Net sales by segment in % of net sales



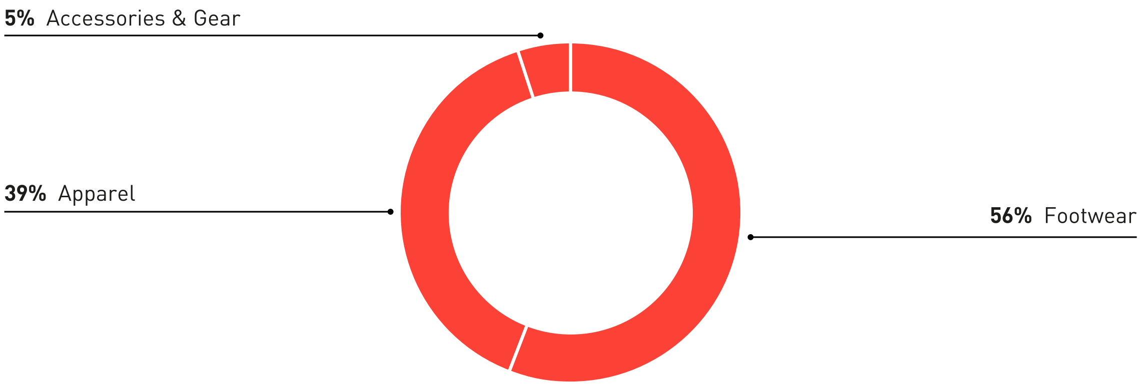
Sales declines in footwear and apparel

Currency-neutral footwear sales were down 15% in 2020 as a result of double-digit sales declines in both Sport Inspired and Sport Performance. Apparel revenues decreased 12% on a currency-neutral basis reflecting double-digit sales declines in both Sport Inspired and Sport Performance. Currency-neutral accessories and gear sales were down 8%.

Net sales by product category € in millions

	2020	2019	Change	Change (currency-neutral)
Footwear	11,128	13,521	(18%)	(15%)
Apparel	7,687	8,963	(14%)	(12%)
Accessories & Gear	1,028	1,156	(11%)	(8%)
Total	**19,844**	**23,640**	**(16%)**	**(14%)**

Net sales by product category in % of net sales



Cost of sales decreases 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 2020, cost of sales was € 9.990 billion, representing a decrease of 12% compared to the prior year level of € 11.347 billion. This development mainly reflects the revenue shortfall due to the coronavirus pandemic.

Gross margin down 2.3 percentage points

In 2020, gross profit decreased 20% to € 9.855 billion from € 12.293 billion in 2019, representing a gross margin decrease of 2.3 percentage points to 49.7% (2019: 52.0%). While a more favorable channel mix due to the exceptional e-commerce growth as well as lower sourcing costs had a positive effect on gross margin, a less favorable pricing mix due to increased promotional activity and negative currency fluctuations weighed on the development in 2020. In addition, an increase in inventory allowances as well as purchase order cancellation costs related to the coronavirus pandemic had a negative impact on the gross margin development.

Gross margin[1] in %

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

Royalty and commission income and other operating income decrease

In 2020, royalty and commission income decreased 46% to € 83 million (2019: € 154 million). Other operating income was down 25% to € 42 million from € 56 million in 2019.

Other operating expenses as a percentage of sales up 4.9 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 2020, other operating expenses were down 6% to € 9.229 billion (2019: € 9.843 billion). As a percentage of sales, other operating expenses increased 4.9 percentage points to 46.5% from 41.6% in 2019. Marketing and point-of-sale expenses amounted to € 2.573 billion in 2020 compared to € 3.042 billion in the prior year, representing a decrease of 15% compared to the 2019 level. As a percentage of sales, marketing and point-of-sale expenses increased 0.1 percentage points to 13.0% (2019: 12.9%). Distribution and selling expenses decreased 1% to € 4.962 billion in 2020 from € 4.997 billion in the prior year, due to lower personnel costs as a result of temporary store closures, as well as lower travel and entertainment expenses. As a percentage of sales, distribution and selling expenses increased 3.9 percentage points to 25.0% from 21.1% in 2019. General and administration expenses were down 12% to € 1.461 billion (2019: € 1.652 billion), due to lower personnel costs as well as lower software licensing fees. As a percentage of sales, general and administration expenses increased 0.4 percentage points to 7.4% (2019: 7.0%). ► SEE NOTE 32

Other operating expenses[1] in % of net sales

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Marketing and point-of-sale expenses[1] in % of net sales

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

EBITDA decreases 46%

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) decreased 45.9% to € 2.079 billion in 2020 versus € 3.845 billion in 2019. Total depreciation and amortization as well as impairment losses/reversal of impairment losses for tangible and intangible assets increased 15.9% to € 1.364 billion in 2020 (2019: € 1.177 billion).

EBITDA[1, 2] € in millions

1 EBITDA = income before taxes (IBT) + net interest expenses + depreciation and amortization + impairment losses - reversal of impairment losses.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Operating margin decreases to 3.8%

Operating profit declined 72% to € 751 million in 2020 versus € 2.660 billion in 2019. The operating margin decreased 7.5 percentage points to 3.8% compared to the prior year level of 11.3%. This development was due to the gross margin decrease and the increase in other operating expenses as a percentage of sales.

Operating Margin

3.8%

-7.5 PP

Operating profit[1] € in millions

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Operating margin[1, 2] in %

1 Operating margin = (operating profit / net sales) × 100.
2 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Net financial result decreases

Financial income decreased 55% to € 29 million in 2020 (2019: € 64 million), while financial expenses were up 23% to € 204 million compared to € 166 million in 2019. As a result, the company recorded a net financial result of negative € 176 million, compared to negative € 102 million in 2019. ► SEE NOTE 34

Net financial result[1] € in millions

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

Tax rate increases 0.3 percentage points to 25.4%

The company's tax rate increased 0.3 percentage points to 25.4% in 2020 (2019: 25.0%). ► SEE NOTE 36

Net income from continuing operations down 78% to € 429 million

Net income from continuing operations decreased 78% to € 429 million versus € 1.918 billion in the prior year. Basic earnings per share (EPS) from continuing operations decreased 78% to € 2.15 from € 9.70 in 2019. Diluted EPS from continuing operations was down 78% to € 2.15 in 2020 (2019: € 9.70).

Net income from continuing operations

–78%

€ 429 m

Net income from continuing operations[1, 2] € in millions

1 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.

Basic earnings per share[1, 2, 3] in €

1 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.

The total number of shares outstanding decreased by 903,327 shares to 195,066,060 at the end of 2020. This development was a result of shares repurchased as part of the company's share buyback program. Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 195,155,924 (2019: 197,606,107).

Gains from discontinued operations amount to € 13 million

In 2020, adidas incurred gains from discontinued operations of € 13 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 (2019: gains of € 59 million).

Net income attributable to shareholders decreases 78% to € 432 million

The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the gains from discontinued operations, declined 78% to € 432 million (2019: € 1.976 billion). As a result, basic EPS from continuing and discontinued operations decreased 78% to € 2.21 versus € 10.00 in 2019. Diluted EPS from continuing and discontinued operations declined 78% to € 2.21 (2019: € 10.00).

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Assets

At the end of December 2020, total assets were up 2% to € 21.053 billion versus € 20.680 billion in the prior year, as the increase in cash and cash equivalents more than offset the decrease in right-of-use assets from leasing agreements due to planned depreciation and amortization.

Structure of statement of financial position[1] in % of total assets

	2020	2019
Assets (€ in millions)	21,053	20,680
Cash and cash equivalents	19.0%	10.7%
Accounts receivable	9.3%	12.7%
Inventories	20.9%	19.8%
Fixed assets[2]	34.0%	39.2%
Right-of-use assets (IFRS 16)[3]	33.8%	36.2%
Other assets	16.9%	17.7%

Total current assets increased 11% to € 12.154 billion at the end of December 2020 compared to € 10.934 billion in 2019. Cash and cash equivalents were up 80% to € 3.994 billion at the end of December 2020 from € 2.220 billion in the prior year with one main reason being the cash generated through the placement of bonds in the amount of € 1.500 billion. Currency effects had a negative impact on cash and cash equivalents in an amount of € 75 million. Inventories increased 8% to € 4.397 billion at the end of December 2020 from € 4.085 billion in 2019. ► SEE NOTE 09

Inventories € in millions

On a currency-neutral basis, inventories increased 14%, reflecting the inevitably lower-than-expected product sell-through caused by the temporary broad-based store closures as well as traffic remaining below prior year levels after stores reopened temporarily. Accounts receivable decreased 26% to € 1.952 billion at the end of December 2020 (2019: € 2.625 billion), reflecting fewer product shipments, the company's efforts to focus on cash collection during the coronavirus pandemic and higher bad debt allowances. On a currency-neutral basis, receivables were down 21%. Other current financial assets increased to € 702 million (2019: € 544 million), mainly due to an increase in custom claims and short-term deposits. Other current assets were down 7% to € 999 million at the end of December 2020 (2019: € 1.076 billion). ► SEE NOTE 07 ► SEE NOTE 08 ► SEE NOTE 10

Accounts receivable € in millions

Total non-current assets decreased 9% to € 8.899 billion at the end of December 2020 from € 9.746 billion in 2019, mainly related to lower right-of-use assets from leasing agreements as well as other intangible assets. Fixed assets decreased 12% to € 7.149 billion at the end of December 2020 versus € 8.100 billion in 2019, as right-of-use assets decreased 17% to € 2.430 billion (2019: € 2.931 billion) due to depreciation, as well as impairment losses and negative currency effects. Other non-current financial assets decreased 8% to € 414 million from € 450 million at the end of 2019. Deferred tax assets were up 13% to € 1.233 billion from € 1.093 billion in 2019, due to the recognition of deferred tax assets on tax losses and movements in taxable and deductible temporary differences. ► SEE NOTE 36

Liabilities and equity

Total current liabilities increased 1% to € 8.827 billion at the end of December 2020 from € 8.754 billion in 2019. Short-term borrowings increased to € 686 million at the end of December 2020 (2019: € 43 million), mainly reflecting the reclassification of a eurobond (nominal value € 600 million) due to its maturity in 2021. Accounts payable were down 12% to € 2.390 billion at the end of December 2020 versus € 2.703 billion in 2019, mainly reflecting the company's effective cost control measures as total operating expenses decreased. On a currency-neutral basis, accounts payable decreased 10%. Current lease liabilities decreased 23% to € 563 million at the end of December 2020 versus € 733 million in 2019, due to currency effects and temporary broad-based store closures. Other current financial liabilities were up 90% to € 446 million from € 235 million in 2019, mainly as a result of an increase in the fair value of financial instruments. Other current provisions increased 11% to € 1.609 billion at the end of December 2020 versus € 1.446 billion in 2019, mainly due to an increase in the provision for returns. Current accrued liabilities were down 11% to € 2.172 billion at the end of December 2020 from € 2.437 billion in 2019, mainly as a result of reduced accruals for personnel costs as well as outstanding invoices. Other current liabilities were down 26% to € 398 million at the end of December 2020 from € 538 million in 2019. ► SEE NOTE 22 ► SEE NOTE 23

Structure of statement of financial position[1] in % of total liabilities and equity

	2020	2019
Liabilities and equity (€ in millions)	21,053	20,680
Short-term borrowings	3.3%	0.2%
Accounts payable	11.4%	13.1%
Long-term borrowings	11.8%	7.7%
Other liabilities	41.8%	44.9%
Current and non-current lease liabilities (IFRS 16)[2]	30.9%	33.8%
Total equity	31.8%	34.1%

1 For absolute figures see adidas AG Consolidated Statement of Financial Position.
2 As a percentage of other liabilities.

Accounts payable € in millions

Total non-current liabilities increased 14% to € 5.535 billion at the end of December 2020 from € 4.868 billion in the prior year, reflecting various bond placements in the second half of the year. Consequently, long-term borrowings were up 56% to € 2.482 billion at the end of December 2020 from € 1.595 billion in the prior year. Non-current lease liabilities decreased 10% to € 2.159 billion at the end of December 2020 from € 2.399 billion in the prior year, due to temporary store closures as well as currency effects. Other non-current financial liabilities were up 24% to € 115 million at the end of December 2020 from € 92 million in the prior year. Other non-current provisions decreased 11% to € 229 million at the end of December 2020 from € 257 million in the prior year, mainly as a result of reduced provisions for personnel. ▸ SEE NOTE 24

Shareholders' equity decreased 5% to € 6.454 billion at the end of December 2020 versus € 6.796 billion in 2019, mainly due to the share repurchases at the beginning of the year. Consequently, the equity ratio decreased to 30.7% compared to 32.9% in the prior year. ▸ SEE NOTE 27

Equity ratio[1, 2] in %

1 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 decreased 1% to € 3.960 billion at the end of December 2020 compared to € 4.007 billion in 2019. On a currency-neutral basis, operating working capital was up 8%. Average operating working capital as a percentage of sales increased 5.4 percentage points to 23.5% (2019: 18.1%), as a result of temporary store closures which led to a revenue decline and corresponding higher inventory.

Average operating working capital[1] in % of net sales

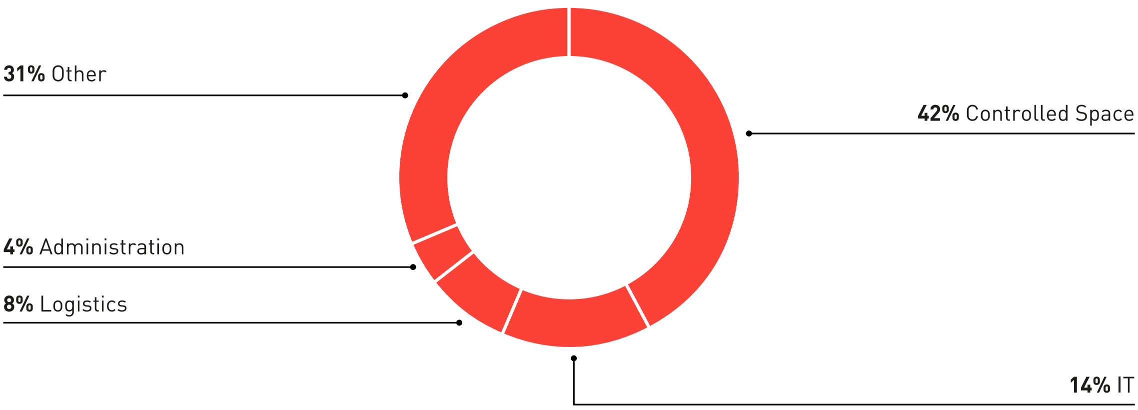
1 Average operating working capital = sum of operating working capital at quarter-end/4. Operating working capital = accounts receivable + inventories - accounts payable.

Investment analysis

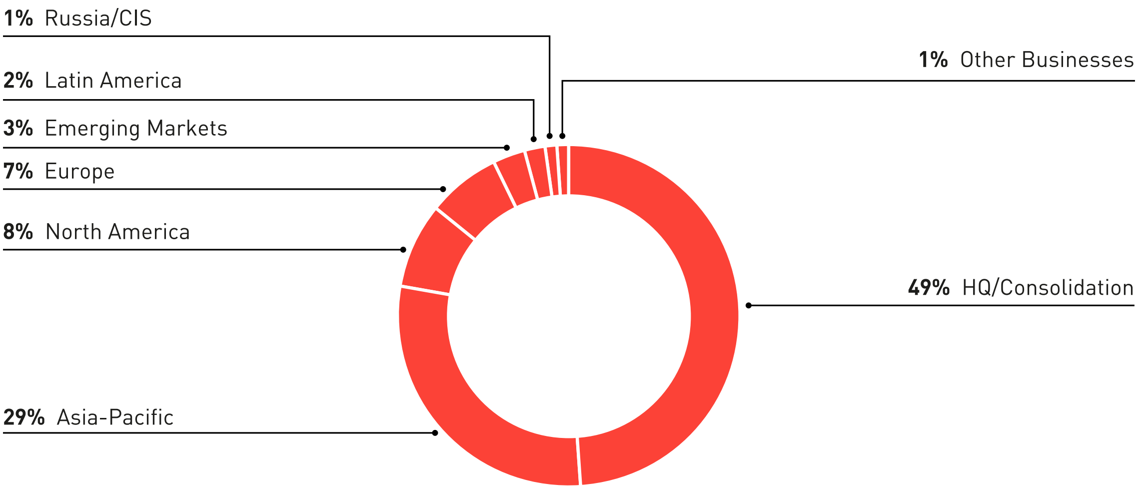
Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions and right-of-use assets according to IFRS 16). Capital expenditure decreased 38% to € 442 million (2019: € 711 million). Capital expenditure for property, plant and equipment was down 37% to € 378 million compared to € 599 million in the prior year. The company invested € 64 million in intangible assets, representing a 43% decrease compared to the prior year (2019: € 112 million). Depreciation and amortization, excluding impairment losses and reversal of impairment losses of tangible and intangible assets, increased 10% to € 561 million in 2020 (2019: € 511 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 42% of total capital expenditure (2019: 47%). Expenditure for IT and logistics represented 14% and 8%, respectively (2019: 13% and 6%, respectively). In addition, expenditure for administration accounted for 4% (2019: 7%). Other investments mainly reflected the further development of our corporate facilities in Portland. These represented 31% of total capital expenditure (2019: 26%). From a segmental perspective, the majority of the capital expenditure was recorded centrally at headquarter level, which accounted for 49% (2019: 44%). In addition, capital expenditure in Asia-Pacific accounted for 29% (2019: 24%) of the total capital expenditure, followed by North America with 8% (2019: 9%), Europe with 7% (2019: 12%), Emerging Markets with 3% (2019: 3%) as well as Latin America with 2% (2019: 5%) and Russia/CIS with 1% (2019: 2%).

Capital expenditure by type in % of total CAPEX



Capital expenditure by segments in % of total CAPEX



Liquidity analysis

In 2020, net cash generated from operating activities decreased to € 1.486 billion (2019: € 2.819 billion). Net cash generated from continuing operating activities decreased to € 1.489 billion (2019: € 2.828 billion). This decrease was due to significantly lower income before taxes as a result of the coronavirus pandemic.

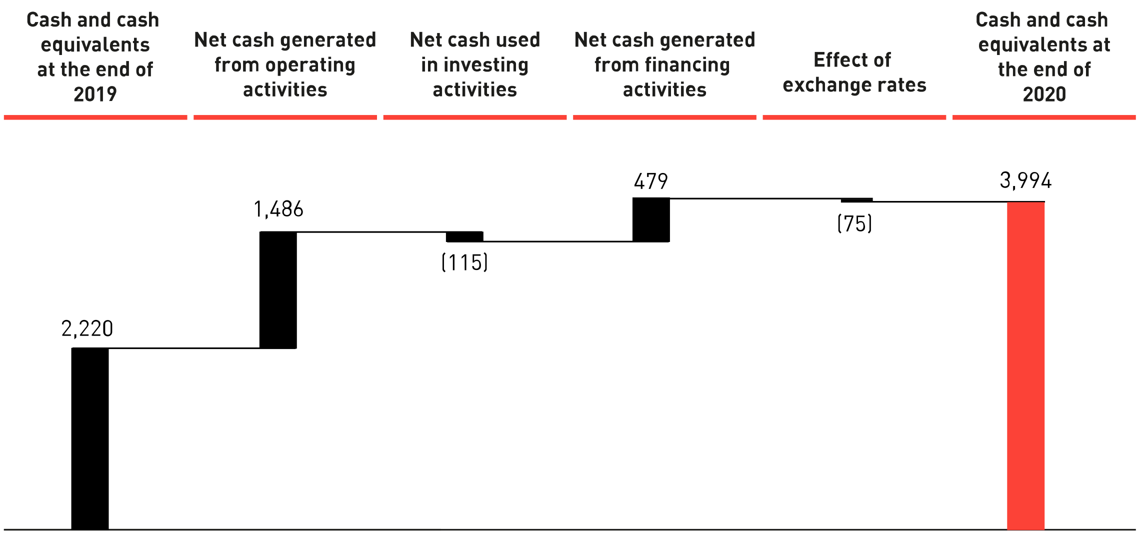
Net cash used in investing activities and net cash used in continuing investing activities decreased to € 115 million each (2019: € 925 million). This development was mainly due to reduced investing activities in 2020 related to expenditures for property, plant and equipment, such as investments in controlled space initiatives and IT systems, and proceeds from the sale of short-term financial assets in 2020 compared to investments in 2019. Net cash generated from financing activities and net cash generated from continuing financing activities amounted to € 479 million each (2019: € 2.273 billion net cash used). This development was mainly due to the placement of two bonds in an amount of € 500 million each, the placement of a sustainability bond in an amount of € 500 million and the suspension of both the dividend payment and the share buyback program in 2020.

Exchange rate effects negatively impacted the company's cash position by € 75 million (2019: € 30 million).

As a result of all these developments, cash and cash equivalents increased by € 1.774 billion to € 3.994 billion at the end of December 2020 compared to € 2.220 billion at the end of December 2019.

Adjusted net borrowings at December 31, 2020 amounted to € 3.148 billion, compared to € 4.173 billion in 2019. The company's ratio of adjusted net borrowings over EBITDA amounted to 1.5 at the end of December 2020 (2019: 1.1). In 2020, the definition of the ratio net borrowings over EBITDA was changed to adjusted net borrowings over EBITDA to reflect changes in the company's Financial Policy. The most significant difference between the previous net debt definition and the new adjusted net borrowing definition is the inclusion of the present value of future lease and pension liabilities. ▸ SEE TREASURY

Change in cash and cash equivalents € in millions



Adjusted net borrowings/EBITDA[1,2] € in millions

1 Application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 First-time application of adjusted net borrowings as of 2020. Only figure for 2019 restated.

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 € 323 million at December 31, 2020, compared to € 318 million at the end of December 2019, representing an increase of 2%. At the end of December 2020, financial commitments for promotion and advertising decreased 13% to € 5.948 billion in 2020 (2019: € 6.808 billion). ▸ SEE NOTE 39 ▸ SEE NOTE 40

TREASURY

Corporate financing policy

In order to be able to meet the company's payment commitments at all times, the major goal of our financial policy is to ensure adidas' solvency, to limit financing risks and to balance financing costs with financial flexibility. 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.

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. 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 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. ► SEE NOTE 02

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 fail to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As at December 31, 2020, 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.

New syndicated credit facility

In 2020, adidas has taken several steps to considerably strengthen its financial profile. On November 10, 2020, adidas entered into a new € 1.5 billion syndicated credit facility with 12 of its partner banks. The new syndicated credit facility has a maturity in November 2025 with an extension option after year one and year two, respectively. This new syndicated credit facility replaced the temporary syndicated loan facility under participation of KfW, Germany's state-owned development bank. In April 2020, the company had received the approval of the German government for the participation of KfW in the syndicated loan amounting to a total of € 3.0 billion to bridge the unprecedented situation caused by the global coronavirus pandemic.

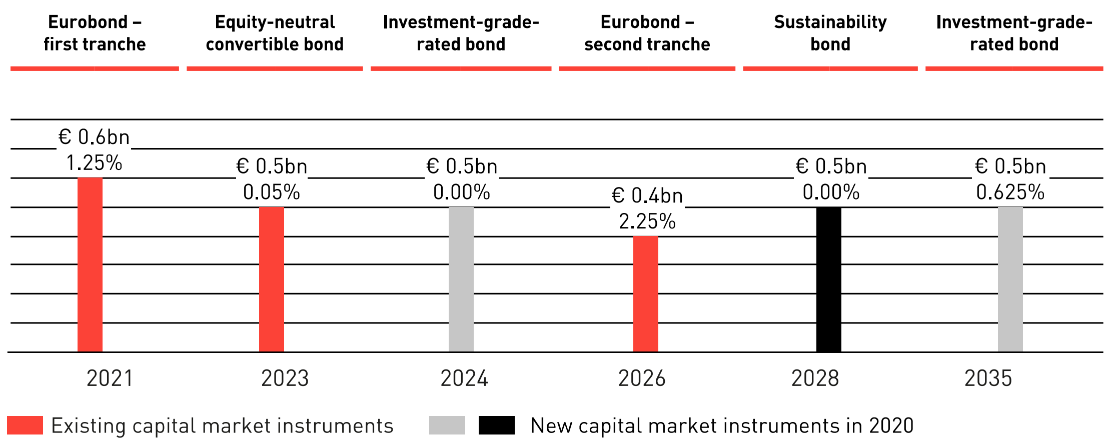
Bond placements and credit ratings

On September 1, 2020, adidas successfully placed two bonds amounting to € 1 billion in total. The four-year bond of € 500 million matures in September 2024 and has a coupon of 0.00%, while the 15-year bond of € 500 million matures in September 2035 and has a coupon of 0.625%. The bonds have been listed on the Luxemburg Stock Exchange and have denominations of € 100,000 each.

On September 29, 2020, adidas successfully placed its first sustainability bond as the company continued to execute on its ambitious long-term sustainability roadmap while at the same time further optimizing its capital structure and financing costs. The € 500 million bond has a term of eight years and a coupon of 0.00%. It has been listed on the Luxembourg Stock Exchange and has denominations of € 100,000.

These transactions followed after adidas had received strong first-time investment-grade ratings by both S&P and Moody's in August. While Standard & Poor's rated adidas 'A+,' Moody's granted the company an 'A2' rating. The outlook for both ratings is 'stable.' The company's strong credit metrics, robust liquidity profile and conservative financial policies are recognized by both agencies. The ratings make adidas one of the highest-rated companies both in Germany and in the global sporting goods industry.

Maturity profile of borrowings



Outstanding bonds

On top of the above-mentioned placements in 2020, the company has two outstanding bonds, both issued in 2014, and one outstanding equity-neutral convertible bond, which was issued in 2018. The seven-year bond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year bond 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 ► SEE NOTE 18

Issued bonds at a glance € in millions

	Volume	Coupon	Maturity
Eurobond	€ 600	fixed	2021
Eurobond	€ 500	fixed	2024
Eurobond	€ 400	fixed	2026
Eurobond	€ 500	fixed	2035
Sustainability bond	€ 500	fixed	2028
Equity-neutral convertible bond	€ 500	fixed	2023

Additional credit lines

In addition to the new syndicated credit facility and improved access to bond markets following the strong investment-grade ratings, the company's financial flexibility is ensured by the availability of further credit facilities. At the end of 2020, committed and uncommitted credit lines, including the syndicated loan facility, amounted to € 4.274 billion (2019: € 2.105 billion), of which € 4.085 billion was unutilized (2019: € 1.940 billion). Committed and uncommitted credit lines represent approximately 38% and 62% of total credit lines, respectively (2019: 46% and 54%, respectively). In addition, we have an unused multi-currency commercial paper program in the amount of € 2.0 billion available (2019: € 2.0 billion). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

Gross borrowings increase

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as the outstanding bonds and the equity-neutral convertible bond. Gross borrowings increased 93% to € 3.168 billion at the end of 2020 from € 1.638 billion in the prior year. The total amount of bonds outstanding at the end of 2020 was € 2.978 billion (2019: € 1.473 billion). Bank borrowings amounted to € 189 million compared to € 165 million in the prior year.

Financing structure € in millions

	2020	2019
Cash and short-term financial assets	**3,994**	**2,511**
Bank borrowings	189	165
Eurobonds	2,488	986
Equity-neutral convertible bond	491	487
Gross total borrowings	**3,168**	**1,638**
Net cash	**826**	**873**

Extended debt maturity profile

Over the course of 2020, the company's financing maturity profile has been extended by new bond maturities until 2035 and the new syndicated credit facility maturing in 2025. In 2021, assuming unchanged maturities, debt instruments of € 686 million will mature. This compares to € 43 million which matured during the course of 2019.

Remaining time to maturity of gross borrowings € in millions

	2020	2019
< 1 year	**686**	43
1 to 3 years	**528**	636
3 to 5 years	**538**	525
> 5 years	**1,416**	434
Total	**3,168**	1,638

2020 2019

Adjusted net borrowings of € 3.148 billion

Adjusted net borrowings on December 31, 2020 amounted to € 3.148 billion, compared € 4.173 billion in 2019. In 2020, the definition of net borrowings was changed to adjusted net borrowings to reflect changes in the company's Financial Policy. The most significant difference between the previous net debt definition and the new adjusted net borrowing definition is the inclusion of the present value of future lease and pension liabilities.

(Adjusted net borrowings)/net cash[1,2] € in millions

2020	**(3,148)**
2019	(4,173)
2018	959
2017	484
2016	(103)

1 Adjusted net borrowings = short-term borrowings + long-term borrowings and future cash used in lease and pension liabilities – cash and cash equivalents and short-term financial assets.
2 First-time application of adjusted net borrowings as of 2020. Only 2019 figure was restated.

Interest rate decreases

The weighted average interest rate on the company's gross borrowings decreased to 1.0% in 2020 (2019: 1.5%). This development was mainly due to the issuance of the € 1.5 billion bonds in 2020. Fixed-rate financing represented 98% of total gross borrowings at the end of 2020 (2019: 99%). Variable-rate financing accounted for 2% of total gross borrowings at the end of the year (2019: 1%).

Interest rate development[1] in %

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. In 2020, our Treasury department managed a net deficit of around US $ 6.1 billion related to operational activities (2019: US $ 7.1 billion). Thereof, around US $ 4.8 billion was against the euro (2019: US $ 4.7 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 2021 as of the end of 2020. At the same time, we have already started hedging our exposure for 2022. The use or combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, protects us against unfavorable currency movements.

► SEE GLOBAL OPERATIONS ► SEE RISK AND OPPORTUNITY REPORT ► SEE NOTE 30

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 ► SEE RISK AND OPPORTUNITY REPORT

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 40% of total assets as at December 31, 2020 related to financial assets (2019: 44%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 21% of total assets (2019: 32%) and 36% of total equity and liabilities as at December 31, 2020 (2019: 42%).

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, 2020, 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

	2020	2019
Net sales	3,991	4,444
Change in inventory	1	–
Total output	**3,992**	**4,444**
Other operating income	986	590
Cost of materials	(1,466)	(1,611)
Personnel expenses	(655)	(796)
Depreciation and amortization	(127)	(120)
Other operating expenses	(2,564)	(2,337)
Operating profit	**166**	**170**
Financial result	585	1,938
Taxes	(77)	(161)
Net income	**674**	**1,947**
Retained earnings brought forward	828	41
Allocation to other revenue reserves	(336)	(750)
Utilization for the repurchase of adidas AG shares	–	(410)
Retained earnings	**1,166**	**828**

adidas AG net sales € in millions

	2020	2019
Royalty and commission income	2,010	2,209
adidas Germany	1,216	1,275
Foreign subsidiaries	35	48
Central distribution	119	191
Other revenues	611	721
Total	**3,991**	**4,444**

Net sales decrease 10%

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 2020, adidas AG net sales decreased 10% to € 3.991 billion compared to € 4.444 billion in the prior year. This decline was mainly due to the coronavirus pandemic and the lockdown measures resulting in temporary closures of our own stores as well of our wholesale customers' stores.

Other operating income up 67%

In 2020, other operating income of adidas AG increased 67% to € 986 million (2019: € 590 million). This development was primarily due to positive currency effects.

Other operating expenses increase 10%

In 2020, other operating expenses for adidas AG rose 10% to € 2.564 billion (2019: € 2.337 billion). This was largely attributable to higher currency losses as well as an increase in service costs.

Depreciation and amortization up 6%

Depreciation and amortization for adidas AG rose 6% to € 127 million in 2020 (2019: € 120 million), mainly as a result of an increase in depreciation and amortization of software.

Operating result slightly below prior year level

In 2020, adidas AG generated an operating profit of € 166 million despite the drop in sales (2019: operating profit of € 170 million).

Financial result declines

The financial result of adidas AG decreased 70% to € 585 million in 2020 (2019: € 1.938 billion). The decrease was attributable to lower income from dividends, partly offset by higher profit transfers from affiliated companies under profit and loss transfer agreements.

Net income below prior year level

Net income, after taxes of € 77 million (2019: € 161 million), amounted to € 674 million in 2020 and was thus 65% below the prior year level (2019: € 1.947 billion).

Balance sheet

Balance sheet in accordance with HGB (condensed) € in millions

	Dec. 31, 2020	Dec. 31, 2019
Assets		
Intangible assets	154	188
Property, plant and equipment	683	706
Financial assets	4,839	4,427
Fixed assets	**5,676**	**5,321**
Inventories	40	37
Receivables and other assets	2,698	3,365
Cash and cash equivalents, securities	3,449	1,197
Current assets	**6,187**	**4,599**
Prepaid expenses	96	150
Total assets	**11,959**	**10,070**
Equity and liabilities		
Shareholders' equity	3,533	3,107
Provisions	686	728
Liabilities and other items	7,740	6,235
Total equity and liabilities	**11,959**	**10,070**

Total assets above prior year

At the end of December 2020, total assets grew 19% to € 11.959 billion compared to € 10.070 billion in the prior year. This development was mainly a result of increases in cash and cash equivalents as well as securities, partly offset by the decline in receivables and other assets.

Shareholders' equity up 14%

Shareholders' equity rose 14% to € 3.533 billion at the end of 2020 (2019: € 3.107 billion). The equity ratio decreased to 29.5% (2019: 30.9%).

Provisions decrease 6%

Provisions were down 6% to € 686 million at the end of 2020 (2019: € 728 million). The decrease primarily resulted from lower provisions for personnel.

Liabilities and other items up 24%

At the end of December 2020, liabilities and other items increased 24% to € 7.740 billion (2019: € 6.235 billion) due to newly issued bonds.

Cash inflow from financing activities reflects change in cash and cash equivalents

adidas AG has a syndicated credit facility of € 1.5 billion and additional 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

In 2020, operating activities of adidas AG resulted in a cash outflow of € 703 million (2019: € 468 million). The change versus the prior year was a result of the decrease in net income, partly offset by lower receivables from affiliated companies. Net cash inflow from investment activities was € 160 million (2019: € 1.776 billion). This was primarily attributable to lower dividend income and capital expenditure for financial assets. Financing activities resulted in a net cash inflow of € 1.162 billion (2019: net cash outflow of € 1.546 billion). The net cash inflow from financing activities mainly relates to the issuance of bonds, fewer repurchases of adidas AG shares and the fact that no dividends were paid out. As a result of these developments, cash and cash equivalents of adidas AG increased to € 1.256 billion at the end of December 2020 compared to € 636 million at the end of the prior year.

In 2020, the company changed the allocation of dividends received as well as interest paid and received in accordance with the provisions of DRS 21 (Deutsche Rechnungslegungs Standards – German Accounting Standards). Comparative information for the 2019 financial year was adjusted.

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, 2020) 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. The nominal capital and the number of shares did not change in the 2020 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, 2020, adidas AG held 5,350,126 treasury shares in total, which do not confer any rights to the company in accordance with § 71b AktG. ► SEE NOTE 27

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

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 these shares (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.

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

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').

- 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 – on 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

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 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 amounting to a total of 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 cancelation 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 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, 2019 and 2020 financial years, the Executive Board partly utilized the authorization to repurchase adidas AG shares through the share buyback program 2018 – 2021. In the financial year 2018, in a first tranche, adidas AG bought back 5,089,879 adidas AG shares. In the financial year 2019, in a second tranche, 3,223,214 adidas AG shares were repurchased. In a third tranche, adidas bought back another 953,018 adidas shares in the year under review. In each case, the share buyback took place via the stock exchange. ► SEE NOTE 27

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 that provide for regulations in the case of a change of control are the material financing agreements of adidas AG. In the case of a change of control, these agreements, as is customary in the market, entitle the creditor/bondholder to termination and early calling-in.

No compensation agreements were entered into with 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 relatively lesser significance.

All markets significantly impacted by global coronavirus pandemic

The global spread of the coronavirus during 2020 led to a significant number of temporary store closures, with a corresponding negative impact on adidas' top-line development in all market segments. Exceptional e-commerce growth could only partially offset the material revenue decline in the physical channels. In most segments, a more favorable channel mix due to the exceptional e-commerce growth had a positive effect on the gross margin development. However, this was more than offset by a less favorable pricing mix due to increased promotional activity and negative currency fluctuations in most segments. At the same time, operating expenses declined in all segments as a result of the company's decision to proactively reduce costs in light of the coronavirus pandemic.

Europe

In 2020, sales in Europe declined 12% on a currency-neutral basis as well as in euro terms to € 5.320 billion from € 6.071 billion in 2019. adidas brand revenues were down 12% on a currency-neutral basis, due to declines in both Sport Inspired and Sport Performance. Reebok brand revenues in Europe decreased 16% on a currency-neutral basis, due to declines in both Sport and Classics.

Net sales in Europe

-12% C.N.

€ 5.320 bn

Europe at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	5,320	6,071	(12%)	(12%)
adidas brand	4,925	5,599	(12%)	(12%)
Reebok brand	395	471	(16%)	(16%)
Gross margin	49.3%	51.5%	(2.2pp)	–
Segmental operating profit	947	1,408	(33%)	–
Segmental operating margin	17.8%	23.2%	(5.4pp)	–

Gross margin in Europe decreased 2.2 percentage points to 49.3% from 51.5% in 2019, as a more favorable channel mix was more than offset by a less favorable pricing mix due to increased promotional activity, negative currency developments and purchase order cancellation costs. Operating expenses were down 2% to € 1.681 billion versus € 1.722 billion in 2019, reflecting a decline in marketing expenditure. Operating expenses as a percentage of sales were up 3.2 percentage points to 31.6% (2019: 28.4%). As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin was down 5.4 percentage points to 17.8% (2019: 23.2%). Operating profit in Europe declined 33% to € 947 million versus € 1.408 billion in the prior year.

North America

Revenues in North America declined 9% on a currency-neutral basis and 10% in euro terms to € 4.762 billion from € 5.313 billion in 2019. adidas brand sales decreased 8% on a currency-neutral basis, with declines in both Sport Inspired and Sport Performance. Reebok brand revenues in North America were down 17% on a currency-neutral basis, due to declines in both Sport and Classics.

Net sales in North America

-9% C.N.

€ 4.762 bn

North America at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	4,762	5,313	(10%)	(9%)
adidas brand	4,365	4,828	(10%)	(8%)
Reebok brand	397	485	(18%)	(17%)
Gross margin	42.5%	40.0%	2.5pp	–
Segmental operating profit	606	715	(15%)	–
Segmental operating margin	12.7%	13.5%	(0.7pp)	–

Gross margin in North America increased 2.5 percentage points to 42.5% (2019: 40.0%). A more favorable channel and category mix as well as lower sourcing costs more than offset purchase order cancellation costs. Operating expenses were down 2% to € 1.461 billion versus € 1.493 billion in 2019, reflecting a decrease in marketing expenditure. Operating expenses as a percentage of sales increased 2.6 percentage points to 30.7% (2019: 28.1%). As the higher gross margin was more than offset by higher operating expenses as a percentage of sales, operating margin declined 0.7 percentage points to 12.7% from 13.5% in 2019. Operating profit in North America decreased 15% to € 606 million from € 715 million in 2019.

Asia-Pacific

Sales in Asia-Pacific declined 17% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were down 18% to € 6.546 billion from € 8.032 billion in 2019. adidas brand revenues decreased 17% on a currency-neutral basis. This development was due to declines 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.

Net sales in Asia-Pacific

-17% C.N.

€ 6.546 bn

Asia-Pacific at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	6,546	8,032	(18%)	(17%)
adidas brand	6,298	7,736	(19%)	(17%)
Reebok brand	249	296	(16%)	(15%)
Gross margin	51.8%	57.0%	(5.2pp)	–
Segmental operating profit	1,617	2,703	(40%)	–
Segmental operating margin	24.7%	33.7%	(9.0pp)	–

Gross margin in Asia-Pacific decreased 5.2 percentage points to 51.8% (2019: 57.0%), as a more favorable channel and category mix as well as lower sourcing costs were more than offset by a less favorable pricing mix due to increased promotional activity and purchase order cancellation costs. Operating expenses were down 5% to € 1.789 billion versus € 1.891 billion in 2019, mainly driven by lower marketing expenditure. Operating expenses as a percentage of sales were up 3.8 percentage points to 27.3% (2019: 23.5%). As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin was down 9.0 percentage points to 24.7% versus 33.7% in 2019. Operating profit in Asia-Pacific declined 40% to € 1.617 billion from € 2.703 billion in 2019.

Russia/CIS

Sales in Russia/CIS were flat on a currency-neutral basis. In euro terms, sales in Russia/CIS declined 11% to € 584 million from € 658 million in 2019. adidas brand revenues were up 3% on a currency-neutral basis. While sales in Sport Inspired grew at a mid-single-digit rate, revenues in Sport Performance increased at a low-single-digit rate. Reebok brand revenues in Russia/CIS decreased 9% on a currency-neutral basis, due to declines in both Sport and Classics.

Net sales in Russia/CIS

+0% C.N.

€ 584 m

Russia/CIS at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	584	658	(11%)	0%
adidas brand	448	490	(8%)	3%
Reebok brand	135	168	(20%)	(9%)
Gross margin	61.1%	61.7%	(0.6pp)	–
Segmental operating profit	162	167	(3%)	–
Segmental operating margin	27.8%	25.4%	2.4pp	–

Gross margin in Russia/CIS decreased 0.6 percentage points to 61.1% from 61.7% in 2019, due to an unfavorable channel and pricing mix as well as negative currency developments. Operating expenses were down 19% to € 194 million (2019: € 239 million), reflecting a decline in both operating overhead costs and marketing expenditure. Operating expenses as a percentage of sales decreased 3.1 percentage points to 33.2% versus 36.3% 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 2.4 percentage points to 27.8% from 25.4% in 2019. Operating profit in Russia/CIS declined 3% to € 162 million versus € 167 million in 2019.

Latin America

Revenues in Latin America decreased 16% on a currency-neutral basis. In euro terms, sales in Latin America declined 30% to € 1.158 billion from € 1.660 billion in 2019. adidas brand sales were down 16% on a currency-neutral basis, with declines in both Sport Inspired and Sport Performance. Reebok brand sales in Latin America were down 14% on a currency-neutral basis, due to declines in both Sport and Classics.

Net sales in Latin America

-16% C.N.

€ 1.158 bn

Latin America at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	1,158	1,660	(30%)	(16%)
adidas brand	1,033	1,490	(31%)	(16%)
Reebok brand	125	170	(26%)	(14%)
Gross margin	44.3%	44.5%	(0.2pp)	–
Segmental operating profit	95	295	(68%)	–
Segmental operating margin	8.2%	17.8%	(9.6pp)	–

Gross margin in Latin America decreased 0.2 percentage points to 44.3% (2019: 44.5%), as a more favorable channel and pricing mix was more than offset by negative currency developments. Operating expenses were down 6% to € 418 million from € 444 million in 2019, reflecting a decline in both operating overhead costs and marketing expenditure. Operating expenses as a percentage of sales increased 9.3 percentage points to 36.1% (2019: 26.7%). As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin declined 9.6 percentage points to 8.2% from 17.8% in 2019. Operating profit in Latin America decreased 68% to € 95 million versus € 295 million in 2019.

Emerging Markets

Revenues in Emerging Markets were down 18% on a currency-neutral basis. In euro terms, sales in Emerging Markets declined 23% to € 998 million from € 1.302 billion in 2019. adidas brand revenues decreased 16% on a currency-neutral basis, with declines in both Sport Inspired and Sport Performance. Reebok brand revenues in Emerging Markets were down 28% on a currency-neutral basis, due to declines in both Sport and Classics.

Net sales in Emerging Markets

-18% C.N.

€ 998 m

Emerging Markets at a glance € in millions

	2020	2019	Change	Change (currency-neutral)
Net sales	998	1,302	(23%)	(18%)
adidas brand	892	1,146	(22%)	(16%)
Reebok brand	106	156	(32%)	(28%)
Gross margin	46.4%	52.3%	(5.9pp)	–
Segmental operating profit	185	367	(50%)	–
Segmental operating margin	18.5%	28.2%	(9.7pp)	–

Gross margin in Emerging Markets decreased 5.9 percentage points to 46.4% (2019: 52.3%), as a more favorable channel mix was more than offset by a less favorable pricing mix due to increased promotional activity, negative currency developments and purchase order cancellation costs. Operating expenses were down 11% to € 279 million versus € 314 million in 2019, reflecting a decline in both operating overhead costs and marketing expenditure. As a percentage of sales, operating expenses increased 3.8 percentage points to 27.9% from 24.2% in 2019. As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin was down 9.7 percentage points to 18.5% (2019: 28.2%). Operating profit in Emerging Markets declined 50% to € 185 million versus € 367 million in 2019.

OUTLOOK

In 2021, we expect a robust recovery of the global economy and consumer spending. While uncertainty due to prolonged adverse effects of the coronavirus pandemic remains high, we anticipate the global sporting goods industry to recover notably in 2021. Besides structural industry tailwinds, the execution of our new strategy 'Own the Game' as well as our strong product pipeline are forecast to lead to currency-neutral net sales growth in a mid-to high-teens range. Gross margin is expected to almost fully recover to the pre-covid-19 level and to reach around 52%. Operating margin is anticipated to increase to a level of between 9% and 10%. As a result, net income from continuing operations is forecast to increase to a level of between € 1.25 billion and € 1.45 billion. All expectations stated in this outlook exclude contributions from the Reebok brand.

SUBSEQUENT EVENTS

Intended divestiture of Reebok

As part of the development of its new strategy 'Own the Game', adidas has concluded its assessment of strategic alternatives for Reebok. As a result of this review, the company decided in February 2021 to begin a formal process aimed at divesting Reebok. Accordingly, adidas is going to report the Reebok business as discontinued operations from the first quarter 2021 onward. Immediately before the reclassification to discontinued operations, an impairment test according to IAS 36 was conducted and no impairment or write-up was required. On the initial classification as discontinued operations, the measurement at fair value also did not lead to an impairment. The table further below in this chapter shows the major line items in the consolidated income statement for the year 2020 under the assumption that the Reebok business activities had been represented as discontinued operations on January 1, 2020.

OUTLOOK

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. 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.

► SEE RISK AND OPPORTUNITY REPORT

Changes to segmental reporting

At the beginning of 2021, we launched our new strategy 'Own the Game' for the period until 2025. As part of this strategy, we focus our growth efforts on the three strategic markets Greater China, North America and EMEA. In these markets, we will bring exciting consumer experiences to life by pursuing a tailored approach that appeals to local trends. In order to be able to execute this strategy successfully, adidas has changed its organizational structure. Since January 1, 2021, adidas manages Greater China as a separate market. The remaining Asia-Pacific (APAC) market now comprises Japan, South Korea, Southeast Asia and the Pacific region. The change reflects the increasing importance of Greater China as a growth market for the company. In addition, adidas created the EMEA (Europe, Middle East and Africa) market. To better leverage economies of scale, the company has integrated the former markets Europe, Russia/CIS and Emerging Markets into the newly formed EMEA market. The markets North America and Latin America remain unchanged.

Global economic growth to recover in 2021[18]

Global GDP is expected to grow 4.0% in 2021, while uncertainty due to prolonged adverse effects of the coronavirus pandemic remains high. Output, consumption, and trade are forecast to gradually improve amid effective pandemic management as well as continued monetary policy accommodation. Nevertheless, delays in the development and issuance of vaccines and extended lockdown measures remain existing downside risks to the economic recovery. In addition, differences in the pace of growth between developed and developing economies affect the global GDP projection. Developed economies are forecast to see an increase of growth to 3.3%, underlined by widespread vaccination as well as consumer confidence, consumption and trade gradually improving. Growth in developing economies is projected at 5.0%, reflecting a rebound in industrial production, retail sales and trade. On a global level, additional downside risks include a re-escalation of trade tensions and lengthy setbacks in containing the pandemic.

Sporting goods industry to recover notably in 2021

In the absence of any delay in the pandemic recovery or other macroeconomic shocks, we expect the global sporting goods industry to recover notably in 2021. Consumer confidence is forecast to rebound amid widespread vaccination and effective pandemic management as well as major sports events returning to the global stage. While extended lockdown periods, quarantine measures and physical store closures are still forecast to have an adverse impact in the short term, the sporting goods industry is projected to remain fundamentally attractive in the long term, as existing global trends are accelerating. Sports-inspired apparel and footwear ('athleisure') keeps evolving as a structural component of the broader fashion landscape, complemented by increasing sports participation rates as well as rising awareness for health and wellness. In addition, sustainability is expected to further gain in importance amid growing environmental awareness of consumers. Moreover, purchasing behavior is forecast to further shift toward online and social channels, and consumer insights generation along with the creation of premium shopping experiences become increasingly important. For the sporting goods sector too, risks related to re-escalating trade tensions and a delay in the pandemic recovery, remain.

18 Source: Worldbank Global Economic Prospects.

2021 Outlook[1]

	2020 excluding Reebok	2021 Outlook
Net sales (€ in billions)	18.435	to increase at a mid- to high-teens rate[2]
EMEA	6.308	mid- to high-teens increase[2]
North America	4.519	high-single-digit increase[2]
Greater China	4.342	20% – 30% increase[2]
Asia-Pacific	2.083	20% – 30% increase[2]
Latin America	1.035	20% – 30% increase[2]
Gross margin	50.0%	to increase to a level of around 52%
Operating margin	4.0%	to increase to a level of between 9% and 10%
Net income from continuing operations (€ in billions)	0.46	to increase to a level of betweeen € 1.25 billion and € 1.45 billion
Average operating working capital (in % of sales)[3]	–	to decrease to a level of below 20%
Capital expenditure (€ in millions)[3]	–	to increase to a level of around € 700 million

1 Excluding Reebok.
2 Currency-neutral.
3 Base value for 2020 excluding Reebok not available at time of closing of this report.

Currency-neutral sales to increase in the mid- to high-teens in 2021

After the significant revenue decline experienced in 2020 due to the global outbreak of the coronavirus, we expect a strong recovery in terms of currency-neutral sales in 2021. Despite continued lockdown measures in certain parts of the world and uncertainties regarding the global economic outlook, the company's sales development will be favorably impacted by long-term industry growth drivers such as increasing sports participation, the growing penetration of sports-inspired apparel and footwear ('athleisure') and digitalization. Beyond these structural industry tailwinds, the execution of our new strategy 'Own the Game' as well as our strong product pipeline are expected to drive strong sales growth. Specifically, we expect sales to increase at a mid- to high-teens rate on a currency-neutral basis. Similar to 2020, currency headwinds are forecast to persist, resulting in lower sales growth in reported terms.

Currency-neutral revenues to increase in all market segments

In 2021, we expect currency-neutral revenues to increase in all market segments. The markets that were impacted the most in 2020 by the coronavirus pandemic are anticipated to also show the strongest recovery in 2021. Consequently, Greater China, Asia-Pacific and Latin America are all projected to grow currency-neutral net sales in a range of between 20% and 30%. EMEA is expected to record growth in the mid- to high-teens. And North America, the market that was least impacted in 2020, is forecast to expand currency-neutral revenues at a high-single-digit rate.

Gross margin expected to recover almost fully to around 52%

The gross margin was also negatively impacted by the coronavirus pandemic in 2020. In 2021, gross margin is expected to almost fully recover to the pre-covid-19 level and to reach a level of around 52%. Unfavorable currency developments will continue to weigh on gross margin development, especially in the first half of the year. These will be more than compensated in particular by an improved pricing mix, as discount levels normalize.

Operating margin to expand to a level of between 9% and 10%

In 2021, the operating margin is projected to increase significantly to a level of between 9% and 10%. After deleverage in 2020, the significant recovery in net sales is expected to lead the margin recovery. Additional support will come from the improvement in gross margin and continued strict cost control. Net income from continuing operations is projected to increase to a level of between € 1.25 billion and € 1.45 billion.

Average operating working capital as a percentage of sales to decrease

During the coronavirus pandemic, average operating working capital as a percentage of sales increased as a result of prolonged temporary store closures and reduced sell-through. Already toward the end of 2020, we were able to normalize inventory levels. In 2021, we will continue this development and bring average operating working capital as percentage of sales back to below 20%.

Capital expenditure to increase to around € 700 million

In order to execute our growth strategy, we will continue to invest into our business. Consequently, capital expenditure is expected to increase to a level of around € 700 million in 2021. Investments into our own-retail stores as well as into digital, including e-commerce, will make up the biggest part of capital expenditure.

Management proposes to resume dividend payments

The adidas Executive Board decided to resume the company's dividend payments. Subject to the approval by the Supervisory Board, the company will propose paying a dividend of € 3.00 per dividend-entitled share for the financial year 2020 to adidas shareholders at the Annual General Meeting on May 12, 2021. The dividend proposal, which reflects the company's strengthened financial profile as well as Management's positive outlook for the current year, would result in a total dividend payout of € 585 million. ► SEE OUR SHARE

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

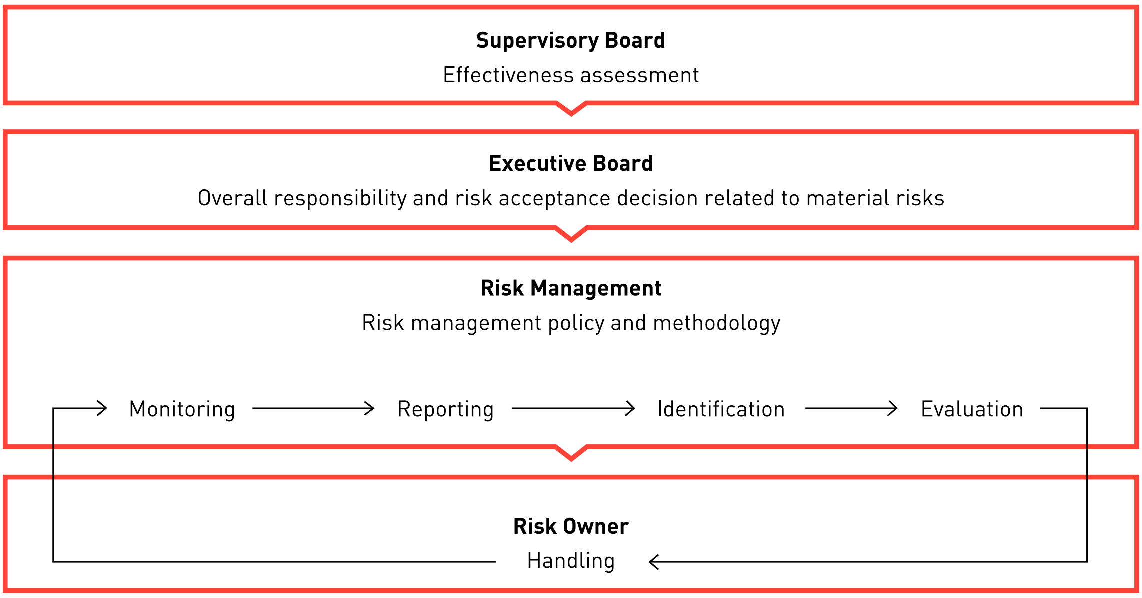
The key objective of the risk and opportunity management is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, 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. 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 a risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. 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 (COSO) of the Treadway Commission. 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, systematic reporting and monitoring of risks and opportunities.

Risk and opportunity management system



In 2020, we modified our risk and opportunity management process.

Old vs. new risk and opportunity management process

	Old process	New process
Risk and opportunity identification	Identification by risk owners	Identification via survey of members of Core Leadership Group (CLG), Extended Leadership Group (ELG) and Global High Potential (GHIPO) program, and by Risk Management based on internal/external data
Risk and opportunity evaluation	Evaluation by risk owners, oversight and support by Risk Management, validation with Executive Board members per area of responsibility	Evaluation by Risk Management as well as validation of evaluation in workshops with Executive Board members, and senior leaders per area of responsibility
Risk ownership	Direct reports of the Executive Board members	Appointed by Risk Management and Executive Board members based on identified risks and opportunities

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. On a semi-annual basis, the Risk Management department conducts a survey with all members of the Core Leadership Group (CLG), Extended Leadership Group (ELG) and Global High Potential Group (GHIPO) to ensure an effective bottom-up identification of risks and opportunities. Risk Management has also defined 25 categories to help identify risks and opportunities in a systematic way. In addition, adidas uses 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. Furthermore, as part of our identification process, we monitor physical risks related to climate change as well as risks and opportunities resulting from the transition to a low-carbon economy. Our risk and opportunity identification process is however not only limited to external risk factors or opportunities, it also includes an internal perspective that 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 part of the responsibility of the Risk Management department supported by subject matter experts as well as internal and external data. The Risk Management department also conducts workshops with the Executive Board members and senior leaders to validate the evaluation of risks and opportunities.

  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 to which the company's reputation, brand image and employer value proposition are affected. Moreover, the degree of damage to people's health and safety and the degree of legal and judicial consequences at the corporate and personal level can be considered. 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.

Risk evaluation categories

	Marginal	Low	Medium	High	Significant
Financial equivalent[1]	€ 1 million - € 10 million	€ 10 million - € 35 million	€ 35 million - € 60 million	€ 60 million - € 100 million	> € 100 million
Qualitative equivalent	Marginal impact on reputation, e.g. growing negative consumer reactions locally & slightly impaired bargaining power with partners & lower ranking in employer ratings. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that doesn't require medical treatment. Internal corrective actions required.	Low impact on reputation, e.g. strong increase of negative consumer reactions globally & impaired bargaining power with partners & weaker results in important non-financial external ratings. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that requires medical treatment. Judicial investigations leading to no direct sanctions but requiring internal corrective actions, including dismissal of employees.	Medium impact on reputation, e.g. rejection by specific consumer groups & termination or renegotiation of partnerships & profit warnings. Harm to employees or third parties such as consumers, customers, vendors, athletes that leads to hospitalization. Judicial investigations leading to imprisonment of employees and/or business interruption.	High impact on reputation, e.g. regional consumer boycotts & termination of key partnership & downgrade of credit and analyst ratings & temporary local employee strikes. Serious, life-changing harm to employees or third parties such as consumers, customers, vendors, athletes. Judicial investigations leading to imprisonment of senior leadership and/or significant business interruption including due to ongoing investigations.	Significant impact on reputation, e.g. persisting global consumer boycott & termination of multiple key partnerships & exclusion from key stock indices & long-lasting global employee strikes. Fatalities of employees or third parties such as consumers, customers, vendors, athletes. Litigation (including class action), imprisonment of Board member(s), monitorship and/or cessation of business operations due to court order.

Potential impact

Risk classification: ■ Minor ■ Moderate ■ Major

1 Based on net income.

When evaluating risks and opportunities, we also consider the speed of materialization (velocity). In this respect, we differentiate between risks and opportunities that could materialize within six months, within a time period of six to twelve months and after twelve months.

We consider both the gross and the net risk 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 and opportunities that materialized against the original assessment on a yearly basis ('back-testing'). In this way, we ensure continuous monitoring of the accuracy of risk and opportunity 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 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 lower 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 benefit 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. 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, leaders reporting directly to an Executive Board member and the operational management on the next hierarchical level. 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:

- Risk Management identifies risks and opportunities (with a potential effect on net income higher than € 1 million) by conducting a survey of CLG, ELG and GHIPO members as well as utilizing available information concerning the internal and external environment of the company. Risk Management evaluates, consolidates and aggregates the identified risks and opportunities ('bottom-up assessment').

- Risk Management discusses the assessment of substantial risks and opportunities with the members of the Executive Board and leaders directly reporting to them. The Executive Board members and their direct reports validate the assessment of risks and opportunities in their respective area of responsibility ('top-down assessment').

- Risk Management provides a consolidated report to the Executive Board summarizing the results of both bottom-up and top-down assessment. 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.

- Based on the Executive Board's decision, Risk Management creates the final risk and opportunity report that is also shared with the CLG.

- 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 material risks and opportunities 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 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. We believe our Compliance Management System will prevent the majority of potential compliance issues. For that reason, we have specific measures to detect and respond to any concerns. We realize, however, that no compliance system can eliminate all violations.

The adidas Chief Compliance Officer oversees the company's Fair Play Compliance Framework. 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 brand through compliant conduct; and
- preserve diversity by fighting harassment and discrimination.

The adidas Fair Play Code of Conduct is accessible on our website, includes guidelines for employee behavior in everyday work, and is applicable globally for all business areas. In 2020, 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

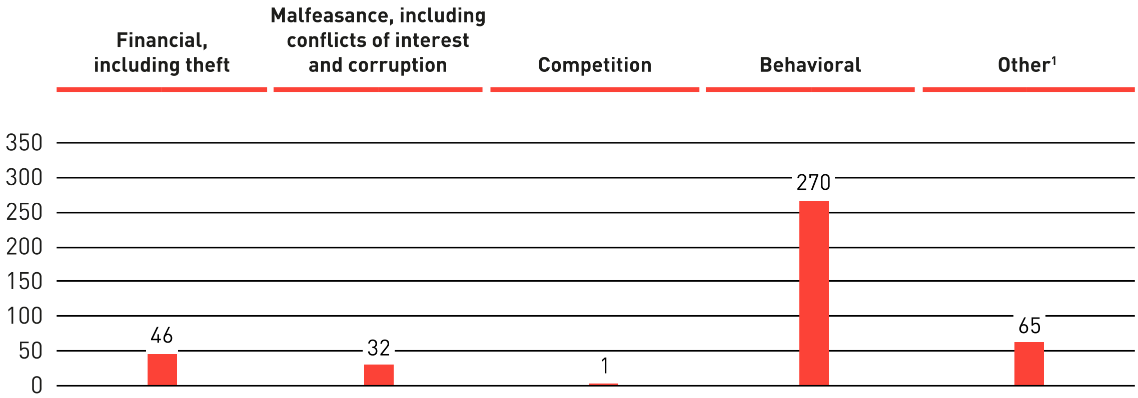
The Code of Conduct and our CMS are organized around three pillars: prevent, detect, and respond.

- **Prevention:** The Compliance team regularly reviews and updates our Compliance Management System as necessary. In addition to the revised Code of Conduct mentioned above, we also introduced an Anti-Harassment and Anti-Discrimination Policy in September 2020, emphasizing adidas' renewed initiative to prevent and fight harassment and discrimination in the workplace. Management also shares compliance-related communication, and the Compliance department provides mandatory training to all employees globally during onboarding and in regular, repeated cycles. The Compliance team and partners also provide 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. In 2020, the company launched trainings on several topics, including information security, procurement, and diversity & inclusion. We also focused on strengthening cooperation between the Compliance team and the Internal Audit, the Group Policies & Internal Controls, and the Risk Management departments.

- **Detection:** adidas has whistleblowing procedures in place 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 the independent, confidential Fair Play hotline and website which also allow for anonymous complaints. The Fair Play hotline and website are available at all times worldwide, including the services of interpreters, if required. It is promoted digitally and with posters to reach all our locations around the world. The company's continuous work to identify potential compliance violations has accelerated in 2020 through several initiatives related to the Global Diversity & Inclusion Program. Among others, we reemphasized our Fair Play hotline in retail, warehouses, and corporate offices worldwide.

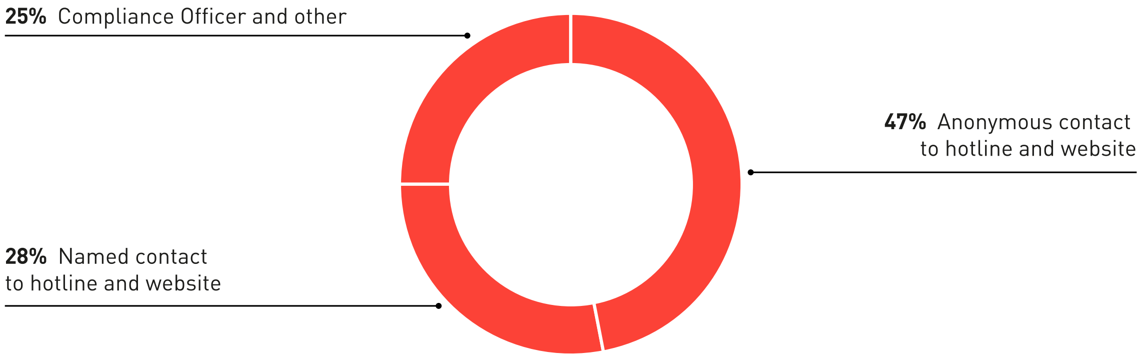
- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report potential incidents of non-compliance worldwide. In 2020, we recorded 414 potential compliance violations (2019: 514). 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. Furthermore, in 2020 the Compliance team strengthened its relationship with the HR organization, a key partner in many compliance matters, including those related to harassment and discrimination.

Potential compliance violations



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

Reporting of potential compliance violations in %



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 2020, 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 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 Group Policies & 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 2021 and beyond. We consider risks related to the coronavirus pandemic material to the success of our company. In this report, we therefore present a holistic assessment of the risks resulting from the pandemic. In addition, according to our risk assessment methodology, macroeconomic, socio-political, regulatory and currency risks, risks related to consumer demand and product offering, risks related to the competitive and retail environment, business partner risks and personnel risks are classified as material. The risks overview table illustrates the assessment of all risks described below.

Corporate risks overview

Risk categories 2020	Potential impact	Change (2019 rating)	Likelihood	Change (2019 rating)
Risks related to the coronavirus pandemic	Significant		30% – 50%	
Macroeconomic, sociopolitical, regulatory and currency risks	Significant		30% – 50%	↑ (< 15%)
Risks related to consumer demand and product offering	Significant	↑ (High)	15% – 30%	
Risks related to the competitive and retail environment	Significant	↑ (High)	15% – 30%	↓ (30% - 50%)
Business partner risks	Significant		15% – 30%	↑ (< 15%)
Personnel risks	High	↑ (Medium)	30% – 50%	↑ (< 15%)
Risks related to media and stakeholder activities	Medium	↓ (High)	30% – 50%	↑ (< 15%)
IT and cyber security risks	Significant		< 15%	
Project risks	Significant	↑ (High)	< 15%	
Risks related to tax and customs regulations	Significant		< 15%	
Compliance risks	Significant		< 15%	

Risks related to the coronavirus pandemic

The ongoing coronavirus pandemic could substantially impact the company's success in multiple ways, in particular in the short term. Risks related to the coronavirus pandemic include, but are not limited to:

- Wide-spread lockdowns and containment measures across all our markets might result in traffic declines in our own and our retail partners' stores or even require those stores to close. This could have a noticeable negative impact on the company's financial performance as seen in 2020.
- Closures of distribution centers would negatively impact the company's ability to fulfill orders by consumers or retail partners and as a result lead to sales and profit shortfalls, order cancellations or excess inventory.
- Supply chain disruptions such as the closure of factories of our manufacturing partners or the closure of ports in critical sourcing countries could cause production or delivery delays and consequently negatively impact our ability to fulfill consumer demand.
- Major sports events such the Olympic Games in Tokyo or the UEFA Euro 2021 could take place without people in attendance or even be canceled completely. This would result in sales and profit shortfalls and more importantly negatively affect our ability to showcase our brand and new product innovations.
- Wholesale customers may cancel purchase orders or return product to adidas which could result in excess inventory and higher inventory allowances.
- Lower than expected sales and profits in our own retail stores may result in higher impairment charges or inventory allowances and negatively affect the company's bottom line.

- Third-party business partners may partially or completely fail to meet their contractual financial obligations, which could result in higher loss allowances and increased write-offs for accounts receivable.

- A global recession or substantial economic downturns in key markets could lead to rising unemployment, declining disposable incomes and consumer confidence, which could harm the company's financial and business performance.

- Volatile global financial markets might negatively affect the company's access to capital in the future.

- Office locations may temporarily be closed or operate with substantially reduced capacity which could interrupt employee efficiency and productivity and therefore have negative effects on business performance.

To mitigate the effects of the ongoing coronavirus crisis, adidas is taking numerous measures. We are further shifting our focus to our own and our partners' e-commerce and other digital channels with targeted consumer marketing, exclusive product launches and prioritized supply chain management. Through strict cash flow and cost management we ensure the financial stability of our company. In 2020, the company obtained investment grade ratings from Standard & Poor's and Moody's and strengthened its liquidity and financial flexibility. With flexible shifts in our product purchasing in close alignment with our manufacturing partners, a disciplined sell-in and the conscious use of our factory outlets, we reduce negative margin effects and avoid excess inventory. Through strict measures, adidas is safeguarding the health of its employees and other stakeholders. For example, we have increased our workplace flexibility and given our employees the possibility to work remotely, depending on the development of infection rates in the respective countries.

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. A slow recovery of travel activity could negatively affect business in tourist destinations and lead to sales shortfalls, higher inventory in the marketplace, increased clearance activity, and margin pressure.

Currency risks 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. In addition, substantial changes in the regulatory environment (e.g. trade restrictions, economic and political sanctions, regulations concerning product compliance, environmental, and climate protection regulations) could lead to potential sales shortfalls or cost increases. ► SEE NOTE 30

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 can 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 our 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

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 to proactively adapt to significant changes in the regulatory environment.

Risks related to consumer demand and product offering
Our success largely depends on our ability to continuously create new, innovative, and sustainable 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 focus on key product franchises. This risk could be exacerbated if our marketing activities and brand campaigns fail to generate consumer excitement. We consider this risk most relevant in our key markets Europe, North America, and Asia-Pacific. Even more critical in the long term, however, are the risks of continuously overlooking new trends and failing to continuously introduce and successfully commercialize new product innovation.

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 and to attract new consumers. 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. By leveraging our promotion partnerships and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Utilizing external insights and capabilities in product creation helps us strengthen our product offering and drive consumer demand, brand desire, market share and profitability

Risks related to the competitive and retail environment
Changes in the competitive landscape and the retail environment could impact the company's success. Strategic alliances among 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 brand. 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 rapid 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.

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 our 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. We also pursue a strategy of entering into long-term agreements with key promotion partners such as FC Bayern Munich, James Harden, or Mikaela Shiffrin. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth, and strengthen our brands' market position.

Business partner risks

adidas interacts and enters into partnerships with various third parties, such as athletes, creative partners, innovation partners, retail partners or suppliers of goods or services. As a result, the company is exposed to a multitude of business partner risks.

We work with strategic partners in various areas of our business (e.g. product creation, manufacturing, research, and development) or distributors in a few selected markets whose approach might differ from our own business practices and standards, which could also negatively impact the company's business performance and reputation. Similarly, failure to maintain strong relationships with our partners could negatively impact the company's sales and profitability. Risks may also arise from a dependence on particular partners. For example, the overdependence on a supplier or customer increases the company's vulnerability to delivery and sales shortfalls and could lead to significant margin pressure. Business partner default (including insolvency) or other disruptive events such as strikes may negatively affect the company's business activities and result in additional costs and liabilities as well as lower sales for the company. Unethical business practices on the part of business partners or improper behavior of individual athletes, influencers or partners in the entertainment industry could have a negative spill-over effect on the company's reputation, lead to higher costs or liabilities or even disrupt business activities.

To mitigate business partner risks, adidas has implemented various measures. For example, we generally include clauses in contractual agreements with partners that allow us to suspend or even terminate our partnership in case of improper or unethical conduct. In addition, we work with a broad portfolio of promotion partners to reduce the dependency on the success and popularity of a few individual partners. We utilize a broad distribution strategy which includes further expansion of our direct-to-consumer business to reduce the risk of overreliance on key customers. Specifically, no single customer accounted for more than 5% of the company's sales in 2020. To reduce risk in the supply chain, we work with suppliers who demonstrate reliability, quality and innovation. Furthermore, in order to minimize any potential negative consequences such as a violation of our Workplace Standards by our suppliers, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to suppliers' premises. To reduce supplier dependency, the company follows a strategy of diversification. In this context, adidas works with a broad network of suppliers in different countries and, for the vast majority of its products, does not have a single-sourcing model.

Personnel risks

Achieving the company's strategic and financial objectives is highly dependent on our employees and their talents. In this respect, strong leadership and a performance-enhancing culture are critical to the company's success. Therefore, ineffective leadership as well as the failure to install and maintain a performance-oriented culture that fosters diversity and inclusion and strong employee engagement amongst our workforce could also substantially impede our ability to achieve our goals. An ineffective, unbalanced, or insufficient allocation of resources to business activities could cause operational inefficiencies and result in lower employee engagement. In addition, global competition for highly qualified personnel remains fierce. As a result, the loss of key personnel in strategic positions and the inability to identify, recruit and retain highly qualified and skilled talent who best meet the specific needs of our company pose risks to our business performance.

To ensure that we maintain a culture that fosters diversity and inclusion, we redefined our framework for diversity and inclusion and launched a global policy on anti-harassment and anti-discrimination in 2020. Our workforce also takes part in global anti-racism and unconscious bias training in diversity and inclusion . To ensure effective leadership across the company, we have established a global Leadership Framework that is inclusive and articulates the behaviors expected of our leaders.

To optimize staffing levels and resource allocation (i.e. having the right people with the right skillsets in the right roles at the right time), we have a dedicated workforce management process in place. We continuously invest in improving employer branding activities and have built a global recruiting organization to enhance our internal and external recruiting services and capabilities. Our global succession management helps create internal talent pipelines for critical leadership positions and therefore reduces succession risk.

Risks related to media and stakeholder activities

The company faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation, and purchase intent for our products. Adverse or inaccurate media coverage on our products or business practices as well as negative social media discussion may significantly harm the adidas' reputation and brand image, lead to public misperception of the company's business performance and eventually result in a sales slowdown. Similarly, certain activities on the part of key stakeholders (e.g. non-governmental organizations, governmental institutions) could cause reputational damage, distract top management, and disrupt business activities.

To mitigate these risks, we pursue proactive, open communication and engagement with key stakeholders (e.g. consumers, media, the financial community, non-governmental organizations, governmental institutions) on a continuous basis. In addition, we have established clear crisis communication processes to ensure a quick and effective response to adverse developments. We have also strengthened social media capabilities and created various digital newsrooms around the globe that enable continuous monitoring of social media content related to the company's products and activities and allow early management of potentially damaging social media discussion. On a case-by-case basis, we seek external advice from experts in communication and stakeholder management.

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 in reputational damage, regulatory penalties or cause 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.

Project risks

To effectively support further business growth and improve efficiency, adidas continuously invests in new projects such as the creation, implementation, expansion, harmonization or modernization of IT systems, distribution centers or office buildings. Ineffective project management could delay the execution of critical projects and lead to higher expenditures. Inadequate project planning and controlling as well as executional mistakes or ineffective change management could cause inefficiencies, delays, or business disruption, resulting in higher costs and sales shortfalls. Inappropriate project governance, prioritization and oversight of the project portfolio may lead to suboptimal resource allocation and undesired project results.

We manage projects utilizing reviews by project teams as well as project steering committees to evaluate the progress, quality, and costs of those projects on a regular basis. This approach allows early detection of project risks and quick implementation of corrective action or timely cancelation of projects with a low chance of success. To ensure true end-to-end management of key projects we have established a network of program and project management departments across all main functions (i.e. Sales, Marketing, Operations, Finance, IT and Human Resources). We also work with external partners for project management support in areas where we do not have the required expertise or experience in-house.

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. Increasingly aggressive positions taken by tax and customs authorities in audits could increase the potential impact of such risks and the likelihood that they materialize.

We seek to manage tax and customs risks in a balanced way that bears an appropriate relationship to the operating structure, commercial and economic substance, and other business risks. To proactively manage such risks, we constantly seek expert advice from specialized independent law and tax advisory firms in areas such as process design, transaction advisory, compliance and tax or customs audits. Processes are in place requiring that attention is regularly directed to potential areas of tax or customs risk (e.g. a quarterly tax risk questionnaire) and the corporate tax and customs teams are involved in critical business transactions. Compliance with global tax and customs policies and controls is monitored by the Corporate Tax and Customs teams, internal controls experts and the Internal Audit department. We closely monitor changes in legislation to properly adopt regulatory requirements regarding customs and taxes, apply any available and applicable guidance from tax authorities and organizations such as the OECD, the World Customs Organization and the World Trade Organization and seek guidance from individual authorities, as appropriate, which for example may include requesting tax rulings from a tax authority. In addition, our internal legal, customs and tax teams advise our operational management teams to ensure appropriate and compliant business practices. Our specialized staff receive adequate training for their role and non-tax or non-customs staff are made aware of potential tax and customs matters relevant to their roles. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and trade regulations at import and export to ensure the availability and obtain the required clearance of products to fulfill sales demand. ► SEE SUSTAINABILITY

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 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 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 in 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 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 drive the operational establishment of the framework and monitoring capabilities to track and report its implementation. During the implementation, they are continuously providing further implementation guidance and training.

ILLUSTRATION OF OPPORTUNITIES

In this report, we illustrate financial and non-financial opportunities considered most relevant in 2021 and beyond. According to our assessment methodology, opportunities related to consumer demand and product offering, opportunities related to the distribution strategy as well as opportunities related to data analytics, and opportunities related to a faster-than-expected recovery from the coronavirus pandemic are considered material. The assessment is illustrated in the opportunities overview table.

Corporate opportunities overview

Opportunity categories 2020	Potential impact	Change (2019 rating)	Likelihood	Change (2019 rating)
Opportunities related to consumer demand and product offering[1]	Significant	↑ (High)	30% – 50%	
Opportunities related to the distribution strategy	Significant	↑ (Medium)	30% – 50%	
Opportunities related to data analytics	Significant	↑ (Low)	30% – 50%	↓ (50% – 85%)
Opportunities related to a faster-than-expected recovery from the coronavirus pandemic	Significant		15% – 30%	
Macroeconomic, sociopolitical, regulatory and currency opportunities	Significant		< 15%	↓ (15% – 30%)
Opportunities related to tax regulations	Medium	↓ (Significant)	15% – 30%	↑ (< 15%)
Personnel opportunities	Medium		15% – 30%	

1 Includes opportunities related to sustainability which were shown as a separate category in 2019.

Opportunities related to consumer demand and product offering

Well-executed campaigns and marketing initiatives could increase brand desire and consumer appeal, which may drive full-price sell-through and result in higher-than-expected sales and profit. In addition, outstanding competitive performance of promotion partners such as individual athletes, club teams or national teams may further increase their popularity amongst consumers. As a result, adidas may generate higher sales of signature footwear or licensed apparel and accessories. We believe that our continued focus on product innovation and the ability to fully commercialize such innovation through an attractive product offering that resonates with consumers could provide further upside potential both in terms of sales and profit. In that respect, we see untapped potential particularly in sport-inspired apparel and in our women's and kids' business.

We are also convinced 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. Consumers are increasingly looking for products composed of more sustainable materials and manufactured in an innovative and yet socially and environmentally responsible way. By strengthening our sustainability focus in our marketing and product creation activities even further, we may generate additional sales growth and drive profitability improvements. ▸ SEE SUSTAINABILITY

Opportunities related to the distribution strategy

The further expansion of our own e-commerce activities and the amplification of our digital partner commerce business could provide further upside potential in terms of sales and profit. In addition, improving order book conversion in our wholesale channel, where we clearly focus on partners that provide consumers with the best shopping experience and customer service, could result in higher-than-expected sales and profit.

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, apply these insights in our product creation and, as a result, increase sales and reduce cost of sales. Leveraging data may also help us optimize order book management, inventory management and purchasing. All of this could result in improved financial performance.

Opportunities related to faster-than-expected recovery from the coronavirus pandemic

Effective measures against the coronavirus pandemic (e.g. improved therapies and vaccination programs) could lead to a faster-than-expected recovery of the economy and the sporting goods industry. This could result in faster-than-expected growth of adidas net sales and profit. Furthermore, the sports industry could benefit from long-term trends amplified by the coronavirus pandemic such as the increasing penetration of sportswear ('athleisure') as well as rising awareness for health and wellness. These trends could positively impact adidas' net sales growth in 2021 and beyond.

Macroeconomic, sociopolitical, regulatory and currency opportunities

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. Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements can create cost savings or potentially open up new channels of distribution and, as a result, positively impact profitability.

Opportunities related to tax regulations

The potential release of valuation allowances on deferred tax assets or the release of tax risk reserves could 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.

Personnel opportunities

Creating and managing a performance-oriented culture that fosters diversity and inclusion as well as leadership accountability and clear values in the workplace could lead to increased diversity of thought, increased creativity and innovation and higher employee satisfaction and engagement. This may positively impact the company's financial performance. A workforce that includes diverse talent and reflects the diversity of our customers and consumers, helps us better serve the communities we work in and strengthen brand reputation among our consumers, which could potentially create a competitive advantage and positively impact top- and bottom-line performance.

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 2020, financial results were significantly impacted by the negative effects of the coronavirus pandemic. Exceptional growth in e-commerce could only partially compensate for the adverse effects of far-reaching lockdown measures and temporary physical store closures. As purchasing behavior continued to shift toward online channels, our digital platforms facilitated consumer engagement, seamless personal experiences and brand building even in times of social distancing. Against this backdrop, accelerating global trends such as the increasing penetration of sportswear ('athleisure') and rising awareness for health and wellness further supported the company's sequential recovery throughout the year. As uncertainties toward the financial impact of the coronavirus pandemic prevailed throughout 2020, especially around the extension of lockdowns and store closures, the company was not able to provide an outlook for the full year 2020 including that impact. Instead, we provided quarterly outlook statements and delivered top- and bottom-line results in line with these guidances.

▶ SEE ECONOMIC AND SECTOR DEVELOPMENT

Company targets versus actual key metrics

	2019 Results	2020 Targets[1]	2020 Results[2]	2021 Outlook[3]
Currency-neutral sales development	6%	to increase at a rate between 6% and 8%	(14%)	to increase at a mid- to high-teens rate
Gross margin	52.0%	to decrease slightly compared to the prior year level of 52.0%	49.7% (2.3pp)	to increase to a level of around 52%
Operating margin	11.3%	to increase between 0.2pp and 0.5pp to a level between 11.5% and 11.8%	3.8% (7.5pp)	to increase to a level of between 9% and 10%
Net income from continuing operations (€ in millions)	1,918	to increase at a rate between 10% and 13% to a level between € 2.10 billion and € 2.16 billion	429 (78%)	to increase to a level of between € 1.25 billion and € 1.45 billion
Average operating working capital in % of net sales	18.1%	slight increase	23.5% 5.4pp	to decrease to a level of below 20%
Capital expenditure[4] (€ in millions)	711	to increase to a level of around € 800 million	442 (38%)	to increase to a level of around € 700 million

1 As published on March 11, 2020 and withdrawn in an ad-hoc announcement on April 14, 2020 due to the unpredictable impacts of the coronavirus pandemic
2 Results 2020 including Reebok
3 Outlook 2021 excluding Reebok; relative increases/decreases disclosed here refer to results 2020 excluding Reebok.
4 Excluding acquisitions and leases.

In 2020, revenues decreased 14% on a currency-neutral basis, due to currency-neutral sales declines across all market segments except for Russia/CIS, where revenues remained flat. Our direct-to-consumer business grew at a high single-digit rate, with e-commerce recording another year of exceptional growth. In the second half of the year, our business started to recover as the company focused on healthy inventories, profitable sell-through and disciplined wholesale sell-in. Accordingly, gross margin ended the year at 49.7%, reflecting a decrease of 2.3 percentage points. A more favorable channel mix driven by exceptional growth in e-commerce and lower sourcing costs partially compensated for a less favorable pricing mix due to increased promotional activity and negative currency developments. As anticipated, the operating result turned positive in the second half of the year while operating profit for the year 2020 as a whole declined 72% to € 751 million. Accordingly, operating margin decreased 7.5 percentage points to 3.8%. Net income from continuing operations decreased 78% to € 429 million. ▶ SEE INCOME STATEMENT

In 2020, average operating working capital as a percentage of sales ended the year at a level of 23.5%, which reflects a year-over-year increase of 5.4 percentage points, despite the company's inventory normalization progressing according to plan in the second half of the year. Capital expenditure decreased 38% to € 442 million in 2020, as the company prioritized short-term financial flexibility amid heightened uncertainty due to the coronavirus pandemic. ▸ SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Beyond our financial performance, we also actively manage non-financial KPIs.
▸ SEE INTERNAL MANAGEMENT SYSTEM

In 2020 the strength of our brands was mainly reflected in the exceptional growth in e-commerce, while we protected market share gains in a promotional environment in strategic growth markets North America and Greater China. Our diligence and discipline in sustainability matters continues to yield strong results and recognition for our company. In 2020, 71% of all polyester used for our apparel and footwear ranges was already recycled polyester. With that, we are ahead of our plan to use only recycled polyester from 2024 onward. Furthermore, through collective measures and technical support, our suppliers were able to exceed all our five-year environmental targets on energy, water, and waste. In 2020, we continued to leverage People Pulse as an important feedback channel for our corporate employees as we maintained our global approach to measure the level of employee satisfaction. In a survey conducted in September, employee Net Promoter Scores (eNPS) increased compared to the last survey conducted at the end of 2019. Therefore, feedback of the employees was very positive. We continued to openly discuss results and drive areas of improvement, while gaining insights toward the employee experience at adidas. ▸ SEE SUSTAINABILITY ▸ SEE OUR PEOPLE

Finally, despite interruptions in our distribution centers due to the coronavirus pandemic especially in the first half of the year, the on-time in-full (OTIF) deliveries to our customers and own-retail stores were only slightly below the prior year level. ▸ SEE GLOBAL OPERATIONS

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities identified 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. Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. As a result, the overall adidas risk profile has slightly worsened compared to the prior year. However, considering 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. In 2020, the company obtained investment grade ratings from Standard & Poor's and Moody's and strengthened its liquidity and financial flexibility. 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.
▸ SEE RISK AND OPPORTUNITY REPORT

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2021, adidas unveiled 'Own the Game', our strategy 2025, which defines strategic priorities and objectives for the period up to 2025. The strategy is focused on capturing consumer-driven opportunities which, in turn, is expected to spur above industry top- and sustainable bottom-line growth.

We project currency-neutral revenues to increase at a rate of between 8% and 10% per annum on average between 2021 and 2025. Our bottom-line is expected to grow sustainably, as we expect net income from continuing operations to increase by an average of between 16% and 18% per annum in the four-year period between 2021 and 2025. ▸ SEE STRATEGY ▸ SEE OUTLOOK

Following the revenue decline experienced in 2020 due to the coronavirus pandemic, we project significant top-line improvements in 2021. In addition, long-term industry trends such as increasing sports participation, the growing penetration of sports-inspired apparel and footwear ('athleisure') and digitalization are set to drive sales growth. As a result, we expect sales to increase at a mid- to high-teens rate on a currency-neutral basis in 2021. An increase in gross margin and continued strict cost control will also drive strong profitability improvements. Supported by operating margin expansion, net income from continuing operations is projected to increase to a level of between € 1.25 billion and € 1.45 billion in 2021. This outlook has been prepared excluding the Reebok business. ► SEE OUTLOOK

We believe our outlook for 2021 realistically describes the underlying development of the company. However, the outlook for 2021 as outlined in this report is subject to change depending on further developments related to the coronavirus pandemic. In addition, ongoing uncertainties regarding the economic outlook and consumer sentiment in both developed and developing economies as well as re-escalating trade tensions represent risks to the achievement of our stated financial goals and aspirations. No other material event between the end of 2020 and the publication of this report has altered our view.
► SEE OUTLOOK