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Herzogenaurach, August 3, 2017

adidas with strong financial performance in the second quarter FY 2017 top- and bottom-line outlook raised

Major developments in Q2 2017¹:

- **Currency-neutral revenues increase 19%**
- **Gross margin improves 0.7pp to 50.1%**
- **Net income from continuing operations grows 16% to € 347 million**
- **Basic EPS from continuing operations increases 14% to € 1.72**

Improved outlook for FY 2017:

- **Currency-neutral revenues to increase at a rate between 17% and 19%**
- **Gross margin to increase up to 0.8pp to a level of up to 50.0%**
- **Operating margin to grow up to 0.6 percentage points to a level of up to 9.2%**
- **Net income from continuing operations to increase at a rate between 26% and 28%**

“We are pleased to report on another very successful quarter. Both sales and net income from continuing operations increased strongly. This is testament to the continued momentum our brands enjoy across our key regions and channels,” said adidas CEO Kasper Rorsted. “Based on the strong first half performance, we are raising our full-year guidance. We’ll grow both our top and our bottom line faster than originally anticipated.”

Currency-neutral sales increase 19% in Q2 2017

During the second quarter, adidas continued to deliver a strong financial performance with currency-neutral revenues up 19%. This development reflects a 21% increase at brand adidas as well as a 5% increase at the Reebok brand. In euro terms, sales were up 20% in the second quarter to € 5.038 billion (2016: € 4.199 billion). Revenue growth at the adidas brand was driven by double-digit increases in the running category as well

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



as at adidas Originals and adidas neo. High-single-digit growth in the training category also contributed to this development. Top-line improvements at Reebok were driven by strong double-digit sales increases in Classics, partly offset by the brand's ongoing efforts to clean up its distribution in the US marketplace. From a channel perspective, all distribution channels recorded double-digit growth during the second quarter, with particularly strong support from eCommerce, where revenues grew 66%.

Double-digit revenue growth in all regions except Russia/CIS

On a currency-neutral basis, the combined sales of the adidas and Reebok brands grew at double-digit rates in all regions except Russia/CIS. Growth was especially strong in the company's key regions Greater China (+28%) and North America (+26%) as well as in Western Europe, where sales increased 19% despite difficult prior year comparisons resulting from the non-recurrence of revenues related to UEFA EURO 2016 products. In Latin America, MEAA and Japan, currency-neutral revenues increased 14%, 13% and 11% respectively. Sales in Russia/CIS declined 11%, reflecting the ongoing challenging consumer sentiment as well as additional store closures during the quarter. Revenues in Other Businesses, now comprising adidas Golf, Runtastic and Other centrally managed businesses, were up 27% on a currency-neutral basis, driven by double-digit increases in all operating segments.

Underlying operating margin increases 1.4 percentage points to 10.0%

The company's gross margin increased 0.7 percentage points to 50.1% (2016: 49.4%), despite significant FX headwind in the quarter. This development was mainly due to the positive effects from a better pricing, product and channel mix. While royalty and commission income declined 2% to € 29 million (2016: € 30 million), other operating income decreased significantly to € 24 million from € 159 million in the prior year, reflecting the non-recurrence of extraordinary gains related to the early termination of the Chelsea FC contract and the Mitchell & Ness divestiture in the second quarter of 2016. Other operating expenses increased 13% to € 2.072 billion (2016: € 1.833 billion). As a percentage of sales, however, other operating expenses decreased 2.5 percentage points to 41.1% (2016: 43.7%). This development reflects the strong top-line expansion during the second quarter as well as the different phasing of the company's marketing spend, which is significantly more weighted towards the second half of the year in 2017. The company's operating profit increased 18% during the second quarter to a level of



€ 505 million (2016: € 429 million), resulting in an operating margin decline of 0.2 percentage points to 10.0% (2016: 10.2%). Adjusted for the extraordinary gain of around € 70 million related to the early termination of the Chelsea FC contract in the second quarter last year, however, the company's underlying operating margin increased 1.4 percentage points. Net income from continuing operations was up 16% to € 347 million (2016: € 301 million) and basic earnings per share from continuing operations grew 14% to € 1.72 (2016: € 1.50). Losses from discontinued operations, net of tax, mainly related to the planned divestiture of the TaylorMade and CCM Hockey businesses, amounted to € 189 million (2016: € 10 million). As a result, net income attributable to shareholders declined 46% to € 158 million (2016: € 291 million), resulting in basic earnings per share from continuing and discontinued operations of € 0.78, down from € 1.45 in 2016.

adidas with strong financial performance in the first half of 2017

In the first half of 2017, revenues increased 18% on a currency-neutral basis. In euro terms, revenues grew 20% to € 10.485 billion (2016: € 8.761 billion). From a brand perspective, currency-neutral revenues for brand adidas grew 19%. Reebok sales were up 9% on a currency-neutral basis versus the prior year. The gross margin improved slightly to 49.9% (2016: 49.8%), reflecting the positive effects from an improved pricing, product and channel mix as well as lower input costs, which were largely offset by unfavourable currency developments. Royalty and commission income increased 7% to € 57 million (2016: € 53 million). Other operating income declined 72% to € 52 million (2016: € 190 million), mainly due to the non-recurrence of extraordinary gains related to the early termination of the Chelsea FC contract and the Mitchell & Ness divestiture. Other operating expenses were up 15% to € 4.194 billion (2016: € 3.657 billion). The company's operating profit grew 20% to € 1.142 billion (2016: € 950 million), representing an operating margin of 10.9% (2016: 10.8%), an increase of 0.1 percentage points compared to the prior year. Net income from continuing operations grew 21% to € 809 million (2016: € 671 million), resulting in a 20% increase in basic earnings per share from continuing operations to € 4.00 (2016: € 3.34). In the first half of 2017, adidas incurred losses from discontinued operations of € 195 million, net of tax (2016: losses of € 28 million). As a result, net income attributable to shareholders declined 4% to € 613 million (2016:



€ 641 million) while basic EPS from continuing and discontinued operations decreased 5% to € 3.04 (2016: € 3.20).

Average operating working capital as a percentage of sales decreases

Inventories increased 4% to € 3.644 billion (2016: € 3.514 billion). On a currency-neutral basis, inventories grew 6%. Inventories from continuing operations increased 9% (+11% currency-neutral). Operating working capital increased 6% to € 4.258 billion (2016: € 4.013 billion) at the end of June 2017. On a currency-neutral basis, operating working capital grew 9%. Operating working capital from continuing operations rose 17% (+20% currency-neutral). Average operating working capital as a percentage of sales from continuing operations decreased 1.0 percentage points to 20.4%, reflecting the strong top-line development during the last twelve months as well as the company's continued focus on tight working capital management.

adidas raises top- and bottom-line outlook for the 2017 financial year

Due to the strong financial performance in the first half of 2017, adidas has increased its 2017 financial outlook. The company now expects sales to increase at a rate between 17% and 19% (previously: to increase at a rate between 12% and 14%) on a currency-neutral basis in 2017. The gross margin is expected to increase up to 0.8 percentage points to a level of up to 50.0% (previously: to increase up to 0.3 percentage points). Other operating expenses as a percentage of sales are forecasted to be below the prior year level of 42.7%, driven by leverage from both expenditure for point-of-sale and marketing investments as well as lower operating overheads as a percentage of sales. The operating profit is expected to increase between 24% and 26% (previously: to increase between 13% and 15%), reflecting an operating margin improvement of up to 0.6 percentage points to a level of up to 9.2% (previously: to increase between 0.2 and 0.4 percentage points). This development will be driven by the projected gross margin improvement as well as lower other operating expenses as a percentage of sales. These positive effects will be partly offset by the significant decline in other operating income, reflecting the non-recurrence of the one-time gain related to the early termination of the Chelsea FC sponsorship that was included in the prior year. Net income from continuing operations is projected to increase at a rate between 26% and 28% to a level between € 1.360 billion and € 1.390 billion. This compares to the original guidance as provided in March of an increase in the company's net income from continuing operations of between 13% and 15% to a level between € 1.200 billion and



€ 1.225 billion. As a result of an increase in the average number of shares following conversions of convertible bonds into adidas AG shares, basic earnings per share from continuing operations are expected to increase at a rate between 25% and 27% (previously: to increase at a rate between 13% and 15%).

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adidas AG Consolidated Income Statement (IFRS)¹⁾

€ in millions	Second quarter 2017	Second quarter 2016	Change
Net sales	5,038	4,199	20.0 %
Cost of sales	2,513	2,126	18.2 %
Gross profit	2,525	2,074	21.7 %
<i>(% of net sales)</i>	50.1%	49.4%	0.7 pp
Royalty and commission income	29	30	(2.5%)
Other operating income	24	159	(85.0%)
Other operating expenses	2,072	1,833	13.0 %
<i>(% of net sales)</i>	41.1%	43.7%	(2.5pp)
Operating profit	505	429	17.9 %
<i>(% of net sales)</i>	10.0%	10.2%	(0.2pp)
Financial income	7	9	(24.2%)
Financial expenses	26	14	93.2 %
Income before taxes	486	425	14.5 %
<i>(% of net sales)</i>	9.7%	10.1%	(0.5pp)
Income taxes	139	124	12.1 %
<i>(% of income before taxes)</i>	28.6%	29.2%	(0.6pp)
Net income from continuing operations	347	301	15.5 %
<i>(% of net sales)</i>	6.9%	7.2%	(0.3pp)
Losses from discontinued operations, net of tax	189	10	1,874.7 %
Net income	159	291	(45.6%)
<i>(% of net sales)</i>	3.1%	6.9%	(3.8pp)
Net income attributable to shareholders	158	291	(45.5%)
<i>(% of net sales)</i>	3.1%	6.9%	(3.8pp)
Net income attributable to non-controlling interests	0	1	(62.4%)
Basic earnings per share from continuing operations (in €)	1.72	1.50	14.4 %
Diluted earnings per share from continuing operations (in €)	1.70	1.47	16.2 %
Basic earnings per share from continuing and discontinued operations (in €)	0.78	1.45	(46.1%)
Diluted earnings per share from continuing and discontinued operations (in €)	0.78	1.42	(45.2%)

Net sales

€ in millions	Second quarter 2017	Second quarter 2016	Change	Change (currency- neutral)
Western Europe	1,421	1,214	17.1 %	19.3 %
North America	1,014	788	28.7 %	25.8 %
Greater China	865	685	26.3 %	27.7 %
Russia/CIS	181	172	5.2 %	(10.7%)
Latin America	441	379	16.4 %	13.9 %
Japan	261	236	11.0 %	11.1 %
MEAA	657	572	14.9 %	12.6 %
Other Businesses	198	155	27.6 %	26.7 %
adidas brand	4,497	3,705	21.4 %	20.5 %
Reebok brand	431	399	7.9 %	4.9 %

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

Rounding differences may arise.



adidas AG Consolidated Income Statement (IFRS)¹⁾

€ in millions	First half year 2017	First half year 2016	Change
Net sales	10,485	8,761	19.7%
Cost of sales	5,258	4,398	19.6%
Gross profit	5,227	4,364	19.8%
<i>(% of net sales)</i>	49.9%	49.8%	0.0pp
Royalty and commission income	57	53	7.4%
Other operating income	52	190	(72.5%)
Other operating expenses	4,194	3,657	14.7%
<i>(% of net sales)</i>	40.0%	41.7%	(1.7pp)
Operating profit	1,142	950	20.2%
<i>(% of net sales)</i>	10.9%	10.8%	0.1pp
Financial income	32	29	11.3%
Financial expenses	43	27	59.9%
Income before taxes	1,131	952	18.8%
<i>(% of net sales)</i>	10.8%	10.9%	(0.1pp)
Income taxes	322	281	14.6%
<i>(% of income before taxes)</i>	28.5%	29.6%	(1.1pp)
Net income from continuing operations	809	671	20.6%
<i>(% of net sales)</i>	7.7%	7.7%	0.1pp
Losses from discontinued operations, net of tax	195	28	587.1%
Net income	614	642	(4.4%)
<i>(% of net sales)</i>	5.9%	7.3%	(1.5pp)
Net income attributable to shareholders	613	641	(4.4%)
<i>(% of net sales)</i>	5.8%	7.3%	(1.5pp)
Net income attributable to non-controlling interests	1	1	15.8%
Basic earnings per share from continuing operations (in €)	4.00	3.34	19.7%
Diluted earnings per share from continuing operations (in €)	3.96	3.27	21.3%
Basic earnings per share from continuing and discontinued operations (in €)	3.04	3.20	(5.2%)
Diluted earnings per share from continuing and discontinued operations (in €)	3.01	3.13	(3.9%)

Net sales

€ in millions	First half year 2017	First half year 2016	Change	Change (currency- neutral)
Western Europe	2,944	2,628	12.0%	14.1%
North America	2,001	1,515	32.1%	28.1%
Greater China	1,855	1,447	28.2%	29.1%
Russia/CIS	341	310	10.0%	(10.3%)
Latin America	895	773	15.9%	11.2%
Japan	562	472	19.1%	16.2%
MEAA	1,491	1,273	17.1%	14.1%
Other Businesses	395	344	14.8%	13.5%
adidas brand	9,339	7,741	20.7%	19.0%
Reebok brand	923	815	13.3%	9.2%

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



adidas AG Consolidated Statement of Financial Position (IFRS)

€ in millions	June 30, 2017	June 30, 2016	Change in %	December 31, 2016
Cash and cash equivalents	1,232	1,135	8.5	1,510
Short-term financial assets	5	5	(3.7)	5
Accounts receivable	2,477	2,356	5.1	2,200
Other current financial assets	422	398	5.9	729
Inventories	3,644	3,514	3.7	3,763
Income tax receivables	74	96	(23.4)	98
Other current assets	558	611	(8.7)	580
Assets classified as held for sale	513	29	1,687.4	-
Total current assets	8,924	8,144	9.6	8,886
Property, plant and equipment	1,876	1,661	12.9	1,915
Goodwill	1,248	1,379	(9.5)	1,412
Trademarks	1,395	1,597	(12.6)	1,680
Other intangible assets	140	172	(18.6)	167
Long-term financial assets	176	155	13.6	194
Other non-current financial assets	125	111	13.1	96
Deferred tax assets	697	700	(0.5)	732
Other non-current assets	111	110	1.0	94
Total non-current assets	5,768	5,884	(2.0)	6,290
Total assets	14,692	14,029	4.7	15,176
Short-term borrowings	990	698	41.7	636
Accounts payable	1,862	1,857	0.3	2,496
Other current financial liabilities	286	262	8.8	201
Income taxes	425	443	(4.0)	402
Other current provisions	568	466	21.8	573
Current accrued liabilities	1,915	1,803	6.2	2,023
Other current liabilities	439	405	8.4	434
Liabilities classified as held for sale	210	6	3,245.4	-
Total current liabilities	6,696	5,942	12.7	6,765
Long-term borrowings	983	1,470	(33.1)	982
Other non-current financial liabilities	27	20	32.8	22
Pensions and similar obligations	342	276	23.7	355
Deferred tax liabilities	318	352	(9.6)	387
Other non-current provisions	53	55	(3.8)	44
Non-current accrued liabilities	102	96	5.7	120
Other non-current liabilities	47	42	13.1	46
Total non-current liabilities	1,872	2,312	(19.0)	1,957
Share capital	203	200	1.2	201
Reserves	182	397	(54.2)	749
Retained earnings	5,756	5,195	10.8	5,521
Shareholders' equity	6,141	5,792	6.0	6,472
Non-controlling interests	(16)	(17)	7.7	(17)
Total equity	6,125	5,775	6.1	6,455
Total liabilities and equity	14,692	14,029	4.7	15,176
Additional balance sheet information				
Operating working capital	4,258	4,013	6.1	3,468
Working capital	2,229	2,202	1.2	2,121
Net borrowings	735	1,028	(28.5)	103
Financial leverage	12.0%	17.7%	(5.8pp)	1.6%

Rounding differences may arise.