adidas

FIRST HALF YEAR REPORT

H1

2019

JANUARY – JUNE

FIRST HALF YEAR REPORT 2019

1 AT A GLANCE

2 INTERIM GROUP MANAGEMENT REPORT

3 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

To enhance readability, registered trademarks as well as references to rounding differences are omitted in this publication.

FINANCIAL HIGHLIGHTS (IFRS)[1]

	First half year 2019	First half year 2018	Change
Operating Highlights (€ in millions)			
Net sales	11,392	10,809	5%
Gross profit	6,096	5,586	9%
Other operating expenses[2]	4,663	4,337	8%
EBITDA	2,128	1,562	36%
Operating profit	1,518	1,338	13%
Net income from continuing operations	1,093	960	14%
Net income attributable to shareholders[3]	1,163	936	24%
Key Ratios			
Gross margin	53.5%	51.7%	1.8pp
Other operating expenses in % of net sales[2]	40.9%	40.1%	0.8pp
Operating margin	13.3%	12.4%	0.9pp
Effective tax rate	25.5%	28.2%	(2.7pp)
Net income attributable to shareholders in % of net sales[3]	10.2%	8.7%	1.6pp
Average operating working capital in % of net sales[4]	18.3%	20.1%	(1.9pp)
Equity ratio	34.3%	42.2%	(7.9pp)
Net borrowings/EBITDA[5]	(0.1)	(0.0)	n. a.
Financial leverage	(5.5%)	(1.5%)	(4.0pp)
Return on equity[3]	17.6%	15.5%	2.1pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	19,273	14,305	35%
Inventories	3,579	3,425	5%
Receivables and other current assets	4,193	3,987	5%
Operating working capital	4,248	4,318	(2%)
Net cash	362	89	308%
Shareholders' equity	6,619	6,040	10%
Capital expenditure	243	258	(6%)
Net cash generated from operating activities[3]	991	841	18%
Per Share of Common Stock (€)			
Basic earnings	5.50	4.71	17%
Diluted earnings	5.50	4.70	17%
Net cash generated from operating activities[3]	4.99	4.13	21%
Dividend	3.35	2.60	29%
Share price at end of period	271.50	186.95	45%
Other (at end of period)			
Number of employees	56,753	56,270	1%
Number of shares outstanding	197,861,472	201,120,299	(2%)
Average number of shares	198,515,749	203,391,785	(2%)

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
3 Includes continuing and discontinued operations.
4 Twelve-month trailing average.
5 EBITDA of last twelve months.

BUSINESS PERFORMANCE

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMY SOFTENS IN FIRST HALF OF 2019[1]

Global growth continued to soften in the first half of 2019, reflecting a deceleration of trade and manufacturing as well as heightened policy uncertainty. In developed economies, export growth has slowed further, while monetary policy is more accommodative than previously assumed. Among developing economies, growth has been weaker than expected amid softening external demand and investment, while consumer spending remains robust. Across the globe, risks of escalating trade tensions and geopolitical conflicts have increased.

SPORTING GOODS INDUSTRY EXPANSION CONTINUES IN THE FIRST HALF OF 2019

In the first half of 2019, the global sporting goods industry continued to grow. Against a more challenging macroeconomic backdrop, rising sports participation rates and health awareness continued to drive global demand for athletic performance products, while an increasing penetration of sportswear continued to support demand for athletic casual and activewear products. For the sporting goods industry, too, risks of escalating trade tensions and geopolitical conflicts have increased.

1 Source: World Bank, Global Economic Prospects.

INCOME STATEMENT

ADIDAS WITH STRONG FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2019

In the first half of 2019, revenues increased 4% on a currency-neutral basis. In euro terms, revenues grew 5% to € 11.392 billion. SEE TABLE 1 From a brand perspective, currency-neutral revenues for brand adidas grew 5%, driven by high-single-digit growth in Sport Inspired, while revenues in Sport Performance remained stable. The latter reflects a double-digit decline in the football category due to the non-recurrence of revenues related to the 2018 FIFA World Cup, which offset growth in other Sport Performance categories. Currency-neutral Reebok sales declined 2% versus the prior year as declines in Sport more than offset growth in Classics. From a regional perspective, on a currency-neutral basis, the combined sales of the adidas and Reebok brands were driven by double-digit increases in Asia-Pacific and Emerging Markets. While revenues increased at a mid-single-digit rate in North America and Russia/CIS, currency-neutral sales in Latin America grew at a low-single-digit rate. Revenues in Europe declined at a low-single-digit rate.

Gross margin improved 1.8 percentage points to 53.5%. Higher air freight costs to mitigate the supply chain shortages and a less favorable pricing mix were more than offset by positive effects from favorable currency developments, lower sourcing costs as well as a better product and channel mix. SEE TABLE 1

Royalty and commission income increased 27% to € 74 million. Other operating income decreased 63% to € 11 million, which was mainly related to the non-recurrence of litigation gains in the prior year.

Other operating expenses, including depreciation and amortization, consist of marketing and point-of-sale as well as operating overhead expenses. In the first half of 2019, other operating expenses were up 8% to € 4.663 billion, as a result of higher marketing investments and operating overhead costs. As a percentage of sales, other operating expenses increased 0.8 percentage points to 40.9%. SEE TABLE 1 Marketing and point-of-sale expenses amounted to € 1.448 billion, which represents an increase of 2% versus the prior year level. As a percentage of sales, marketing and point-of-sale expenses decreased 0.4 percentage points to 12.7%. Operating overhead expenses grew 10% to € 3.215 billion, mainly due to investments into the scalability of the company's business model and growth in the direct-to-consumer channel. As a percentage of sales, operating overhead expenses increased 1.2 percentage points to 28.2%. Operating profit grew 13% to € 1.518 billion, representing an operating margin of 13.3%, an increase of 0.9 percentage points compared to the prior year. SEE TABLE 1 This development was mainly due to the gross margin increase, which more than offset the negative effect of higher other operating expenses as a percentage of sales.

Financial income was up 20% to € 27 million. Financial expenses increased 236% to € 78 million, mainly related to the first-time application of IFRS 16. As a result, net financial expenses amounted to € 52 million compared to net financial expenses of € 1 million in the prior year. The company's tax rate was down 2.7 percentage points to 25.5%. SEE FINANCIAL HIGHLIGHTS, P. 03 Consequently, net income from continuing operations grew 14% to € 1.093 billion, resulting in basic earnings per share of € 5.50, up 17% versus the prior year, and diluted earnings per share of € 5.50, an increase of 17% compared to the prior year. The adoption of IFRS 16 reduced year-over-year net income and EPS growth by approximately 2 percentage points in the first six months of the year.

In the first half of 2019, adidas incurred gains from discontinued operations of € 72 million (2018: losses of € 23 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. As a result, net income attributable to shareholders, which in addition to net income from continuing operations includes the gains from discontinued operations, increased 24% to € 1.163 billion. SEE TABLE 1 Consequently, basic earnings per share (EPS) from continuing and discontinued operations were up 27% to € 5.86 and diluted EPS from continuing and discontinued operations increased 28% to € 5.86. SEE TABLE 1

Key Financial Highlights 1

	First half year 2019	First half year 2018	Change
Operating Highlights (€ in millions)			
Net sales	11,392	10,809	5%
Operating profit	1,518	1,338	13%
Net income from continuing operations	1,093	960	14%
Net income attributable to shareholders[1]	1,163	936	24%
Key Ratios			
Gross margin	53.5%	51.7%	1.8pp
Other operating expenses in % of net sales[2]	40.9%	40.1%	0.8pp
Operating margin	13.3%	12.4%	0.9pp
Per Share of Common Stock (€)			
Diluted earnings[1]	5.86	4.59	28%

1 Includes continuing and discontinued operations.
2 Figures reflect the adjusted consolidated income statement structure introduced in 2018.

The total number of shares outstanding decreased by 1,309,873 shares in the first half of 2019 to 197,861,472. This was mainly a result of shares repurchased as part of the company's share buyback program. SEE FINANCIAL HIGHLIGHTS, P. 03 Consequently, the average number of shares used in the calculation of EPS was 198,515,749.

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Changes in the statement of financial position are discussed in relation to the respective positions at the end of June 2018.

ASSETS

At the end of June 2019, total assets were up 35% to € 19.273 billion compared to the prior year, mainly driven by an increase in non-current assets.

Total current assets increased 17% to € 10.232 billion at the end of June 2019. Cash and cash equivalents were up 87% to € 2.455 billion, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in the amount of € 52 million. Inventories increased 5% to € 3.579 billion. On a currency-neutral basis, inventories increased 5%. The company's accounts receivable increased 1% to € 2.780 billion. On a currency-neutral basis, receivables were up 1%. Other current assets increased 5% to € 795 million. SEE NOTE 02, P. 18

Total non-current assets increased 62% to € 9.041 billion at the end of June 2019. Fixed assets were up 72% to € 7.806 billion, mainly related to the first-time application of IFRS 16 as well as, to a lesser extent, investments into property and infrastructure. Other non-current financial assets increased 57% to € 409 million. This development mainly reflects an increase in options used for hedging of the equity-neutral convertible bond. SEE NOTE 02, P. 18, SEE DIAGRAM 2

Structure of statement of financial position[1] 2
in % of total assets

	June 30, 2019	June 30, 2018
Assets (€ in millions)	**19,273**	14,305
Cash and cash equivalents	**12.7**	9.2
Accounts receivable	**14.4**	19.2
Inventories	**18.6**	23.9
Fixed assets	**40.5**	31.6
Other assets	**13.8**	16.0

2019 2018

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 11.

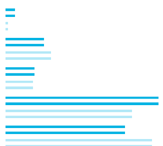
LIABILITIES AND EQUITY

Total current liabilities increased 20% to € 7.774 billion at the end of June 2019. Accounts payable were up 14% to € 2.111 billion. On a currency-neutral basis, accounts payable grew 14%. Other current financial liabilities increased 206% to € 841 million, mainly related to the first-time application of IFRS 16. Short-term borrowings grew 419% to € 496 million at the end of June 2019, reflecting an increase in bank loans. Other current provisions were up 14% to € 1.236 billion, due to an increase in the provision for returns. SEE NOTE 02, P. 18 Current accrued liabilities grew 4% to € 2.225 billion, mainly as a result of invoices not yet received as well as accruals for customer discounts.

Total non-current liabilities increased 168% to € 4.892 billion at the end of June 2019. Long-term borrowings were up 41% to € 1.602 billion compared to the prior year, due to the issuance of the € 500 million equity-neutral convertible bond. Other non-current financial liabilities increased € 2.586 billion to € 2.595 billion, mainly related to the first-time application of IFRS 16. Other non-current provisions were up 55% to € 164 million, reflecting an increase in provisions related to the company's long-term incentive plan. Non-current accrued liabilities remained virtually unchanged at € 13 million. SEE DIAGRAM 3

Structure of statement of financial position[1] — 3
in % of total liabilities and equity

	June 30, 2019	June 30, 2018
Liabilities and equity (€ in millions)	**19,273**	14,305
Short-term borrowings	**2.6**	0.7
Accounts payable	**11.0**	13.0
Long-term borrowings	**8.3**	7.9
Other liabilities	**43.9**	36.3
Total equity	**34.3**	42.1



2019 2018

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 11.

Shareholders' equity increased 10% to € 6.619 billion at the end of June 2019. The net income generated during the last twelve months and the reissuance of treasury shares in an amount of € 54 million due to share-based incentive schemes, as well as positive currency effects of € 49 million, were partly offset by the dividend of € 664 million paid to shareholders for the 2018 financial year and the repurchase of treasury shares in an amount of € 778 million, including incidental purchasing costs. The company's equity ratio decreased 7.9 percentage points to 34.3%, mainly related to the first-time application of IFRS 16.

OPERATING WORKING CAPITAL

Operating working capital decreased 2% to € 4.248 billion at the end of June 2019. On a currency-neutral basis, operating working capital was also down 2%. Average operating working capital as a percentage of sales decreased 1.9 percentage points to 18.3%, reflecting the company's continued focus on tight working capital management. SEE FINANCIAL HIGHLIGHTS, P. 03

LIQUIDITY ANALYSIS

In the first half of 2019, net cash generated from operating activities rose to € 991 million. This development was driven by the change related to IFRS 16, as lease payments are now reported under financing activities. This effect was partly offset by higher operating working capital requirements. SEE FINANCIAL HIGHLIGHTS, P. 03 Net cash used in investing activities rose to € 287 million. The majority of investing activities in the first half of 2019 related to spending for property, plant and equipment, such as investments into controlled space and in IT systems as well as the further development of the company's headquarter infrastructure. Net cash used in financing activities totaled € 837 million, mainly due to the dividend paid to shareholders, repayments of lease liabilities related to IFRS 16 as well as the repurchase of treasury shares, partly offset by an increase in proceeds from short-term borrowings. Exchange rate effects negatively impacted the company's cash position by € 42 million. As a result of all these developments, cash and cash equivalents increased € 1.142 billion to € 2.455 billion.

Net cash at June 30, 2019 amounted to € 362 million, representing an improvement of € 273 million compared to net cash of € 89 million at the end of June 2018. SEE FINANCIAL HIGHLIGHTS, P. 03 This development was due to cash generated from operating activities, partly offset by an increase in both short- and long-term borrowings. The company's ratio of net borrowings over EBITDA amounted to –0.1.

BUSINESS PERFORMANCE BY SEGMENT

EUROPE

Sales in Europe decreased 2% on a currency-neutral as well as a reported basis to € 2.972 billion. adidas brand revenues declined 2% on a currency-neutral basis. While sales in Sport Inspired were stable, revenues in Sport Performance decreased. The latter was driven by a double-digit decline in the football category due to the non-recurrence of revenues related to the 2018 FIFA World Cup which more than offset growth in all other Sport Performance categories. Reebok brand revenues decreased 3% on a currency-neutral basis due to declines in both Sport and Classics. SEE TABLE 4

Gross margin in Europe increased 5.1 percentage points to 51.9%, as favorable currency effects and lower sourcing costs more than offset an unfavorable product and pricing mix. Operating expenses grew 1% to € 780 million, reflecting higher operating overhead costs. As a percentage of sales, operating expenses were up 0.6 percentage points to 26.2%. As a result of the increase in gross margin, which more than offset the negative effect of higher operating expenses as a percentage of sales, operating margin improved 4.5 percentage points to 25.8%. Operating profit in Europe increased 19% to € 766 billion. SEE TABLE 4

NORTH AMERICA

Sales in North America increased 5% on a currency-neutral basis. In euro terms, sales grew 12% to € 2.370 billion. adidas brand revenues increased 5% on a currency-neutral basis, driven by growth in both Sport Performance and Sport Inspired. Reebok brand revenues decreased 1% on a currency-neutral basis, as growth in Classics was offset by a decline in Sport. SEE TABLE 5

Gross margin in North America decreased 0.5 percentage points to 38.8%. Higher air freight costs to mitigate the supply chain shortages and an unfavorable pricing mix were partly offset by the positive effects from lower sourcing costs as well as a better product and channel mix. Operating expenses rose 18% to € 695 million, reflecting an increase in both operating overhead costs and marketing expenditure. Operating expenses as a percentage of sales increased 1.6 percentage points to 29.3%. As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin declined 2.0 percentage points to 11.1%. Operating profit in North America decreased 6% to € 263 million. SEE TABLE 5

Europe at a glance € in millions 4

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	2,972	3,023	(2%)	(2%)
adidas brand	2,732	2,776	(2%)	(2%)
Reebok brand	240	247	(3%)	(3%)
Gross profit	1,544	1,417	9%	–
Gross margin	51.9%	46.9%	5.1pp	–
Segmental operating profit	766	644	19%	–
Segmental operating margin	25.8%	21.3%	4.5pp	–

North America at a glance € in millions 5

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	2,370	2,122	12%	5%
adidas brand	2,165	1,929	12%	5%
Reebok brand	204	194	6%	(1%)
Gross profit	919	835	10%	–
Gross margin	38.8%	39.3%	(0.5pp)	–
Segmental operating profit	263	279	(6%)	–
Segmental operating margin	11.1%	13.1%	(2.0pp)	–

ASIA-PACIFIC

Sales in Asia-Pacific increased 10% on a currency-neutral basis. In euro terms, sales were up 12% to € 4.011 billion. adidas brand revenues grew 11% on a currency-neutral basis. This development was driven by double-digit growth in Sport Inspired and mid-single-digit growth in Sport Performance. Reebok brand revenues declined 9% on a currency-neutral basis, caused by declines in both Sport and Classics. SEE TABLE 6

Gross margin in Asia-Pacific increased 2.5 percentage points to 59.2%, reflecting lower sourcing costs, positive currency effects and an improved product and channel mix, partly offset by an unfavorable pricing mix. Operating expenses were up 16% to € 912 million, mainly driven by higher operating overhead costs. As a percentage of sales, operating expenses increased 0.8 percentage points to 22.7%. As a result of the gross margin expansion, which more than offset the increase in operating expenses as a percentage of sales, operating margin improved 1.7 percentage points to 36.7%. Operating profit in Asia-Pacific was up 17% to € 1.472 billion. SEE TABLE 6

Asia-Pacific at a glance € in millions — 6

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	4,011	3,582	12%	10%
adidas brand	3,858	3,419	13%	11%
Reebok brand	153	163	(6%)	(9%)
Gross profit	2,374	2,032	17%	–
Gross margin	59.2%	56.7%	2.5pp	–
Segmental operating profit	1,472	1,253	17%	–
Segmental operating margin	36.7%	35.0%	1.7pp	–

RUSSIA/CIS

Sales in Russia/CIS increased 6% on a currency-neutral basis. In euro terms, sales grew 4% to € 307 million. adidas brand revenues were up 5% on a currency-neutral basis. While sales in Sport Inspired grew at a double-digit rate, revenues in Sport Performance increased at a low-single-digit rate, despite tough FIFA World Cup comparisons in the football category. Reebok brand revenues increased 9% on a currency-neutral basis, driven by double-digit growth in Classics and single-digit growth in Sport. SEE TABLE 7

Gross margin in Russia/CIS decreased 5.8 percentage points to 61.5%, as an unfavorable pricing and channel mix more than offset lower sourcing costs and favorable currency effects. Operating expenses were down 11% to € 118 million and, as a percentage of sales, declined 6.3 percentage points to 38.5%. This development reflects a decline in both operating overhead costs and marketing expenditure. As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin improved 0.5 percentage points to 23.1%. Operating profit in Russia/CIS increased 6% to € 71 million. SEE TABLE 7

Russia/CIS at a glance € in millions — 7

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	307	297	4%	6%
adidas brand	228	223	2%	5%
Reebok brand	79	74	7%	9%
Gross profit	189	200	(5%)	–
Gross margin	61.5%	67.4%	(5.8pp)	–
Segmental operating profit	71	67	6%	–
Segmental operating margin	23.1%	22.6%	0.5pp	–

LATIN AMERICA

Sales in Latin America grew 1% on a currency-neutral basis. In euro terms, sales declined 8% to € 779 million. adidas brand revenues were up 1% on a currency-neutral basis, driven by double-digit growth in Sport Inspired. The decline in Sport Performance was primarily caused by tough FIFA World Cup comparisons in the football category. Reebok brand revenues increased 1% on a currency-neutral basis as growth in Classics was largely offset by a decline in Sport. SEE TABLE 8

Gross margin in Latin America increased 1.0 percentage points to 45.1%, driven by an improved pricing mix and lower sourcing costs, which more than offset negative currency effects as well as an unfavorable product and channel mix. Operating expenses were stable at € 230 million as higher marketing expenditure was offset by lower operating overhead costs. Operating expenses as a percentage of sales were up 2.4 percentage points to 29.6%. As the gross margin expansion was more than offset by higher operating expenses as a percentage of sales, operating margin declined 1.4 percentage points to 15.5%. Operating profit in Latin America decreased 16% to € 121 million. SEE TABLE 8

Latin America at a glance € in millions — 8

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	779	847	(8%)	1%
adidas brand	698	762	(8%)	1%
Reebok brand	80	85	(5%)	1%
Gross profit	351	374	(6%)	–
Gross margin	45.1%	44.1%	1.0pp	–
Segmental operating profit	121	143	(16%)	–
Segmental operating margin	15.5%	16.9%	(1.4pp)	–

EMERGING MARKETS

Sales in Emerging Markets grew 11% on a currency-neutral basis. In euro terms, revenues increased 9% to € 611 million. adidas brand revenues were up 11% on a currency-neutral basis, driven by growth in both Sport Performance and Sport Inspired. Reebok brand revenues grew 10% on a currency-neutral basis due to increases in both Sport and Classics. SEE TABLE 9

Gross margin in Emerging Markets increased 2.8 percentage points to 53.7%, driven by favorable currency effects and lower sourcing costs which more than offset an unfavorable pricing, channel and product mix. Operating expenses were up 7% to € 147 million, reflecting increases in both marketing expenditure as well as operating overhead costs. Operating expenses as a percentage of sales decreased 0.5 percentage points to 24.0%. As a result of the gross margin increase as well as lower operating expenses as a percentage of sales, operating margin grew 3.3 percentage points to 29.7%. Operating profit in Emerging Markets was up 23% to € 181 million. SEE TABLE 9

Emerging Markets at a glance € in millions **9**

	First half year 2019	First half year 2018	Change	Change (currency-neutral)
Net sales	611	560	9%	11%
adidas brand	543	498	9%	11%
Reebok brand	68	62	10%	10%
Gross profit	328	285	15%	–
Gross margin	53.7%	50.9%	2.8pp	–
Segmental operating profit	181	148	23%	–
Segmental operating margin	29.7%	26.4%	3.3pp	–

OUTLOOK[1]

GLOBAL ECONOMIC GROWTH TO SLOW IN 2019[2]

Global GDP growth is projected to moderate to 2.6% in 2019, reflecting the continuation of weaker-than-expected international trade and investment in the first half of the year, while international financing conditions are expected to ease. In addition, the headline growth forecast shows differences between the pace of growth in developed and developing economies. Developing economies are forecast to see a deceleration of growth to 4.0% in 2019 as commodity-exporting economies face lower external demand and heightened policy uncertainty. In developed economies, growth is projected to slow to 1.7% in 2019, amid weakening exports and investment growth. While private consumption remains resilient, potential economic growth is subdued due to a more broad-based slowdown in manufacturing activity and trade. On a global level, additional downside risks include further instances of trade protectionism or geopolitical conflicts that could materially dampen consumer confidence, trade and growth. Moreover, a rise in borrowing costs or disorderly movements in financial markets might cause further turbulences.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2019

In the absence of any major macroeconomic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2019. Industry growth in absolute terms will continue to be driven by North America, the biggest market by size globally. Simultaneously, most markets across the globe look set to continue expanding at robust rates. In developing economies, progressing urbanization and a growing middle class are predicted to further contribute to a growing industry. Developed economies are forecast to see an expansion of the sporting goods industry, as generally strong labor market conditions will favor wage increases and support consumer spending on sporting goods. Globally, rising sports participation rates and health awareness are forecast to further drive demand for athletic performance products. In addition, sportswear penetration rates are predicted to increase further as sports-inspired apparel and footwear ('athleisure') has become a structural component of the broader fashion landscape, supporting the demand for athletic casual and activewear products. For the sporting goods industry, too, risks of escalating trade tensions and geopolitical conflicts have increased.

ADIDAS CONFIRMS TOP- AND BOTTOM-LINE OUTLOOK FOR THE 2019 FINANCIAL YEAR

adidas has confirmed its 2019 financial outlook. The company continues to expect sales to increase at a rate of between 5% and 8% on a currency-neutral basis, driven by growth in all market segments. Following the 4% revenue growth during the first six months, adidas continues to project a sequential acceleration during the second half of the year.

Gross margin is forecast to increase to a level of around 52.0%. Operating margin is expected to increase between 0.5 percentage points and 0.7 percentage points to a level between 11.3% and 11.5%. Net income from continuing operations is projected to increase to a level between € 1.880 billion and € 1.950 billion, reflecting an increase of between 10% and 14% compared to the prior year level of € 1.709 billion.[3] Average working capital as a percentage of sales is projected to slightly increase, while capital expenditure is expected to increase up to € 900 million.

RISKS AND OPPORTUNITIES

Taking into account the occurrence likelihood and the potential financial impact of the risks explained in the 2018 Annual Report, as well as the current business outlook, Management does not foresee any material jeopardy to the viability of the company as a going concern. Management remains confident that the earnings strength forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the company. Compared to the assessment in the 2018 Annual Report, overall the company's risk profile remains unchanged.

1 This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of adidas. 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 First Half Year Report. In addition, such forward-looking statements are subject to uncertainties as described in the Risk and Opportunity Report of the adidas 2018 Annual Report (pp. 131 – 143), 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.
2 Source: World Bank, Global Economic Prospects.
3 2019 excluding negative impact from accounting change according to IFRS 16 of around € 35 million (based on lease contracts as per January 1, 2019); including this impact, net income from continuing operations is currently expected to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

adidas AG Consolidated Statement of Financial Position (IFRS)[1] € in millions

	June 30, 2019	June 30, 2018	Change in %	December 31, 2018
Assets				
Cash and cash equivalents	2,455	1,313	87.0	2,629
Short-term financial assets	6	5	4.7	6
Accounts receivable	2,780	2,751	1.0	2,418
Other current financial assets	548	421	30.1	542
Inventories	3,579	3,425	4.5	3,445
Income tax receivables	71	57	23.7	48
Other current assets	795	758	4.8	725
Total current assets	**10,232**	**8,730**	**17.2**	**9,813**
Property, plant and equipment[2]	5,151	2,025	154.4	2,237
Goodwill	1,249	1,236	1.1	1,245
Trademarks	849	829	2.4	844
Other intangible assets	209	160	31.0	196
Long-term financial assets	348	277	25.5	276
Other non-current financial assets	409	260	57.4	256
Deferred tax assets	713	683	4.4	651
Other non-current assets	114	106	7.5	94
Total non-current assets	**9,041**	**5,575**	**62.2**	**5,799**
Total assets	**19,273**	**14,305**	**34.7**	**15,612**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2019 includes balances of right-of-use assets in the amount of € 3,004 million and lease liabilities in the amount of € 3,149 million related to IFRS 16 implementation.

adidas AG Consolidated Statement of Financial Position (IFRS)[1] € in millions

	June 30, 2019	June 30, 2018	Change in %	December 31, 2018
Liabilities and equity				
Short-term borrowings	496	95	419.4	66
Accounts payable	2,111	1,858	13.6	2,300
Other current financial liabilities[2]	841	275	205.9	186
Income taxes	384	532	(27.7)	268
Other current provisions	1,236	1,086	13.9	1,232
Current accrued liabilities	2,225	2,129	4.5	2,305
Other current liabilities	480	480	0.2	477
Total current liabilities	**7,774**	**6,455**	**20.4**	**6,834**
Long-term borrowings	1,602	1,134	41.3	1,609
Other non-current financial liabilities[2]	2,595	9	28,026.2	103
Pensions and similar obligations	259	298	(13.0)	246
Deferred tax liabilities	250	203	23.6	241
Other non-current provisions	164	106	54.6	128
Non-current accrued liabilities	13	13	1.7	19
Other non-current liabilities	8	61	(87.3)	68
Total non-current liabilities	**4,892**	**1,823**	**168.3**	**2,414**
Share capital	198	201	(1.6)	199
Reserves	174	133	30.4	123
Retained earnings	6,248	5,705	9.5	6,054
Shareholders' equity	**6,619**	**6,040**	**9.6**	**6,377**
Non-controlling interests	(11)	(12)	7.8	(13)
Total equity	**6,608**	**6,027**	**9.6**	**6,364**
Total liabilities and equity	**19,273**	**14,305**	**34.7**	**15,612**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2019 includes balances of right-of-use assets in the amount of € 3,004 million and lease liabilities in the amount of € 3,149 million related to IFRS 16 implementation.

CONDENSED CONSOLIDATED INCOME STATEMENT

adidas AG Condensed Consolidated Income Statement (IFRS)[1] € in millions

	First half year 2019	First half year 2018	Change	Second quarter 2019	Second quarter 2018	Change
Net sales	11,392	10,809	5.4%	5,509	5,261	4.7%
Cost of sales	5,296	5,222	1.4%	2,564	2,509	2.2%
Gross profit	**6,096**	**5,586**	**9.1%**	**2,945**	**2,751**	**7.0%**
(% of net sales)	53.5%	51.7%	1.8pp	53.5%	52.3%	1.2pp
Royalty and commission income	74	58	27.2%	39	32	24.1%
Other operating income	11	31	(63.4%)	5	19	(73.5%)
Other operating expenses	4,663	4,337	7.5%	2,346	2,210	6.2%
(% of net sales)	40.9%	40.1%	0.8pp	42.6%	42.0%	0.6pp
Marketing and point-of-sale expenses	1,448	1,413	2.5%	744	707	5.2%
(% of net sales)	12.7%	13.1%	(0.4pp)	13.5%	13.4%	0.1pp
Operating overhead expenses[2]	3,215	2,924	10.0%	1,602	1,502	6.6%
(% of net sales)	28.2%	27.1%	1.2pp	29.1%	28.6%	0.5pp
Operating profit	**1,518**	**1,338**	**13.5%**	**643**	**592**	**8.6%**
(% of net sales)	13.3%	12.4%	0.9pp	11.7%	11.3%	0.4pp
Financial income	27	22	20.3%	18	14	29.9%
Financial expenses	78	23	236.0%	43	18	135.0%
Income before taxes	**1,467**	**1,337**	**9.7%**	**618**	**588**	**5.2%**
(% of net sales)	12.9%	12.4%	0.5pp	11.2%	11.2%	0.1pp
Income taxes	374	377	(0.8%)	157	169	(7.4%)
(% of income before taxes)	25.5%	28.2%	(2.7pp)	25.4%	28.8%	(3.5pp)
Net income from continuing operations	**1,093**	**960**	**13.8%**	**462**	**418**	**10.3%**
(% of net sales)	9.6%	8.9%	0.7pp	8.4%	8.0%	0.4pp
Gains/(losses) from discontinued operations, net of tax	72	(23)	n.a.	70	(21)	n.a.
Net income	**1,164**	**938**	**24.2%**	**532**	**397**	**33.8%**
(% of net sales)	10.2%	8.7%	1.5pp	9.7%	7.6%	2.1pp
Net income attributable to shareholders	**1,163**	**936**	**24.3%**	**531**	**396**	**34.0%**
(% of net sales)	10.2%	8.7%	1.6pp	9.6%	7.5%	2.1pp
Net income attributable to non-controlling interests	**1**	**2**	**(23.2%)**	**0**	**1**	**(52.7%)**
Basic earnings per share from continuing operations (in €)	**5.50**	4.71	16.6%	**2.33**	2.06	13.0%
Diluted earnings per share from continuing operations (in €)	**5.50**	4.70	16.9%	**2.33**	2.05	13.2%
Basic earnings per share from continuing and discontinued operations (in €)	**5.86**	4.60	27.3%	**2.68**	1.95	37.2%
Diluted earnings per share from continuing and discontinued operations (in €)	**5.86**	4.59	27.6%	**2.68**	1.95	37.4%

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Aggregated distribution and selling expenses, general and administration expenses, sundry expenses and impairment losses (net) on accounts receivable and contract assets.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

adidas AG Consolidated Statement of Comprehensive Income (IFRS) € in millions

	First half year 2019	First half year 2018	Second quarter 2019	Second quarter 2018
Net income after taxes	**1,164**	**938**	**532**	**397**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans (IAS 19), net of tax[1]	0	(0)	1	0
Net gain/(loss) on other equity investments (IFRS 9), net of tax	12	(5)	15	(5)
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**12**	**(5)**	**15**	**(5)**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met				
Net (loss)/gain on cash flow hedges and net foreign investment hedges, net of tax	(54)	207	16	227
Net (loss)/gain on cost of hedging reserve – options, net of tax	(2)	1	1	4
Net gain/(loss) on cost of hedging reserve – forward contracts, net of tax	17	(16)	(4)	7
Reclassification of foreign currency differences on loss of significant influence	–	(4)	–	(4)
Currency translation differences	79	(19)	(61)	47
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	**39**	**169**	**(47)**	**281**
Other comprehensive income	**51**	**163**	**(32)**	**276**
Total comprehensive income	**1,215**	**1,101**	**500**	**673**
Attributable to shareholders of adidas AG	1,214	1,098	499	672
Attributable to non-controlling interests	1	3	1	1

1 Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

adidas AG Consolidated Statement of Changes in Equity (IFRS)[1] € in millions

	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Cost of hedging reserve - options	Cost of hedging reserve - forward contracts	Other reserves[2]	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2017	**204**	**884**	**(520)**	**(229)**	**(5)**	**–**	**(159)**	**5,858**	**6,032**	**(15)**	**6,017**
IFRS 9 transition effect, net of tax				(6)		6		3	3	(0)	3
IFRS 15 transition effect, net of tax								(25)	(25)	(0)	(25)
Balance at January 1, 2018	**204**	**884**	**(520)**	**(234)**	**(5)**	**6**	**(159)**	**5,836**	**6,011**	**(15)**	**5,996**
Other comprehensive income			(23)	206	1	(16)	(5)		162	1	163
Net income								936	936	2	938
Total comprehensive income			**(23)**	**206**	**1**	**(16)**	**(5)**	**936**	**1,098**	**3**	**1,101**
Reissuance of treasury shares due to the conversion of convertible bonds	0	0						2	3		3
Repurchase of treasury shares	(3)							(543)	(546)		(546)
Repurchase of treasury shares due to equity-settled share-based payment	(0)							(10)	(10)		(10)
Reissuance of treasury shares due to equity-settled share-based payment	0							14	14		14
Dividend payment								(528)	(528)		(528)
Equity-settled share-based payment								(1)	(1)		(1)
Balance at June 30, 2018	**201**	**884**	**(543)**	**(28)**	**(4)**	**(11)**	**(165)**	**5,705**	**6,040**	**(12)**	**6,027**
Balance at December 31, 2018	**199**	**887**	**(574)**	**(3)**	**(3)**	**(5)**	**(180)**	**6,054**	**6,377**	**(13)**	**6,364**
Other comprehensive income			79	(54)	(2)	16	12		51	(0)	51
Net income								1,163	1,163	1	1,164
Total comprehensive income			**79**	**(54)**	**(2)**	**16**	**12**	**1,163**	**1,214**	**1**	**1,215**
Repurchase of treasury shares	(1)							(299)	(301)		(301)
Repurchase of treasury shares due to equity-settled share-based payment	(0)							(13)	(13)		(13)
Reissuance of treasury shares due to equity-settled share-based payment	0							17	17		17
Dividend payment								(664)	(664)		(664)
Equity-settled share-based payment								(11)	(11)		(11)
Balance at June 30, 2019	**198**	**887**	**(495)**	**(57)**	**(5)**	**12**	**(168)**	**6,248**	**6,619**	**(11)**	**6,608**

1 IFRS 9 and IFRS 15 were initially applied at January 1, 2018. Under the transition methods chosen, comparative information is not restated except for certain hedging requirements.
2 Reserves for remeasurements of defined benefit plans (IAS 19), fair value adjustments of other equity investments (IFRS 9), option plans as well as acquisition of shares from non-controlling interest shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

adidas AG Consolidated Statement of Cash Flows (IFRS)[1] € in millions

	First half year 2019	First half year 2018
Operating activities:		
Income before taxes	1,467	1,337
Adjustments for:		
Depreciation, amortization and impairment losses	604	220
Reversals of impairment losses	(1)	(2)
Unrealized foreign exchange losses, net	7	14
Interest income	(14)	(12)
Interest expense	77	20
Losses on sale of property, plant and equipment and intangible assets, net	5	1
Other non-cash expense	4	4
Payment for external funding of pension obligations (CTA)	–	(11)
Operating profit before working capital changes	**2,148**	**1,570**
Increase in receivables and other assets	(485)	(505)
(Increase)/decrease in inventories	(109)	221
Decrease in accounts payable and other liabilities	(217)	(114)
Cash generated from operations before interest and taxes	**1,338**	**1,172**
Interest paid	(20)	(13)
Income taxes paid	(320)	(319)
Net cash generated from operating activities – continuing operations	**997**	**840**
Net cash (used in)/generated from operating activities – discontinued operations	(6)	0
Net cash generated from operating activities	**991**	**841**

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

adidas AG Consolidated Statement of Cash Flows (IFRS)[1] € in millions

	First half year 2019	First half year 2018
Investing activities:		
Purchase of trademarks and other intangible assets	(40)	(32)
Proceeds from sale of trademarks and other intangible assets	0	0
Purchase of property, plant and equipment	(203)	(226)
Proceeds from sale of property, plant and equipment	9	8
Proceeds from sale of assets held for sale	–	71
Proceeds from sale of a disposal group	3	14
Proceeds from sale of short-term financial assets	0	0
Purchase of investments and other long-term assets	(70)	(56)
Interest received	14	12
Net cash used in investing activities – continuing operations	**(287)**	**(207)**
Net cash used in investing activities – discontinued operations	–	–
Net cash used in investing activities	**(287)**	**(207)**
Financing activities:		
Proceeds from long-term borrowings	0	150
Repayments of lease liabilities / finance lease obligations	(354)	(0)
Dividend paid to shareholders of adidas AG	(664)	(528)
Repurchase of treasury shares	(237)	(482)
Repurchase of treasury shares due to share-based payments	(13)	(10)
Proceeds from reissuance of treasury shares due to share-based payments	11	9
Proceeds from/(repayments of) short-term borrowings	420	(38)
Net cash used in financing activities – continuing operations	**(837)**	**(900)**
Net cash used in financing activities – discontinued operations	–	–
Net cash used in financing activities	**(837)**	**(900)**
Effect of exchange rates on cash	**(42)**	**(19)**
Decrease of cash and cash equivalents	(174)	(285)
Cash and cash equivalents at beginning of year	2,629	1,598
Cash and cash equivalents at end of period	**2,455**	**1,313**

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT JUNE 30, 2019

01 » GENERAL

The interim consolidated financial statements of adidas AG and its subsidiaries (collectively 'adidas', the 'Group' or 'the company') for the first half year ending June 30, 2019 are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The company applied all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee effective as at June 30, 2019.

These interim consolidated financial statements were prepared in compliance with International Accounting Standard IAS 34 'Interim Financial Reporting'. Accordingly, these interim consolidated financial statements do not include all of the information and notes required for consolidated financial statements at financial year-ends. Therefore, these interim consolidated financial statements should be read in conjunction with the 2018 annual consolidated financial statements. The accounting policies as well as principles, practices and presentation applied in the consolidated financial statements for the year ending December 31, 2018 also apply to the interim consolidated financial statements for the first half year ending June 30, 2019, with the following exceptions.

The following new standards and amendments to existing standards and interpretations, which were issued by the IASB and are effective in the EU for financial years beginning on January 1, 2019, have been applied for the first time with a material impact on the consolidated financial statements as expected:

- **IFRS 16 'Leases' (EU effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 'Leases' and the respective interpretations IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognize a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months. Further information about IFRS 16 and the impact of its initial application at adidas is contained in these Notes. SEE NOTE 02

Other newly applied standards and interpretations did not materially affect the company's accounting policies.

The interim consolidated financial statements and the interim Group management report were not audited in accordance with § 317 German Commercial Code (Handelsgesetzbuch – HGB) nor reviewed by an auditor.

Costs that are incurred unevenly during the financial year are anticipated or deferred in the interim consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

The results of operations for the first half year ending June 30, 2019 are not necessarily indicative of results to be expected for the entire year.

The interim consolidated financial statements are presented in euros (€) and, unless otherwise stated, all values are presented in millions of euros (€ in millions). Due to rounding principles, numbers presented may not sum up exactly to totals provided.

02 » CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and policies mentioned below have changed as a result of the initial application of IFRS 16 'Leases' as at January 1, 2019. For lessees, IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognize a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months. For lessors, IFRS 16 substantially carries forward the accounting requirements in IAS 17.

Significant accounting policies

adidas assesses whether a contract is or contains a lease according to IFRS 16 'Leases' at the inception of the contract. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if the lessee has the right to obtain substantially all the economic benefits from the use of the identified asset (e.g. by having exclusive use of the asset throughout that period) and the right to direct the use of the identified asset throughout the period of use.

The company makes use of the recognition exemption to not recognize right-of-use assets and lease liabilities for leases of low-value assets (i.e. value of the underlying asset, when new, is € 5,000 or less) and short-term leases (shorter than twelve months). The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

adidas exercises the option offered in IFRS 16 for lessees to exclude leases for software from the scope of the new standard. Instead, software leases are accounted for in accordance with IAS 38 'Intangible assets'.

adidas exercises the option for lessees to combine lease payments with payments for non-lease components in the calculation of the lease liability and right-of-use asset for all lease asset classes except for real estate.

adidas recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date. At the commencement date, adidas initially measures the lease liability at the present value of the lease payments that are not paid at that date. This includes fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments based on an index or a rate, amounts expected to be payable by adidas under residual value guarantees, the exercise price of a purchase option if adidas is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, adidas uses its incremental borrowing rate. Generally, adidas uses its incremental borrowing rate as the discount rate, adjusted to reflect the country-specific risk, the contract currency-specific risk and the lease term.

After the commencement date, lease payments are split into redemption payments and interest payments. The lease liability is subsequently measured by increasing the carrying amount to reflect interest cost on the lease liability using the applicable interest rate and reducing the carrying amount to reflect the lease payments made. The carrying amount of the lease liability is remeasured provided any reassessments/ lease modifications occur (including changes in the assessment of whether an extension or termination option is reasonably certain to be exercised).

At the commencement date, the right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by adidas in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. In principle, the right-of-use asset is depreciated on a straight-line basis over the lease term or the useful life of the leased asset, whichever is shorter.

adidas applies judgement in determining the lease term for lease contracts including extension or termination options. The assessment of whether the options are reasonably certain to be exercised has an impact on the lease term and therefore may significantly affect the measurement of lease liabilities and right-of-use assets, respectively.

adidas does not own any investment property.

Transition

adidas applied IFRS 16 as of January 1, 2019 and transitioned to IFRS 16 in accordance with the modified retrospective approach with no adjustments to the 2018 comparative financial information, using practical expedients as described below. The reclassifications and the adjustments arising from the implementation of IFRS 16 are therefore recognized in the opening statement of financial position on January 1, 2019.

adidas elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, adidas relied on its assessment made applying IAS 17 and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

Previously, adidas classified leases as operating leases and finance leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were recognized and measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate of adidas as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized at December 31, 2018, for that specific lease.

At initial application of IFRS 16, adidas elected to use the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset as at January 1, 2019;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- no adjustments at January 1, 2019, for leases for which the underlying asset is of low value.

For leases previously classified as finance leases, adidas recognized the carrying amount of the lease asset and lease liability according to IAS 17 at December 31, 2018, as the carrying amount of the right-of-use asset and the lease liability according to IFRS 16 at January 1, 2019.

Effects of the initial application of IFRS 16

The following section explains the impact of the initial adoption of IFRS 16 on the interim consolidated financial statements of adidas AG.

As a lessee, adidas leases various types of assets, including buildings (retail stores, offices, warehouses, etc.), land, technical equipment and machinery (warehouse equipment, production machines, etc.), motor vehicles, computer hardware as well as furniture and fixtures. Lease contracts are typically negotiated for fixed periods of up to 99 years but may include extension or termination options. Lease terms are negotiated individually and may contain a wide range of different terms and conditions. Until December 31, 2018, adidas as a lessee recognized the vast majority of its lease contracts as operating lease contracts and has expensed the respective rent expense on a straight-line basis over the lease term. As a result of initially applying IFRS 16, in relation to leases previously classified as operating leases, the company recognized right-of-use assets in an amount of € 2.9 billion and lease liabilities in an amount of € 3.0 billion.

adidas presents right-of-use assets in the line item 'Property, plant and equipment' in the interim consolidated statement of financial position. The carrying amounts of right-of-use assets are as shown below:

Carrying amounts of right-of-use assets and lease liabilities
€ in millions

	June 30, 2019	Jan. 1, 2019
Land and buildings	2,847	2,786
Technical equipment and machinery	111	127
Furniture and fixtures	1	1
Computer hardware	16	21
Company cars and other motor vehicles	19	27
Other	10	11
Total right-of-use assets	**3,004**	**2,973**
Total lease liabilities	**3,149**	**3,061**

adidas presents lease liabilities in the line items 'Other current financial liabilities' and 'Other non-current financial liabilities' in the interim consolidated statement of financial position.

IFRS 16 had a negative impact of around € 14 million on the company's net income from continuing operations for the first half year ending June 30, 2019.

03 » REVENUE

The sales of the company in certain product categories are seasonal and therefore revenues and attributable earnings may vary within the financial year. Sales and earnings tend to be strongest in the first and third quarters of the financial year because these coincide with the launch of the spring/summer and fall/winter collections, respectively. However, shifts in the share of sales and attributable earnings of particular product categories or the regional composition may occur throughout the year.

A disaggregation of revenue into product categories is contained in these Notes. SEE NOTE 08

04 » DISCONTINUED OPERATIONS

The results of the Rockport, TaylorMade and CCM operations that were sold in previous periods are shown as discontinued operations in the consolidated income statement.

The net result of discontinued operations presented in the consolidated income statement as at June 30, 2019 mainly relates to a fair value adjustment of the earn-out component in connection with the sale of the TaylorMade business. The increase in fair value is attributable in particular to the actual earn-out which was above expectations as well as future EBITDA-value estimates.

Gains from discontinued operations for the first six months ending June 30, 2019 in an amount of € 72 million (2018: losses of € 23 million) are entirely attributable to the shareholders of adidas AG.

05 » SHAREHOLDERS' EQUITY

During the period from January 1, 2019 to June 30, 2019, the nominal capital of adidas AG remained unchanged. Consequently, on June 30, 2019, the nominal capital of adidas AG amounted to € 200,416,186, divided into 200,416,186 registered no-par-value shares.

Based on the authorization to repurchase treasury shares granted to the Executive Board of adidas AG by the Annual General Meeting on May 12, 2016, the company started the first tranche of a new share buyback program on March 22, 2018 which was concluded on December 4, 2018. On January 7, 2019, the share buyback program was resumed in the form of a second tranche. While the company may use the repurchased shares for all purposes admissible under the granted authorization, with the exception of the transfer of shares as a compensation component for the company's Executive Board members, adidas AG plans to cancel the majority of the repurchased shares.

adidas AG purchased a total of 256,198 shares for a total price of € 51,333,852.75 (excluding incidental purchasing costs), i.e. for an average price of € 200.37 per share, in the period between January 7, 2019 and January 31, 2019 inclusive. This corresponded to a notional amount of € 256,198 in the nominal capital and consequently to 0.13% of the nominal capital.

In February 2019, 230,796 shares were purchased for a total price of € 46,661,131.62 (excluding incidental purchasing costs), i.e. for an average price of € 202.17 per share. This corresponded to a notional amount of € 230,796 in the nominal capital and consequently to 0.12% of the nominal capital.

In March 2019, 255,544 shares were purchased for a total price of € 54,356,363.81 (excluding incidental purchasing costs), i.e. for an average price of € 212.71 per share. This corresponded to a notional amount of € 255,544 in the nominal capital and consequently to 0.13% of the nominal capital.

In April 2019, 226,764 shares were purchased for a total price of € 51,344,626.29 (excluding incidental purchasing costs), i.e. for an average price of € 226.42 per share. This corresponded to a notional amount of € 226,764 in the nominal capital and consequently to 0.11% of the nominal capital.

In May 2019, 10,452 shares were purchased for a total price of € 2,683,046.50 (excluding incidental purchasing costs), i.e. for an average price of € 256.70 per share. This corresponded to a notional amount of € 10,452 in the nominal capital and consequently to 0.01% of the nominal capital.

In June 2019, 351,375 shares were purchased for a total price of € 94,364,958.64 (excluding incidental purchasing costs), i.e. for an average price of € 268.56 per share. This corresponded to a notional amount of € 351,375 in the nominal capital and consequently to 0.18% of the nominal capital.

21,256 treasury shares were used as consideration, i.a. for the transfer or licensing of intellectual property rights and intangible property rights due to contractual obligations.

In the 2016 financial year, adidas AG introduced an employee stock purchase plan in favor of employees of adidas AG and its affiliated companies. Outside the share buyback program initiated in March 2018 and continued from January 2019 onward, the company purchased adidas AG shares in the first half of 2019 in connection with this employee stock purchase plan. On January 8, 2019, adidas AG purchased 29,328 adidas AG shares at an average price of € 195.72 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,739,979.79 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 29,328 or 0.01%. At the same time, adidas AG also purchased a further 3,349 adidas AG shares at an average price of € 195.72, which were used as matching shares. This corresponded to a total price of € 655,455.28 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 3,349 or 0.002%. All shares purchased for this purpose on January 8, 2019 were issued to the eligible employees on January 10, 2019. On April 5, 2019, adidas AG purchased 23,924 adidas AG shares at an average price of € 226.13 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,410,005.63 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 23,924 or 0.01%. At the same time, adidas AG purchased a further 3,195 adidas AG shares at an average price of € 226.13, which were used as matching shares. This corresponded to a total price of € 722,435.92 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 3,195 or 0.002%. All shares purchased for this purpose on April 5, 2019 were issued to the eligible employees on April 9, 2019. On July 5, 2019, adidas AG purchased 20,694 adidas AG shares at an average price of € 278.24 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,757,882.13 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 20,694 or 0.01%. At the same time, adidas AG purchased a further 4,020 adidas AG shares at an average price of € 278.24, which were used as matching shares. This corresponded to a total price of € 1,118,510.17 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 4,020 or 0.002%. All shares purchased for this purpose on July 5, 2019 were issued to the eligible employees on July 9, 2019.

On June 30, 2019, adidas AG held a total of 2,554,714 treasury shares , corresponding to a notional amount of € 2,554,714 in the nominal capital and consequently to 1.27% of the nominal capital. In accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG), the treasury shares held directly or indirectly do not confer any rights to the company.

06 » FINANCIAL INSTRUMENTS

Carrying amounts of financial instruments and their fair values including hierachy according to IFRS 13 € in millions

	Category	June 30, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets											
Cash and cash equivalents											
Cash and cash equivalents	Amortized cost	2,150		–	–	–	2,180		–	–	–
Cash equivalents	Fair value through profit or loss	304	304	–	304	–	449	449	–	449	–
Short-term financial assets	Fair value through profit or loss	6	6	–	6	–	6	6	–	6	–
Accounts receivable	Amortized cost	2,780		–	–	–	2,418		–	–	–
Other current financial assets											
Derivatives used in hedge accounting	Hedge accounting	198	198	–	198	–	172	172	–	172	–
Derivatives not used in hedge accounting	Fair value through profit or loss	23	23	–	23	–	46	46	–	46	–
Promissory notes	Fair value through profit or loss	28	28	–	–	28	26	26	–	–	26
Earn-out components	Fair value through profit or loss	22	22	–	–	22			–	–	–
Other financial assets	Amortized cost	276		–	–	–	297		–	–	–
Long-term financial assets											
Other equity investments	Fair value through profit or loss	86	86	–	–	86	86	86	–	–	86
Other equity investments	Fair value through other compre-hensive income	76	76	–	–	76	58	58	–	–	58
Other investments	Fair value through profit or loss	30	30	–	30[1]	–	25	25	–	27[2]	–
Other investments	Amortized cost	156		–	–	–	104		–	–	–
Loans	Amortized cost	1		–	–	–	1		–	–	–

1 Net gains in the amount of € 2 million and gains in the amount of € 0 million due to currency translation differences were recognized in equity in 2019.
2 Net gains in the amount of € 2 million and losses in the amount of € 1 million due to currency translation differences were recognized in equity in 2018.
3 Lease liabilities are measured in accordance with IFRS 16 and finance lease obligations are measured in accordance with IAS 17.

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Carrying amounts of financial instruments and their fair values including hierachy according to IFRS 13 € in millions

	Category	June 30, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Other non-current financial assets											
Derivatives used in hedge accounting	Hedge accounting	13	13	–	13	–	11	11	–	11	–
Derivatives not used in hedge accounting	Fair value through profit or loss	84	84	–	84	–	28	28	–	28	–
Promissory notes	Fair value through profit or loss	127	127	–	–	127	122	122	–	–	122
Earn-out components	Fair value through profit or loss	68	68	–	–	68	21	21	–	–	21
Other financial assets	Amortized cost	117		–	–	–	74		–	–	–
Financial assets per level				**–**	**657**	**406**			**–**	**740**	**313**
Financial liabilities											
Short-term borrowings											
Bank borrowings	Amortized cost	496		–	–	–	66		–	–	–
Accounts payable	Amortized cost	2,111		–	–	–	2,300		–	–	–
Current accrued liabilities	Amortized cost	887		–	–	–	922		–	–	–
Current accrued liabilities for customer discounts	Amortized cost	721		–	–	–	619		–	–	–
Other current financial liabilities									–	–	–
Derivatives used in hedge accounting	Hedge accounting	73	73	–	73	–	65	65	–	65	–
Derivatives not used in hedge accounting	Fair value through profit or loss	15	15	–	15	–	29	29	–	29	–
Earn-out components	Fair value through profit or loss	–		–	–	–	15	15	–	–	15
Other financial liabilities	Amortized cost	127		–	–	–	68		–	–	–
Lease liabilities / Finance lease obligations[3]	n.a.	625		–	–	–	10		–	–	–
Long-term borrowings											
Bank borrowings	Amortized cost	131		–	–	–	141		–	–	–
Eurobond	Amortized cost	985	1,063	1,063	–	–	984	1,030	1,030	–	–
Convertible bond	Amortized cost	486	589	589	–	–	484	520	520	–	–
Non-current accrued liabilities	Amortized cost	1		–	–	–	1		–	–	–

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Level 3 is based on inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Carrying amounts of financial instruments and their fair values including hierachy according to IFRS 13 € in millions

	Category	June 30, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Other non-current financial liabilities											
Derivatives used in hedge accounting	Hedge accounting	1	1	–	1	–	2	2	–	2	–
Derivatives not used in hedge accounting	Fair value through profit or loss	70	70	–	70	–	20	20	–	20	–
Other financial liabilities	Amortized cost	0		–	–	–	0		–	–	–
Lease liabilities / Finance lease obligations[3]	n.a.	2,523		–	–	–	81		–	–	–
Financial liabilities per level				**1,652**	**160**	**–**			**1,550**	**116**	**15**
Thereof: aggregated by category according to IFRS 9											
Financial assets at fair value through profit or loss (FVTPL)		777					809				
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					–				
Thereof: held for trading (FAHfT)		83					83				
Financial assets at fair value through other comprehensive income (FVOCI)		287					242				
Thereof: debt instruments		–					–				
Thereof: derivatives used in hedge accounting		211					184				
Thereof: equity investments (without recycling to profit and loss)		76					58				
Financial assets at amortized cost (AC)		5,480					5,074				
Financial liabilities at fair value through profit or loss (FVTPL)		85					63				
Thereof: held for trading (FLHfT)		–					–				
Financial liabilities at fair value through other comprehensive income (FVOCI)		74					67				
Thereof: derivatives used in hedge accounting		74					67				
Financial liabilities at amortized cost (AC)		5,945					5,585				

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3 Lease liabilities are measured in accordance with IFRS 16 and finance lease obligations are measured in accordance with IAS 17.

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Reconciliation of fair value hierarchy Level 3 in 2018 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2018	Additions	Disposals	Gains	Losses	Gains	Losses	Currency translation	Fair value Dec. 31, 2018
Investments in other equity instruments held for trading (FAHfT)	82					1			83
Investments in other equity instruments (FVTPL)	8		(6)						2
Investments in other equity instruments (FVOCI)	64	3					8		58
Promissory notes (FVTPL)	149		(9)			1		5	147
Earn-out components – assets (FVTPL)	19					1			21
Earn-out components – liabilities (FVTPL)	25		(25)				15		15

Reconciliation of fair value hierarchy Level 3 in 2019 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2019	Additions	Disposals	Gains	Losses	Gains	Losses	Currency translation	Fair value Jun. 30, 2019
Investments in other equity instruments held for trading (FAHfT)	83								83
Investments in other equity instruments (FVTPL)	2								2
Investments in other equity instruments (FVOCI)	58	6				15	3		76
Promissory notes (FVTPL)	147					6		2	155
Earn-out components – assets (FVTPL)	21					69			90
Earn-out components – liabilities (FVTPL)	15		(15)						–

Net gains/(losses) on financial instruments recognized in the consolidated income statement € in millions

	Period ending Jun. 30, 2019	Year ending Dec. 31, 2018
Financial assets classified at amortized cost (AC)	(17)	(42)
Financial assets at fair value through profit or loss (FVTPL)	76	7
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	–	1
Equity instruments at fair value through profit or loss (FVTPL)	–	(1)
Equity instruments at fair value through other comprehensive income (FVOCI)	–	–
Financial liabilities at amortized cost (AC)	–	36
Financial liabilities at fair value through profit or loss (FVTPL)	–	(15)
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	–	–

The valuation methods used in measuring Level 1, Level 2 and Level 3 fair values remain unchanged and can be found in the Notes to the 2018 consolidated financial statements.

07 » EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income from continuing operations attributable to shareholders by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by adidas and held as treasury shares.

Earnings per share

	Continuing operations		Discontinued operations		Total	
	First half year 2019	First half year 2018	First half year 2019	First half year 2018	First half year 2019	First half year 2018
Net income from continuing operations (€ in millions)	1,093	960	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	1	2	–	–	–	–
Net income attributable to shareholders (€ in millions)	**1,091**	**959**	**72**	**(23)**	**1,163**	**936**
Weighted average number of shares	198,515,749	203,391,785	198,515,749	203,391,785	198,515,749	203,391,785
Basic earnings per share (€)	**5.50**	**4.71**	**0.36**	**(0.11)**	**5.86**	**4.60**
Net income attributable to shareholders (€ in millions)	1,091	959	72	(23)	1,163	936
Interest expense on convertible bond, net of taxes (€ in millions)	–	0	–	–	–	0
Net income used to determine diluted earnings per share (€ in millions)	**1,091**	**959**	**72**	**(23)**	**1,163**	**936**
Weighted average number of shares	198,515,749	203,391,785	198,515,749	203,391,785	198,515,749	203,391,785
Weighted assumed conversion of the convertible bond	–	366,110	–	–	–	366,110
Dilutive effect of share-based payments	9,744	3,736	–	–	9,744	3,736
Weighted average number of shares for diluted earnings per share	**198,525,493**	**203,761,631**	**198,515,749**	**203,391,785**	**198,525,493**	**203,761,631**
Diluted earnings per share (€)	**5.50**	**4.70**	**0.36**	**(0.11)**	**5.86**	**4.59**

08 » SEGMENTAL INFORMATION

adidas operates predominantly in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products.

As at June 30, 2019, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments', ten operating segments were identified: Europe (formerly called Western Europe), North America adidas, North America Reebok, Asia-Pacific, Latin America, Emerging Markets, Russia/CIS, adidas Golf, Runtastic and Other centrally managed businesses.

Due to the completed divestitures, income and expenses of the former TaylorMade and CCM Hockey operating segments are reported as discontinued operations as in 2018. SEE NOTE 04

The operating segments North America adidas and North America Reebok have been aggregated to North America.

According to the criteria of IFRS 8 for reportable segments, the operating segments Europe, North America, Asia-Pacific, Latin America, Emerging Markets and Russia/CIS are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

Each market 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.

adidas Golf comprises the distribution and sale of adidas Golf branded products.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

Other centrally managed businesses primarily includes the business activities of the Y-3 label.

Certain centralized corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes, in particular, functions such as Global Brands and Global Sales (central brand and distribution management for the adidas and Reebok brands), central treasury, global sourcing as well as other headquarter functions. Assets, liabilities, income and expenses relating to these corporate functions are presented in the reconciliations.

There are no intersegment sales between the reportable segments.

The results of the operating segments are reported in the line item 'Segmental operating profit'. This is defined as gross profit minus other operating expenses plus royalty and commission income and other operating income attributable to the segment or group of segments, however without considering headquarter costs and central expenses for marketing.

Segmental assets include accounts receivable as well as inventories. Only these items are reported to the chief operating decision maker on a regular basis.

Segmental liabilities only contain accounts payable from operating activities as there are no other liability items reported regularly to the chief operating decision maker.

Segmental information € in millions

	Net sales (third parties)[1]		Thereof: adidas brand[1]		Thereof: Reebok brand[1]		Segmental operating profit[1]		Segmental assets[2]		Segmental liabilities[2]	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Europe	2,972	3,023	2,732	2,776	240	247	766	644	1,714	1,912	75	98
North America	2,370	2,122	2,165	1,929	204	194	263	279	1,736	1,536	91	64
Asia-Pacific	4,011	3,582	3,858	3,419	153	163	1,472	1,253	1,310	1,181	290	244
Russia/CIS	307	297	228	223	79	74	71	67	190	176	4	8
Latin America	779	847	698	762	80	85	121	143	655	666	76	73
Emerging Markets	611	560	543	498	68	62	181	148	451	402	27	30
Reportable segments	**11,050**	**10,430**	**10,225**	**9,606**	**825**	**824**	**2,874**	**2,533**	**6,056**	**5,872**	**562**	**516**
Other Businesses (continuing operations)	342	378	121	166	0	3	61	56	232	291	12	19
Other Businesses (discontinued operations)	–	30	–	–	–	–	–	(2)	–	–	–	–
Other Businesses	**342**	**408**	**121**	**166**	**0**	**3**	**61**	**54**	**232**	**291**	**12**	**19**
Total	**11,392**	**10,838**	**10,346**	**9,772**	**825**	**828**	**2,935**	**2,587**	**6,288**	**6,163**	**573**	**535**

1 First half year.
2 At June 30.

Operating profit € in millions

	First half year 2019	First half year 2018
Operating profit for reportable segments	2,874	2,533
Operating profit for Other Businesses	61	54
Segmental operating profit	**2,935**	**2,587**
Reclassification to discontinued operations	–	2
HQ	(863)	(756)
Central expenditure for marketing	(442)	(443)
Consolidation	(111)	(52)
Operating profit	**1,518**	**1,338**
Financial income	27	22
Financial expenses	(78)	(23)
Income before taxes	**1,467**	**1,337**

Net sales (third parties) € in millions

	First half year 2019	First half year 2018
Footwear	6,739	6,404
Apparel	4,097	3,914
Hardware	556	521
Reclassification to discontinued operations	–	(30)
Total	**11,392**	**10,809**

09 » EVENTS AFTER THE BALANCE SHEET DATE

Between the end of the first half of 2019 and the finalization of these interim consolidated financial statements on July 25, 2019, there were no major company-specific matters which we expect to influence our business materially going forward.

Herzogenaurach, July 25, 2019

The Executive Board of adidas AG

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Herzogenaurach, July 25, 2019

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

ROLAND AUSCHEL
GLOBAL SALES

ERIC LIEDTKE
GLOBAL BRANDS

HARM OHLMEYER
CHIEF FINANCIAL OFFICER

KAREN PARKIN
GLOBAL HUMAN RESOURCES

MARTIN SHANKLAND
GLOBAL OPERATIONS

FINANCIAL CALENDAR 2019 / 2020

NOV 6
NINE MONTHS 2019 RESULTS

MAR 11
FULL YEAR 2019 RESULTS

MAY 8
FIRST QUARTER 2020 RESULTS

MAY 14
ANNUAL GENERAL MEETING 2020

AUG 6
FIRST HALF 2020 RESULTS

NOV 4
NINE MONTHS 2020 RESULTS

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