

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: Western Europe, North America (excluding USA Reebok), USA Reebok, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea and Southeast Asia/Pacific. While the business segments Western Europe, Greater China, Russia/CIS, Latin America and Japan are reported separately, North America (excluding USA Reebok) and USA Reebok are combined to the reportable segment North America. Similarly, the markets Middle East, South Korea and Southeast Asia/Pacific are aggregated to the reportable segment MEAA ('Middle East, Africa and other Asian markets'). Each market comprises all business activities in the wholesale and retail distribution channels of the adidas and Reebok brands. Segmental operating expenses primarily relate to marketing expenditure as well as operating overhead costs.

WESTERN EUROPE

In 2017, sales in Western Europe increased 13% on a currency-neutral basis. In euro terms, sales in Western Europe grew 11% to € 5.883 billion from € 5.291 billion in 2016. Despite difficult prior year comparisons mainly resulting from revenues generated with UEFA EURO 2016 related products as well as the termination of the Chelsea F.C. sponsorship as of June 30, 2016, adidas brand revenues grew 12% on a currency-neutral basis. This development was driven by double-digit sales growth in the running and outdoor categories as well as at adidas Originals and adidas neo. In addition, mid-single-digit increases in the training category also supported this development. Reebok brand revenues in Western Europe increased 24% on a currency-neutral basis, as a result of double-digit sales growth in Classics as well as high-single-digit growth in the training and running categories. [SEE TABLE 87](#)

Gross margin in Western Europe increased 1.1 percentage points to 45.5% from 44.4% in 2016 as positive effects from a more favorable pricing and channel mix more than offset the significant negative impact from unfavorable currency developments as well as higher input costs. Operating expenses were up 7% to € 1.501 billion versus € 1.398 billion in 2016. This development reflects an increase in marketing expenditure as well as higher operating overhead costs. Operating expenses as a percentage of sales were down 0.9 percentage points to 25.5% (2016: 26.4%). The operating margin increased 2.1 percentage points to 20.0% (2016: 18.0%), as a result of the gross margin improvement as well as the positive effect of lower operating expenses as a percentage of sales. Operating profit in Western Europe increased 24% to € 1.178 billion versus € 951 million in the prior year. [SEE TABLE 87](#)

Western Europe at a glance € in millions

87

	2017	2016	Change	Change (currency-neutral)
Net sales	5,883	5,291	11%	13%
adidas brand	5,388	4,889	10%	12%
Reebok brand	496	402	23%	24%
Gross profit	2,679	2,350	14%	–
Gross margin	45.5%	44.4%	1.1pp	–
Segmental operating profit	1,178	951	24%	–
Segmental operating margin	20.0%	18.0%	2.1pp	–

NORTH AMERICA

Revenues in North America grew 27% on a currency-neutral basis and 25% in euro terms to € 4.275 billion from € 3.412 billion in 2016. adidas brand sales increased 35% on a currency-neutral basis, driven by double-digit sales growth in the running and training categories as well as at adidas Originals and adidas neo. Revenues of the Reebok brand in North America decreased 15% on a currency-neutral basis, reflecting the closure of own-retail stores in the US. [SEE REEBOK BRAND STRATEGY, P. 70](#) From a category perspective, double-digit growth in Classics was more than offset by sales declines in the training and running categories. [SEE TABLE 88](#)

Gross margin in North America increased 1.8 percentage points to 39.5% (2016: 37.7%) driven by an improved product mix, partly offset by a less favorable channel and pricing mix as well as higher input costs. Operating expenses were up 14% to € 1.280 billion versus € 1.124 billion in 2016, reflecting an increase in marketing expenditure as well as higher operating overhead costs. Operating expenses as a percentage of sales decreased 3.0 percentage points to 29.9% (2016: 32.9%). As a result of the strong top-line development, the

North America at a glance € in millions

88

	2017	2016	Change	Change (currency-neutral)
Net sales	4,275	3,412	25%	27%
adidas brand	3,843	2,897	33%	35%
Reebok brand	432	514	(16%)	(15%)
Gross profit	1,689	1,286	31%	–
Gross margin	39.5%	37.7%	1.8pp	–
Segmental operating profit	468	214	119%	–
Segmental operating margin	10.9%	6.3%	4.7pp	–

gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 4.7 percentage points to 10.9% from 6.3% in 2016. Operating profit in North America more than doubled to € 468 million from € 214 million in 2016. [SEE TABLE 88](#)

GREATER CHINA

Sales in Greater China grew 29% on a currency-neutral basis. In euro terms, sales in Greater China were up 26% to € 3.789 billion from € 3.010 billion in 2016. Revenues of brand adidas increased 30% on a currency-neutral basis. This development was due to double-digit sales growth in the running, training and basketball categories as well as at adidas Originals and adidas neo. In addition, the outdoor category, where revenues more than doubled, also contributed to this development. Reebok brand sales in Greater China grew 25% on a currency-neutral basis, driven by double-digit sales increases in the training and running categories as well as in Classics. [SEE TABLE 89](#)

Gross margin in Greater China decreased 0.5 percentage points to 57.1% (2016: 57.5%), as a more favorable product and pricing mix was more than offset by negative currency effects. Operating expenses were up 22% to € 820 million versus € 671 million in 2016. This development reflects an increase in both marketing expenditure as well as operating overhead costs. Operating expenses as a percentage of sales declined 0.6 percentage points to 21.7% (2016: 22.3%). As a result of lower operating expenses as a percentage of sales, which more than offset the decline in gross margin, the operating margin improved 0.2 percentage points to 35.4% versus 35.2% in 2016. Operating profit in Greater China increased 27% to € 1.342 billion from € 1.060 billion in 2016.

[SEE TABLE 89](#)

Greater China at a glance € in millions

89

	2017	2016	Change	Change (currency-neutral)
Net sales	3,789	3,010	26%	29%
adidas brand	3,707	2,944	26%	30%
Reebok brand	82	67	23%	25%
Gross profit	2,162	1,731	25%	–
Gross margin	57.1%	57.5%	{0.5pp}	–
Segmental operating profit	1,342	1,060	27%	–
Segmental operating margin	35.4%	35.2%	0.2pp	–

RUSSIA/CIS

Sales in Russia/CIS decreased 13% on a currency-neutral basis, reflecting the significant number of store closures in 2017. In euro terms, sales in Russia/CIS declined 3% to € 660 million from € 679 million in 2016. adidas brand revenues were down 16% on a currency-neutral basis, due to sales declines in most categories. Revenues of the Reebok brand in Russia/CIS decreased 2% on a currency-neutral basis, as increases in the training category were more than offset by declines in the running category as well as in Classics. [SEE TABLE 90](#)

Gross margin in Russia/CIS increased 6.7 percentage points to 64.9% from 58.1% in 2016, driven by an improved pricing mix as well as significant positive currency effects, which more than offset a less favorable channel mix. Operating expenses were up 1% to € 292 million (2016: € 290 million), reflecting negative currency effects. On a currency-neutral basis, operating expenses declined, due to a decrease in

marketing expenditure as well as lower operating overhead costs. Operating expenses as a percentage of sales increased 1.5 percentage points to 44.3% versus 42.7% in the prior year. As a result of the gross margin increase, which more than offset the negative effect of higher operating expenses as a percentage of sales, the operating margin improved 5.2 percentage points to 20.6% from 15.4% in 2016. Operating profit in Russia/CIS increased 30% to € 136 million versus € 105 million in 2016. [SEE TABLE 90](#)

Russia/CIS at a glance € in millions

90

	2017	2016	Change	Change (currency-neutral)
Net sales	660	679	{3%}	{13%}
adidas brand	478	514	{7%}	{16%}
Reebok brand	182	166	10%	{2%}
Gross profit	429	395	8%	–
Gross margin	64.9%	58.1%	6.7pp	–
Segmental operating profit	136	105	30%	–
Segmental operating margin	20.6%	15.4%	5.2pp	–

LATIN AMERICA

Revenues in Latin America increased 12% on a currency-neutral basis and 10% in euro terms to € 1.907 billion from € 1.731 billion in 2016. Revenues of brand adidas were up 12% on a currency-neutral basis. This development was driven by double-digit sales growth at adidas Originals and adidas neo. In addition, mid-single-digit increases in the football category also contributed to this development. Reebok brand sales in Latin America grew 12% on a currency-neutral basis, driven by double-digit growth in the training category as well as in Classics. [SEE TABLE 91](#)

Gross margin in Latin America decreased 0.3 percentage points to 42.1% (2016: 42.4%), as the positive effects from a more favorable pricing, channel and product mix were more than offset by significant negative currency effects as well as higher input costs. Operating expenses increased 6% to € 535 million from € 507 million in 2016, reflecting an increase in both marketing expenditure as well as operating overhead costs. Operating expenses as a percentage of sales declined 1.2 percentage points to 28.1% (2016: 29.3%). As a result of lower operating expenses as a percentage of sales, which

more than offset the decline in gross margin, the operating margin increased 0.9 percentage points to 14.0% from 13.1% in 2016. Operating profit in Latin America increased 18% to € 268 million versus € 227 million in 2016. [SEE TABLE 91](#)

JAPAN

Sales in Japan grew 10% on a currency-neutral basis. In euro terms, revenues in Japan increased 5% to € 1.056 billion from € 1.007 billion in 2016. adidas brand revenues grew 10% on a currency-neutral basis, driven by double-digit sales increases in the running and outdoor categories as well as at adidas neo. In addition, high-single-digit increases in the football category and at adidas Originals as well as mid-single-digit growth in the training category also contributed to this development. Sales of the Reebok brand in Japan were up 6% on a currency-neutral basis, supported by double-digit sales increases in the running and training categories, which more than offset declines in Classics. [SEE TABLE 92](#)

Gross margin in Japan increased 3.7 percentage points to 53.0% versus 49.4% in 2016, driven by a significantly more favorable currency development as well as an improved

pricing and channel mix. This was partly offset by higher input costs as well as a less favorable product mix. Operating expenses were up 2% to € 310 million from € 304 million in 2016, reflecting higher marketing expenditure as well as an increase in operating overhead costs. Operating expenses as a percentage of sales decreased 0.8 percentage points to 29.4% (2016: 30.2%). The operating margin grew 4.6 percentage points to 25.2% versus 20.6% in 2016, as a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales. Operating profit in Japan increased 28% to € 266 million from € 207 million in 2016. [SEE TABLE 92](#)

MEAA

Revenues in MEAA were up 10% on a currency-neutral basis. In euro terms, sales in MEAA grew 8% to € 2.907 billion from € 2.685 billion in 2016. Sales of the adidas brand increased 11% on a currency-neutral basis, due to double-digit sales growth in the running and outdoor categories as well as at adidas Originals and adidas neo. Reebok brand revenues in MEAA were up 2% on a currency-neutral basis, driven by high-single-digit increases in the training category. [SEE TABLE 93](#)

Latin America at a glance € in millions

91

	2017	2016	Change	Change (currency-neutral)
Net sales	1,907	1,731	10%	12%
adidas brand	1,673	1,515	10%	12%
Reebok brand	235	216	9%	12%
Gross profit	803	734	9%	–
Gross margin	42.1%	42.4%	[0.3pp]	–
Segmental operating profit	268	227	18%	–
Segmental operating margin	14.0%	13.1%	0.9pp	–

Japan at a glance € in millions

92

	2017	2016	Change	Change (currency-neutral)
Net sales	1,056	1,007	5%	10%
adidas brand	955	907	5%	10%
Reebok brand	101	100	1%	6%
Gross profit	560	497	13%	–
Gross margin	53.0%	49.4%	3.7pp	–
Segmental operating profit	266	207	28%	–
Segmental operating margin	25.2%	20.6%	4.6pp	–

MEAA at a glance € in millions

93

	2017	2016	Change	Change (currency-neutral)
Net sales	2,907	2,685	8%	10%
adidas brand	2,603	2,385	9%	11%
Reebok brand	304	301	1%	2%
Gross profit	1,514	1,344	13%	–
Gross margin	52.1%	50.0%	2.1pp	–
Segmental operating profit	847	722	17%	–
Segmental operating margin	29.1%	26.9%	2.2pp	–

Gross margin in MEAA increased 2.1 percentage points to 52.1% (2016: 50.0%), driven by an improved pricing, product and channel mix, partly offset by negative currency effects and higher input costs. Operating expenses were up 7% to € 669 million versus € 624 million in 2016, mainly as a result of higher operating overhead costs. As a percentage of sales, operating expenses declined 0.2 percentage points to 23.0% from 23.2% in 2016. The operating margin was up 2.2 percentage points to 29.1% (2016: 26.9%), as a result of the higher gross margin as well as the positive effect of lower operating expenses as a percentage of sales. Operating profit in MEAA increased 17% to € 847 million versus € 722 million in 2016. [■ SEE TABLE 93](#)