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GROUP MANAGEMENT REPORT

FINANCIAL REVIEW

Internal Management System

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

Internal management system designed to drive shareholder value

In order to drive and steer value creation, the company's Management focuses on a set of major financial key performance indicators (KPIs). Sales and operating profit growth, paired with a focus on management of operating working capital, are the main contributors to operating cash flow improvements. At the same time, value-enhancing capital expenditure benefits future operating profit and cash flow development. Our strong focus on value creation is reflected in the fact that our Management's short- and long-term variable compensation is closely linked to the company's growth in sales and profitability.

▶ ADIDAS-GROUP.COM/S/COMPENSATION

Net sales and operating profit growth

Net sales growth is the reflection of the attractiveness of our product offering driven by innovation and our ability to create, identify and respond to latest consumer trends. To ensure that we have the most relevant information to assess our respective performance, we exclude foreign currency effects and use currency-neutral net sales growth as one of our major KPIs.

Operating profit as another major KPI helps to drive and improve our company's operational performance. The primary drivers to enhance operating profit are as follows:

- **Sales and gross margin development:** Management focuses on identifying and exploiting growth opportunities that not only provide for future top-line improvements but also have potential to increase our gross margin. Major levers include reducing promotional activity and driving full price sales, optimizing our pricing, product and market mix as well as managing product and supply chain costs.

- **Operating expense control:** Management puts high emphasis on tightly controlling operating expenses. This requires a particular focus on ensuring flexibility in the company's cost base, especially in marketing and operating overhead expenses. More broadly, marketing expenditure is one of our largest operating expenses, and at the same time, one of the most important mechanisms for driving brand desirability and top-line growth. Therefore, we are committed to both increasing investments into our brand and products as well as ensuring the effectiveness and efficiency of our marketing activities. We also aim at improving our operational efficiency by actively managing our operating overhead expenses. In addition to leveraging our top-line growth, we regularly review our operational structure to simplify business processes and eliminate redundancies.

Cash flow and operating working capital management

Actively managing our liquidity, cash flow, and operating working capital remains a key focus for us and continues to be monitored closely by Management. Generally, due to a comparatively low level of fixed assets required in our business, the efficiency of the balance sheet depends to a large degree on our operating working capital management. Operating working capital comprises accounts receivable plus inventories minus accounts payable. ▶ SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

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

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

Capital expenditure targeted to maximize future returns

Improving the effectiveness of capital expenditure is another major lever to drive our cash flow generation. We control capital expenditure with a top-down, bottom-up approach. In a first step, Management defines focus areas and an overall investment budget based on investment requests from various functions within the organization. Then, in a second step, our operating segments align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value method. Risk is accounted for by adding a risk premium to the cost of capital, and thus reducing our estimated future earnings streams where appropriate. By means of scenario planning, the sensitivity of investment returns is tested against changes in initial assumptions. For large investment projects, timelines and deviations versus budget are monitored on a monthly basis throughout the course of the project. In addition to optimizing return on investments, we evaluate larger projects upon completion and document learnings for future capital expenditure decisions.

Other key performance indicators

In addition to the major financial KPIs to assess the performance and operational success of our company, as outlined above, we have identified a set of KPIs that help us track our progress in areas that are important for our success as well. These KPIs are assessed on a regular basis and managed by the respective business functions. These other KPIs we are monitoring include, among others, employee engagement, the share of female leadership, our sustainable article offering, and our carbon emissions.

Employee engagement and experience

We are convinced that listening to employees plays a crucial role in our pursuit of creating a best-in-class employee experience and continuing to attract and retain top talent. We can only tell if we are successful by asking our people, hence we empower them to share their feedback through our 'Employee Listening Survey.' ▶ SEE OUR PEOPLE

Female Leadership

Through our focus on Diversity, Equity, and Inclusion, we are committed to providing an equal starting line for all our people, ensuring that everyone has the same career opportunities. One of our commitments is to increase the share of women in management positions (Director level and above) globally to more than 50% by 2033. ▶ SEE OUR PEOPLE

Sustainability performance

We have a strong commitment to enhance the environmental and social performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation but also increase its economic value. To measure our progress, we have developed and implemented the KPI 'Sustainable Article Offering.' In addition, we have already been following a comprehensive roadmap with clear targets for years and regularly track our progress toward these targets with regard to the environmental and social impact. We are measuring the environmental footprint of our entire value chain, including our own operations globally, as well as monitoring and rating our supplier factories for environmental and social compliance with our Workplace Standards. We have a long-standing commitment to sustainability disclosure, providing regular updates about our sustainability performance in this Annual Report as well as on our corporate website. ▶ SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK ▶ SEE SUSTAINABILITY ▶ ADIDAS-GROUP.COM/S/COMPENSATION ▶ ADIDAS-GROUP.COM/SUSTAINABILITY

Structured performance measurement system

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

Taking into account the year-to-date performance as well as opportunities and risks, the company's expected full-year financial performance is assessed on a monthly basis. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

Business Performance

In its transition year 2023, adidas recorded better-than-expected results against the backdrop of geopolitical tensions, macroeconomic challenges, as well as industry-wide elevated inventory levels. Revenues were flat on a currency-neutral basis. The gross margin increased 0.2 percentage points to 47.5%, while operating profit amounted to € 268 million in 2023.

Economic and sector development

Global economy shows resilience in 2023[25]

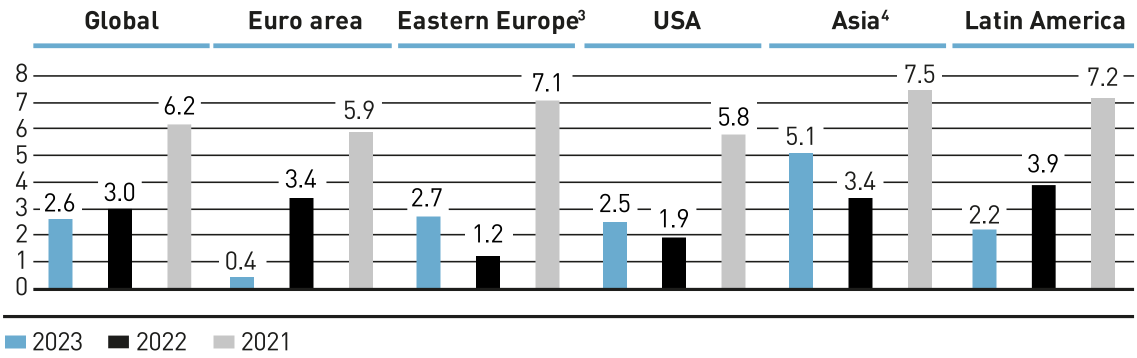
The global economy remained resilient in 2023 despite facing elevated, albeit slowing, inflation and rising geopolitical conflicts. In this context, the global gross domestic product (GDP) increased 2.6% in 2023. While the surge in energy and commodity prices due to the ongoing war in Ukraine has moderated somewhat, inflation remained elevated and continued to weigh on household incomes and consumer sentiment throughout the year. During the first half of the year, global central banks further tightened monetary policy, resulting in higher interest rates. During the second half of the year, however, most central banks halted interest rate increases. This challenging macroeconomic environment impacted global economic activity, as growth in advanced economies slowed to 1.5% in 2023. Meanwhile, developing economies proved relatively resilient as growth slightly accelerated to 4.0% in 2023. Nevertheless, restrictive monetary policy and the conflict in the Middle East, in addition to the ongoing war in Ukraine, left their mark on both advanced and developing economies. Globally, the risks of further escalation of geopolitical tensions, supply chain disruptions, climate-related disasters and financial stress amid elevated borrowing costs remain.

Sporting goods industry grows moderately in 2023

Despite facing persisting challenges, the global sporting goods industry proved its resilience in 2023. The overall market expanded amid continued pressure on input costs and supply chains as well as subdued demand due to lower discretionary spending in a high inflation environment. Additionally, the industry faced particularly high inventory levels globally in 2023, which were countered by increased promotional activity across the sector. While most markets returned to healthier inventory levels toward the end of 2023, the marketplace in North America, in particular, continued to face excess stock. Despite these challenges, demand globally benefited from major sports events such as the FIFA Women's World Cup Australia & New Zealand and the Rugby World Cup France. In addition, recurring tournaments such as the UEFA Champions League and major US sports leagues drove consumer excitement. Furthermore, the sporting goods industry continues to profit from a casualization trend, as well as increased participation in sports and healthier lifestyle choices around the world. Comfort, quality, durability, and sustainability continued to influence consumer purchasing decisions. At the same time, the sporting goods industry is also subject to risks of lower consumer demand due to pressure on discretionary spending power amid economic downturns, as well as further geopolitical tensions and supply chain disruptions.

25 Source: World Bank Global Economic Prospects.

Regional GDP development[1,2] in %



1 Real change in percent versus prior year; 2022 and 2021 figures restated compared to prior year.
2 Source: World Bank as of January 9, 2024.
3 Includes Emerging Europe and Central Asia.
4 Includes East Asia and Pacific.

Income Statement

adidas revenues on prior-year level in 2023

On a currency-neutral basis, revenues in 2023 were flat compared to the prior year. In euro terms, revenues declined 5% to € 21,427 million from € 22,511 million in 2022. Reported revenues incorporate negative translation impacts of more than € 1,000 million from unfavorable currency movements.

The top-line development in 2023 was impacted by significantly reduced sell-in to the wholesale channel as part of the company's successful initiatives to reduce high inventory levels. In addition, the discontinuation of the Yeezy business represented a drag of around € 500 million on the year-over-year comparison during 2023. The sale of remaining Yeezy product in the second and third quarter positively impacted net sales in the amount of around € 750 million. This compared to a total of more than € 1,200 million of Yeezy revenues in 2022.

From a market perspective, currency-neutral sales increased strong double-digits in Latin America. Revenues in both Greater China and Asia-Pacific grew high-single-digits. Currency-neutral sales in EMEA were flat. North America recorded a double-digit decline as this market was particularly impacted by the company's conservative sell-in strategy to reduce high inventory levels. ▶ SEE BUSINESS PERFORMANCE BY SEGMENT

Net sales

0% c.n.

€ 21,427 million

Revenue development driven by growth in Performance

From a category perspective, currency-neutral revenues in Performance grew at a mid-single-digit rate. This growth was mainly driven by high-single-digit increases in Football, Outdoor, and Specialist Sports. Currency-neutral net sales declined in Lifestyle overall due to the Yeezy impact. However, revenues in Originals increased at a mid-single-digit rate, while sales in Basketball and Skateboarding grew at double-digit rates.

Net sales[1] € in millions

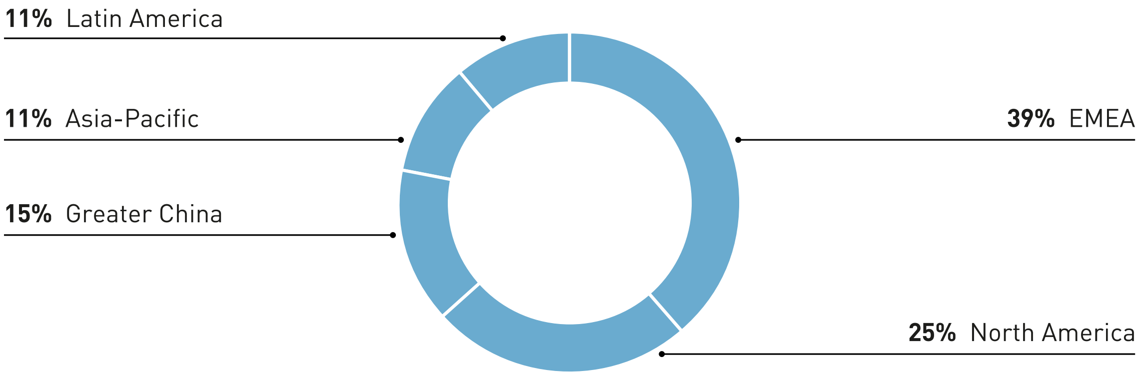
1 2019 including Reebok business.

Net sales by segment[1] € in millions

	2023	2022	Change	Change (currency-neutral)
EMEA	8,235	8,550	(4%)	0%
North America	5,219	6,404	(19%)	(16%)
Greater China	3,190	3,179	0%	8%
Asia-Pacific	2,254	2,241	1%	7%
Latin America	2,291	2,104	9%	22%
Other Businesses	155	150	3%	4%
Total	**21,427**	**22,511**	**(5%)**	**0%**

1 Includes HQ/consolidation not directly attributable to one of the segments. See Note 36.

Net sales by segment[1] in %



1 As a percentage of total segments.

Footwear drives sales growth in 2023

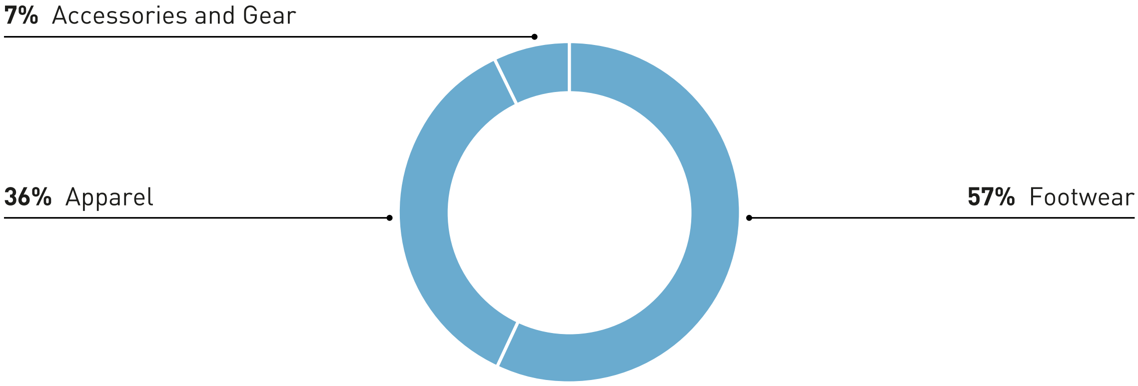
Despite the significant Yeezy impact, currency-neutral footwear sales were up 4% in 2023, mainly driven by double-digit growth in Football and high-single-digit growth in Originals. Apparel revenues were down 6% on a currency-neutral basis, as this product category was particularly impacted by the high inventory levels in the marketplace and the company's disciplined sell-in to the wholesale channel in response to it. Nevertheless, apparel revenues in Outdoor and Basketball grew at double-digit rates and Golf posted high-single-digit growth. Currency-neutral accessories and gear sales were up 3%, mainly reflecting a double-digit increase in Football.

Net sales by product category[1] € in millions

	2023	2022	Change	Change (currency-neutral)
Footwear	12,139	12,287	(1%)	4%
Apparel	7,806	8,731	(11%)	(6%)
Accessories and Gear	1,483	1,493	(1%)	3%
Total	**21,427**	**22,511**	**(5%)**	**0%**

1 Prior year figures restated due to HQ/consolidation. See Note 36.

Net sales by product category in %



Cost of sales decreases in line with net sales development

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2023, cost of sales was € 11,244 million, representing a decrease of 5% compared to the prior year level of € 11,867 million. This decline mainly reflects lower supply chain costs in line with the company's revenue development.

Gross margin at 47.5%

In 2023, gross profit decreased 4% to € 10,184 million from € 10,644 million in 2022, while gross margin increased 0.2 percentage points to 47.5% (2022: 47.3%). The improvement was mainly driven by price increases, a more favorable business mix and lower freight costs. This was largely offset by significant negative currency effects and increased product costs. In addition, while improving throughout the year, elevated discounting levels weighed on the gross margin development in 2023.

Gross margin[1,2] in %

1 Gross margin = (gross profit / net sales) × 100.
2 2019 including Reebok business.

Royalty and commission income and other operating income decrease

In 2023, royalty and commission income decreased 26% to € 83 million (2022: € 112 million) due to a decline in royalty payments. Other operating income was down 59% to € 71 million from € 173 million in 2022, reflecting lower income from post-closing agreements with Authentic Brands Group related to the Reebok divestiture.

Other operating expenses as a percentage of sales up 1.4 percentage points

Other operating expenses, including depreciation and amortization, mainly consist of marketing and point-of-sale, distribution and selling, as well as general and administration expenses. In 2023, other operating expenses were down 2% to € 10,070 million (2022: € 10,260 million). As a percentage of sales, other operating expenses increased 1.4 percentage points to 47.0% from 45.6% in 2022. In 2023, marketing and point-of-sale expenses decreased 8% to € 2,528 million (2022: € 2,763 million). The company continued its marketing investments into brand campaigns, especially around important sports events such as the FIFA Women's World Cup 2023. Furthermore, it broadened its portfolio of sports partners, such as the Indian cricket team and Les Mills in Training. In addition, adidas invested into the launch of new products such as the latest iterations of its iconic Predator, X, and Copa boots in Football; the introduction of the Adizero Adios Pro Evo 1 in Running; and drops with partners such as Bad Bunny, Pharrell Williams, or Edison Chen in Lifestyle. In Basketball, adidas successfully brought 'Fear of God' products and the first signature shoe with Anthony Edwards to market. The company limited point-of-sale expenses at times and in regions with heightened promotional activity in the marketplace. As a percentage of sales, marketing and point-of-sale expenses decreased 0.5 percentage points to 11.8% (2022: 12.3%). Distribution and selling expenses decreased 1% to € 5,547 million in 2023 from € 5,601 million in the prior year, mainly reflecting lower logistics costs. As a percentage of sales, distribution and selling expenses increased 1.0 percentage point to 25.9% from 24.9% in 2022. General and administration expenses were up 11% to € 1,839 million (2022: € 1,651 million), mainly due to higher personnel costs. As a percentage of sales, general and administration expenses were up 1.2 percentage points to 8.6% (2022: 7.3%). In total, operating overhead expenses increased 1% to € 7,541 million (2022: € 7,498 million). This includes one-off costs of around € 200 million related to the strategic review the company conducted in 2023, as well as donations and accruals for further donations in an amount of more than € 140 million. As a percentage of sales, operating overhead expenses increased 1.9 percentage points to 35.2% from 33.3% in 2022. ▶ SEE NOTE 30

Other operating expenses[1] in % of net sales

1 2019 including Reebok business.

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

1 2019 including Reebok business.

EBITDA decreases 28%

Earnings before interest, taxes, depreciation and amortization, as well as impairment losses/reversal of impairment losses on property, plant, and equipment; right-of-use; and intangible assets (EBITDA) decreased 28% to € 1,358 million in 2023 versus € 1,874 million in 2022. Total depreciation and amortization as well as impairment losses/reversal of impairment losses for tangible, right-of-use, and intangible assets decreased 15% to € 1,170 million in 2023 (2022: € 1,371 million).

EBITDA[1,2] € in millions

1 EBITDA = income before taxes (IBT) + net interest expenses + depreciation and amortization + impairment losses – reversal of impairment losses.
2 2019 including Reebok business.

Operating margin decreases to 1.3%

Operating profit decreased 60% to € 268 million in 2023 versus € 669 million in 2022. This includes a negative impact of around € 100 million related to the significant devaluation of the Argentine Peso in the fourth quarter. The sale of remaining Yeezy product in the second and third quarter positively impacted adidas' operating profit by an incremental amount of around € 300 million during 2023. At the same time, the company's operating profit includes extraordinary expenses of more than € 340 million in total reflecting one-off costs related to the strategic review the company conducted in 2023 as well as donations and accruals for further donations. adidas' operating profit also reflects a low-double-digit million euro amount of Yeezy-related inventory write-offs, reflecting the company's decision to only write off a small portion of its remaining Yeezy inventory. The operating margin was 1.3% in 2023, 1.7 percentage points below the prior-year level (2022: 3.0%).

Operating margin

1.3%

(1.7 PP)

Operating profit[1] € in millions

1 2019 including Reebok business.

Operating margin[1,2] in %

1 Operating margin = (operating profit / net sales) × 100.
2 2019 including Reebok business.

Net financial result decreases

Financial income increased 103% to € 79 million in 2023 (2022: € 39 million), mainly reflecting higher interest income and changes in the fair value of financial instruments. Financial expenses were down 12% to € 282 million compared to € 320 million in 2022, mainly due to lower net foreign exchange losses. As a result, the company recorded a net financial result of negative € 203 million, compared to negative € 281 million in 2022. ▶ SEE NOTE 32

Tax rate increases significantly

The company's tax rate increased 154.7 percentage points to 189.2% in 2023 (2022: 34.5%). As a result of the significantly lower income before taxes, non-deductible expenses and tax-free income had a significant impact. In addition, the tax rate development reflected higher withholding tax expenses. ▶ SEE NOTE 34

Net loss from continuing operations of € 58 million

While the operating business improved significantly in 2023, net loss from continuing operations was € 58 million (2022: net income of € 254 million), reflecting the extraordinarily high tax rate. Consequently, both basic and diluted earnings per share (EPS) from continuing operations reached negative € 0.67 (2022: € 1.25).

Net (loss)/income from continuing operations[1] € in millions

1 2019 including Reebok business.

Basic earnings per share[1] in €

1 2019 including Reebok business.

The total number of shares outstanding slightly increased to 178,549,084 at the end of 2023, reflecting the grant of 11,886 shares to Bjørn Gulden in connection with his Executive Board compensation during the first half of the year. The average number of shares used in the calculation of basic earnings per share (EPS) was 178,543,596 (2022: 183,263,629).

Gains from discontinued operations amount to € 44 million

In 2023, adidas incurred gains from discontinued operations of € 44 million, net of tax, related to the Reebok divestiture (2022: gain of € 384 million). ▶ SEE NOTE 03

Net loss attributable to shareholders of € 75 million

The company's net loss attributable to shareholders, which, in addition to the net loss from continuing operations, includes gains from discontinued operations, amounted to € 75 million (2022: net income of € 612 million). As a result, both basic and diluted EPS from continuing and discontinued operations was negative € 0.42 versus € 3.34 in 2022.

Statement of Financial Position and Statement of Cash Flows

Assets

At the end of December 2023, total assets were down 11% to € 18,020 million from € 20,296 million in the prior year as the decrease in inventories, accounts receivable and right-of-use assets more than offset the increase of cash and cash equivalents.

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

	2023	2022
Assets (€ in millions)	**18,020**	**20,296**
Cash and cash equivalents	7.9%	3.9%
Accounts receivable	10.6%	12.5%
Inventories	25.1%	29.4%
Fixed assets[2]	35.4%	34.2%
Right-of-use assets (IFRS 16)[3]	35.2%	38.4%
Other assets	20.9%	20.0%

1 For absolute figures see adidas Consolidated Statement of Financial Position.
2 Fixed assets = property, plant, and equipment + right-of-use assets + goodwill + trademarks + other intangible assets + long-term financial assets.
3 As a percentage of fixed assets.

Total current assets decreased 16% to € 9,809 million at the end of December 2023 compared to € 11,732 million in 2022. Cash and cash equivalents were up 79% to € 1,431 million at the end of December 2023 from € 798 million in the prior year. This increase is mainly due to the positive cash flow from operating activities resulting from the significant reduction of operating working capital compared to the prior year. This rise was only partly offset by the repayment of the eurobond, repayments of lease liabilities, interest paid as well as the dividend payment for the year 2022. Inventories decreased by almost € 1,500 million, or 24%, to € 4,525 million at the end of December 2023 from € 5,973 million in 2022. The decrease was mainly driven by the company's initiatives toward a more effective inventory management including significantly reduced buying patterns. On a currency-neutral basis, inventories decreased 22%.

► SEE NOTE 07

Inventories € in millions

Accounts receivable decreased 25% to € 1,906 million at the end of December 2023 (2022: € 2,529 million), mainly reflecting the company's disciplined sell-in efforts to reduce inventory levels in the market as well as a more effective collection compared to the prior year. On a currency-neutral basis, receivables were

down 23%. Other current financial assets were down to € 755 million (2022: € 1,014 million), mainly related to the closing of the deferred considerations with regard to the divestiture of the Reebok business and the decrease in the fair value of financial instruments. Other current assets were down 24% to € 1,003 million at the end of December 2023 (2022: € 1,316 million) due to the decrease of tax receivables.
▶ SEE NOTE 05 ▶ SEE NOTE 06 ▶ SEE NOTE 08

Accounts receivable € in millions

Total non-current assets decreased 4% to € 8,211 million at the end of December 2023 from € 8,563 million in 2022. This development is mainly related to a decrease in fixed assets and was only partly offset by an increase of deferred tax assets.

Fixed assets were down 8% to € 6,386 million at the end of December 2023 versus € 6,935 million in 2022. Right-of-use assets decreased 16% to € 2,247 million (2022: € 2,665 million) mainly due to depreciation, only partly offset by additions. Goodwill was down 2% to € 1,238 million (2022: € 1,260 million) reflecting negative currency effects. Other intangible assets increased 3% to € 442 million (2022: € 429 million), mainly due to additions in software including own-created software. Other non-current financial assets increased 24% to € 418 million from € 336 million at the end of 2022, mainly related to the increase of the fair value of the earn-out component with regard to the divestiture of the Reebok business in the prior year. Deferred tax assets amounted to € 1,358 million compared to € 1,216 million in 2022. ▶ SEE NOTE 34

Liabilities and equity

Total current liabilities were down 13% to € 8,043 million at the end of December 2023 from € 9,257 million in 2022. Short-term borrowings increased only slightly to € 549 million at the end of December 2023 (2022: € 527 million), as the reclassification of the eurobond in an amount of € 500 million due to its maturity in 2024 was offset by the repayment of the equity-neutral convertible bond of € 500 million in September 2023. Accounts payable were down 22% to € 2,276 million at the end of December 2023 versus € 2,908 million in 2022, mainly reflecting lower sourcing volumes. On a currency-neutral basis, accounts payable decreased 21%. Current lease liabilities decreased to € 545 million at the end of December 2023 versus € 643 million in 2022, mainly due to lease modifications and remeasurements. Other current financial liabilities were down 37% to € 266 million from € 424 million in 2022, mainly related to reduced customs liabilities as well as the lower fair value of financial instruments. Other current provisions decreased 17% to € 1,323 million at the end of December 2023 versus € 1,589 million in 2022, mainly due to lower provisions for returns and a reclassification of provisions for customs from current to non-current. Current accrued liabilities were down 6% to € 2,273 million at the end of December 2023 from € 2,412 million in 2022, mainly due to lower accruals for discounts and outstanding invoices, only partly offset by higher accruals of personnel and marketing costs. Other current liabilities were up 8% to € 488 million at the end of December 2023 from € 452 million in 2022. This increase is related to donations in connection with the sale of parts of the Yeezy inventory. ▶ SEE NOTE 20 ▶ SEE NOTE 21

Structure of statement of financial position[1] in % of total liabilities and equity[2]

	2023	2022
Liabilities and equity (€ in millions)	**18,020**	**20,296**
Short-term borrowings	3.0%	2.6%
Accounts payable	12.6%	14.3%
Long-term borrowings	13.5%	14.5%
Other liabilities	43.5%	42.2%
Current and non-current lease liabilities (IFRS 16)[2]	33.0%	34.9%
Total equity	27.3%	26.4%

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

Accounts payable € in millions

Total non-current liabilities decreased 11% to € 5,052 million at the end of December 2023 compared to € 5,688 million in the prior year.

Long-term borrowings were down 18% to € 2,430 million at the end of December 2023 compared with € 2,946 million in the prior year. This decrease is mainly due to the reclassification of the eurobond of € 500 million to short-term borrowings due to its maturity in 2024. Non-current lease liabilities declined 13% to € 2,039 million at the end of December 2023 from € 2,343 million in the prior year as a result of a reduction in the number of lease contracts and currency effects. Other non-current financial liabilities were down 86% to € 6 million at the end of December 2023 from € 44 million in the prior year, related to the fair value of financial instruments. Deferred tax liabilities increased 9% to € 147 million at the end of December 2023 from € 135 million in the prior year. Other non-current provisions were up 113% to € 188 million at the end of December 2023 from € 88 million in the prior year, reflecting a reclassification of provisions for customs from current to non-current and higher provisions for personnel. Other non-current liabilities were up € 96 million to € 103 million at the end of December 2023 from € 6 million in 2022. This increase is related to donations in connection with the sale of parts of the Yeezy inventory. ▶ SEE NOTE 22

Shareholders' equity decreased 8% to € 4,580 million at the end of December 2023 versus € 4,991 million in 2022, mainly driven by negative currency effects, the decrease of hedging reserves, as well as the dividend paid to shareholders for the full year 2022. The equity ratio increased to 25.4% compared to 24.6% in the prior year, as the decrease in shareholders' equity was more than offset by the decrease of total liabilities and equity. ▶ SEE NOTE 25

Equity ratio[1] in %

1 Equity ratio = shareholders' equity / total liabilities and equity.

Operating working capital

Operating working capital decreased 26% to € 4,154 million at the end of December 2023 compared to € 5,594 million in 2022. On a currency-neutral basis, operating working capital was down 23%. Average operating working capital as a percentage of sales increased 1.6 percentage points to 25.7% (2022: 24.0%), reflecting the slight increase of average operating working capital against the background of lower net sales in 2023 compared to 2022.

Average operating working capital[1, 2] in % of net sales[3]

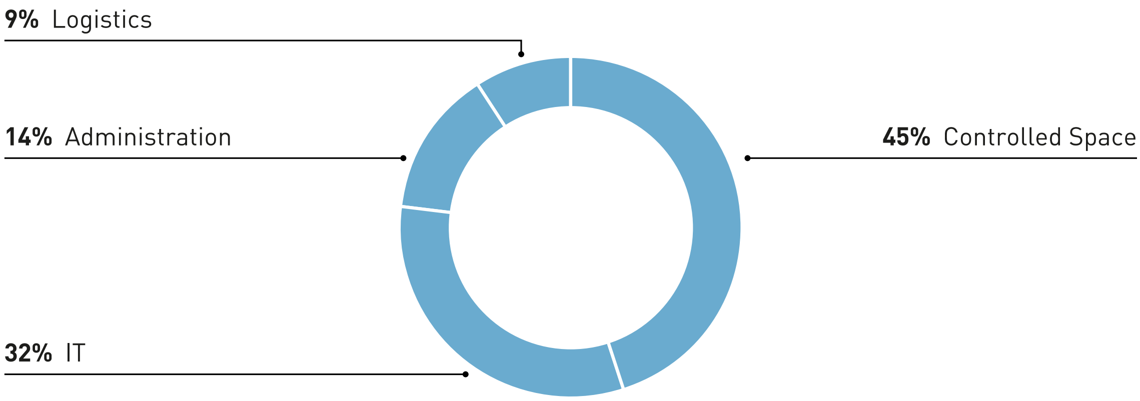
1 Average operating working capital = sum of operating working capital at quarter-ends/4. Operating working capital = accounts receivable + inventories – accounts payable.
2 2021 figure reflects the reclassification of the Reebok business to assets or liabilities held for sale. Calculation logic used for internal reporting as well.
3 2019 including Reebok business. Calculation logic used for internal reporting as well.

Investment analysis

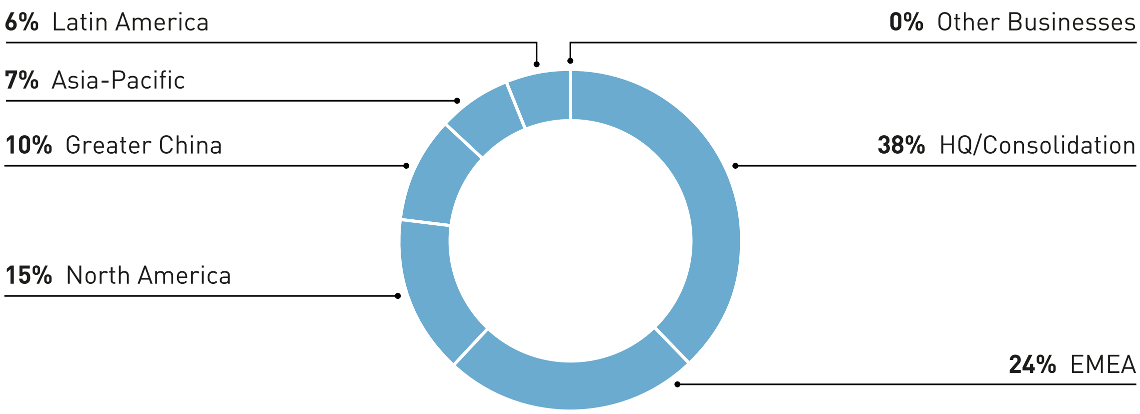
Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions and right-of-use assets according to IFRS 16). Capital expenditure decreased 27% to € 504 million (2022: € 695 million). Capital expenditure for property, plant, and equipment was down 28% to € 363 million compared to € 504 million in the prior year. The company invested € 141 million in intangible assets (2022: € 191 million). Depreciation and amortization, excluding impairment losses and reversal of impairment losses of tangible and intangible assets, decreased 3% to € 505 million in 2023 (2022: € 530 million).

Controlled space initiatives, which comprise investments in new or remodeled own retail and franchise stores as well as in shop-in-shop presentations of our products in our customers' stores, accounted for 45% of total capital expenditure (2022: 43%). Expenditure for IT and logistics represented 32% and 9%, respectively (2022: 29% and 12%, respectively). In addition, expenditure for administration accounted for 14% (2022: 15%). From a segmental perspective, the majority of the capital expenditure was recorded centrally at headquarter level, which accounted for 38% (2022: 46%). From a regional perspective, capital expenditure in EMEA accounted for 24% (2022: 21%) of the total capital expenditure, followed by North America with 15% (2022: 11%), Greater China with 10% (2022: 11%), Asia-Pacific with 7% (2022: 8%), and Latin America with 6% (2022: 4%).

Capital expenditure by type in %



Capital expenditure by segments in %



Liquidity analysis

Net cash generated from operating activities amounted to € 2,630 million in 2023 (2022: € 479 million net cash used). Net cash generated from continuing operating activities was € 2,630 million (2022: € 394 million net cash used). This development was mainly due to the reduction of operating working capital in 2023 compared to the prior year.

In 2023, net cash used in investing activities reached a level of € 450 million compared to net cash of € 495 million generated in 2022. This development was mainly due to the proceeds related to the divestiture of the Reebok business in 2022.

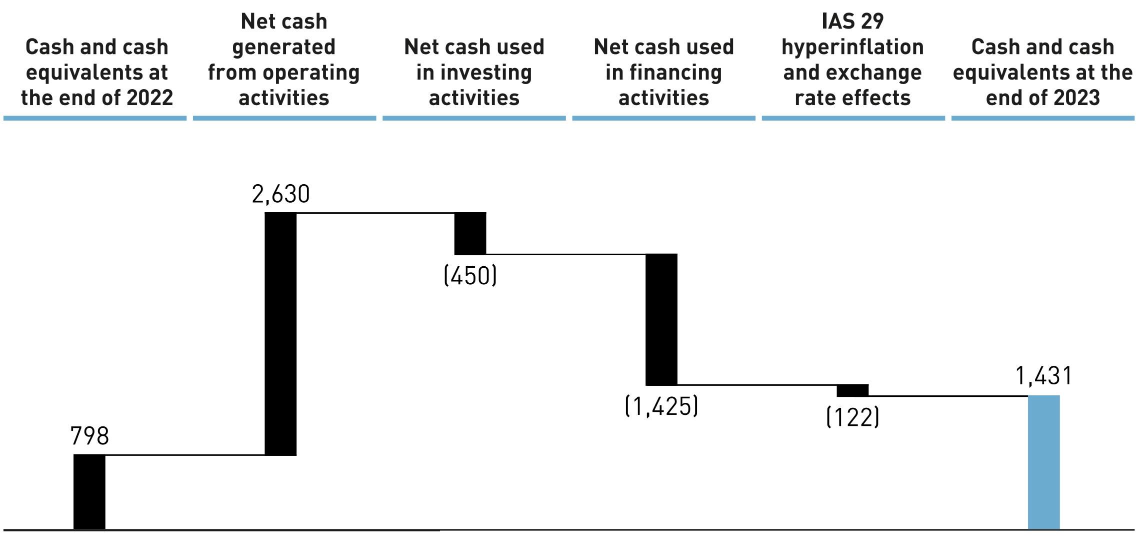
Net cash used in financing activities amounted to € 1,425 million (2022: € 2,963 million) and net cash used in continuing financing activities amounted to € 1,425 million (2022: € 2,957 million). This is a result of the repayment of the eurobond, repayments of lease liabilities, interest paid as well as the dividend payment for the year 2022.

Adjustments according to IAS 29 'Financial Reporting in Hyperinflationary Economies' are required to be separately disclosed and had an impact of € 82 million on the company's 2023 operating, investing and financing cash flows and € 64 million on the 2022 values.

Exchange rate effects negatively impacted the company's cash position by € 40 million (2022: € 39 million).

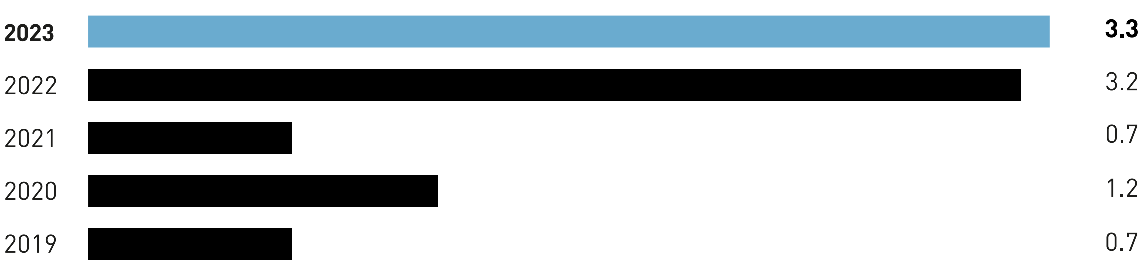
As a result of all these developments, cash and cash equivalents increased by € 633 million to € 1,431 million at the end of December 2023 compared to € 798 million at the end of December 2022.

Change in cash and cash equivalents € in millions



Adjusted net borrowings at December 31, 2023, amounted to € 4,518 million, compared to € 6,047 million in 2022. The company's ratio of adjusted net borrowings over EBITDA amounted to 3.3 at the end of December 2023 (2022: 3.2). ▶ SEE TREASURY

Adjusted net borrowings/EBITDA[1,2,3] € in millions



1 First-time application of adjusted net borrowings as of 2020. Figures since 2019 were restated to reflect methodology revision in 2022.
2 2021 figure reflect the reclassification of the Reebok business to assets or liabilities held for sale.
3 2019 including Reebok business.

Off-balance-sheet items

The company's most significant off-balance-sheet items are commitments for promotion and advertising, for service arrangements as well as for other contracts. At the end of December 2023, financial commitments for promotion and advertising increased 30% to € 6,418 million in 2023 (2022: € 4,942 million). adidas has outsourced certain logistics and information technology functions, for which it has entered into long-term contracts. For these service arrangements, financial commitments increased 65% to € 1,454 million in 2023 (2022: € 881 million). Minimum future payments for other contracts were € 214 million at December 31, 2023, compared to € 356 million at the end of December 2022, representing a decrease of 40%. ▶ SEE NOTE 37 ▶ SEE NOTE 38

Treasury

Corporate financing policy

In order to be able to meet the company's payment commitments at all times, the major goal of our financial policy is to ensure adidas' solvency, to limit financing risks, and to balance financing costs with financial flexibility. The operating activities of our segments and the resulting cash inflows represent the company's main source of liquidity. Liquidity is planned on a rolling monthly basis under a multi-year financial and liquidity plan.

Treasury Policy and responsibilities

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

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Treasury Policy and provide strategic guidance for managing treasury-related topics. Major changes to our Treasury Policy are subject to the prior approval of the Treasury Committee.

- The Treasury department is responsible for specific centralized treasury transactions and for the global implementation of our Treasury Policy.

- On a subsidiary level, where applicable and economically reasonable, local managing directors and finance directors are responsible for managing treasury matters in their respective subsidiaries. Controlling functions on a corporate level ensure that the transactions of the individual business units are in compliance with our Treasury Policy.

Centralized Treasury function

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

► SEE NOTE 02

Standard covenants

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross-default provisions, and change of control. However, our financial arrangements do not contain any financial covenants. If we fail to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As of December 31, 2023, we were in full compliance with all our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to internal and external sources of funds, will be sufficient to meet our future operating and capital needs.

Credit ratings

adidas received strong first-time investment-grade ratings by both Standard & Poor's and Moody's in August 2020. Standard & Poor's gave adidas an 'A+' rating, and Moody's granted the company an 'A2' rating. The initial outlook for both ratings was 'stable' as both rating agencies recognized the company's strong credit metrics, robust liquidity profile, and conservative financial policies. In November 2022, both Standard & Poor's and Moody's revised their outlook for adidas to 'negative' due to a deterioration in credit metrics amid pressure on the company's operating performance from economic as well as company-specific challenges. In February 2023, Standard & Poor's lowered its rating on adidas to 'A-', while Moody's downgraded the company to 'A3', both with a 'negative' outlook. These downgrades reflected a further downward revision of credit metrics following the release of the company's financial guidance for 2023. In December 2023 and January 2024, Standard & Poor's and Moody's issued reports affirming their 'A-' rating with a 'negative' outlook and an 'A3' rating with a 'negative' outlook, respectively. Overall, adidas' investment grade credit ratings continue to ensure an efficient access to capital markets.

Syndicated credit facility

In 2020, adidas took several steps to considerably strengthen its financial profile. In November 2020, adidas entered into a new € 1,500 million syndicated credit facility with twelve of its partner banks. This credit facility agreement was subsequently amended in October 2021 and in November 2022. The amended and restated credit facility with then eleven partner banks had a size of € 2,000 million and runs until November 2027. In December 2023, adidas reduced the syndicated credit facility size to € 1,864 million and the number of lending banks to ten partner banks.

Sustainability bond

In September 2020, adidas successfully priced its first sustainability bond as the company continued to execute on its ambitious long-term sustainability roadmap while at the same time further optimizing its capital structure and financing costs. At the time of the issuance, the € 500 million bond had a term of eight years and a coupon of 0.00%. It has been listed on the Luxembourg Stock Exchange and has denominations of € 100,000. adidas planned to use the proceeds of the sustainability bond to finance and refinance, in whole or in part, eligible sustainable projects, as defined in the sustainability bond framework. As of September 30, 2023, the total amount of net proceeds of € 500 million was fully allocated to eligible sustainable projects.

Sustainability bond: Amount of net proceeds allocated[1] € in millions

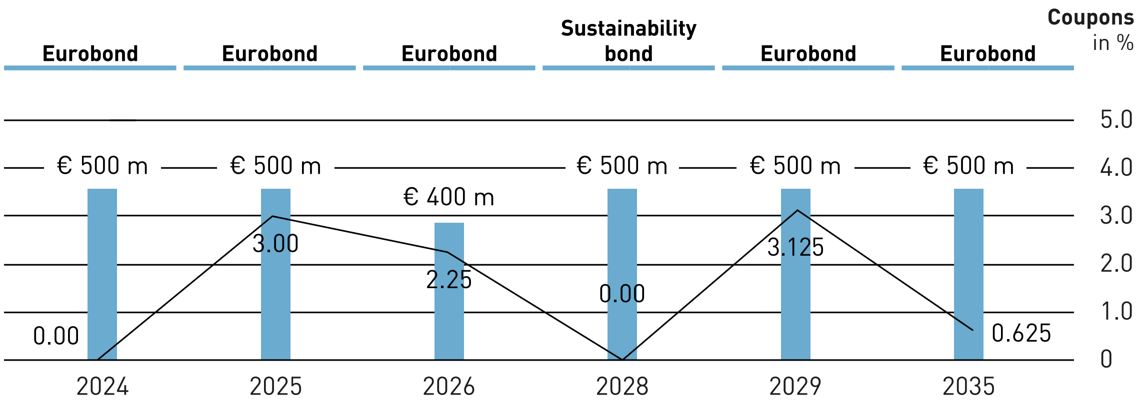
	Q1 – Q3 2023	Q4 2018 – 2022	Total
Eligible sustainable projects per category			
Sustainable materials	61	369	430
Sustainable processes	3	26	29
Community engagement	4	37	41
Cumulated eligible sustainable project expenditure	**67**	**433**	**500**
Unallocated proceeds			0

1 Allocation of proceeds was subject to an independent review by Sustainalytics.

Outstanding bonds

adidas currently has six bonds outstanding. Most recently, in 2022, the company issued a three-year bond of € 500 million maturing in November 2025 with a coupon of 3.00%, in addition to a seven-year bond of € 500 million that matures in November 2029 and has a coupon of 3.125%. The bonds have been listed on the Luxembourg Stock Exchange and have denominations of € 100,000 each. On top of these placements, the company has further outstanding bonds: a bond of € 400 million issued in 2014 which matures in October 2026 and has a coupon of 2.25%. In September 2020, adidas successfully issued two bonds amounting to € 1,000 million in total. The four-year bond of € 500 million matures in September 2024 and has a coupon of 0.00%, while the 15-year bond of € 500 million matures in September 2035 and has a coupon of 0.625%. The bonds have been listed on the Luxembourg Stock Exchange and have denominations of € 100,000 each. ▶ SEE NOTE 16

Maturity profile and coupons of adidas bonds[1]



1 Coupons are fixed.

Additional credit lines

In addition to the syndicated credit facility and access to bond markets, the company's financial flexibility is ensured by the availability of further credit facilities. At the end of 2023, committed and uncommitted credit lines, including the syndicated loan facility, amounted to € 3,648 million (2022: € 4,090 million), of which € 3,556 million was unutilized (2022: € 3,998 million). Committed and uncommitted credit lines represent approximately 53% and 47% of total credit lines, respectively (2022: 51% and 49%, respectively). In addition, we have an unused multi-currency commercial paper program in the amount of € 2,000 million available (2022: € 2,000 million). We monitor the ongoing need for available credit lines based on the current level of debt and future financing requirements.

Gross borrowings decrease

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as outstanding bonds. Gross borrowings decreased 14% to € 2,979 million at the end of 2023 from € 3,473 million in the prior year, due to higher cash and cash equivalents as well as the repayment of the equity-neutral convertible bond of € 500 million in September 2023. The total amount of bonds outstanding at the end of 2023 was € 2,886 million (2022: € 3,381 million). Bank borrowings amounted to € 93 million at the end of 2023 compared to € 93 million in the prior year.

Financing structure € in millions

	2023	2022
Cash and cash equivalents	**1,431**	**798**
Bank borrowings	93	93
Eurobonds	2,886	2,883
Equity-neutral convertible bond	0	498
Gross total borrowings	**2,979**	**3,473**
Net (borrowings)/cash	**(1,548)**	**(2,676)**

As of December 31, 2023, cash and cash equivalents include € 211 million (2022: € 155 million) held by subsidiaries which were subject to foreign exchange control (e.g., Russia, Argentina) or other legal restriction and hence were not anytime available for general use by adidas AG or other subsidiaries.

Debt maturity profile

In 2024, assuming unchanged maturities, debt instruments of € 549 million will mature. This compares to € 527 million that matured in the course of 2023.

Remaining time to maturity of gross borrowings € in millions

	2023	2022
< 1 year	**549**	527
1 to 3 years	**935**	1,035
3 to 5 years	**504**	424
> 5 years	**991**	1,487
Total	**2,979**	3,473

2023 ■ 2022 ■

Adjusted net borrowings of € 4,518 million

Adjusted net borrowings on December 31, 2023, amounted to € 4,518 million, compared to € 6,047 million on December 31, 2022. This development was mainly due to significantly higher cash and cash equivalents resulting from a positive cash flow from operating activities and both lower long-term borrowings as well as lower current and non-current lease liabilities in 2023.

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

1 First-time application of adjusted net borrowings as of 2020. Figures since 2019 were restated to reflect methodology revision in 2022.
2 2021 figure reflects the reclassification of the Reebok business to assets or liabilities held for sale.

In 2020, the definition of net borrowings was adapted to adjusted net borrowings in order to reflect changes in the company's Financial Policy. The most significant difference between the previous net borrowings definition and the adjusted net borrowings definition was the inclusion of the present value of future lease and pension liabilities. In 2022, the methodology for calculating adjusted net borrowings was revised to align with broader market practice and the approach of rating agencies. The main change of the methodology revision was the elimination of income tax adjustments from net borrowings. ▶ SEE NOTE 25

Composition of adjusted net borrowings € in millions

	2023	2022
Short-term borrowings	549	527
Long-term borrowings	2,430	2,946
Current and non-current lease liabilities	2,584	2,986
Pensions and similar obligations	139	118
Factoring	70	112
Subtotal	**5,772**	**6,689**
Cash and cash equivalents	1,431	798
Short-term financial assets	34	0
Less trapped cash	211	155
Less accessible cash and cash equivalents	**1,254**	**643**
Adjusted net borrowings	**4,518**	**6,047**

Interest rate increases

The weighted average interest rate on the company's gross borrowings increased to 1.6% in 2023 (2022: 0.8%). This development was mainly due to the issuance of two new € 500 million bonds with coupons of 3.00% and 3.125% respectively in November 2022. Fixed-rate financing represented 99% of total gross borrowings at the end of 2023 (2022: 100%). Variable-rate financing accounted for 1% of total gross borrowings at the end of 2023 (2022: 0%).

Interest rate development[1] in %

1 Weighted average interest rate of gross borrowings.

Effective foreign exchange management is a key priority

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our hedging program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. In 2023, our Treasury department managed a net deficit of around US $ 4,100 million related to business activities (2022: US $ 7,500 million). Thereof, around US $ 3,000 million was against the euro (2022: US $ 6,100 million). As governed by our Treasury Policy, we have established a hedging program on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon. We had largely covered our anticipated hedging needs for 2024 as of the end of 2023. At the same time, we have already started hedging our exposure for 2025. The use or combination of different hedging instruments, such as foreign exchange contracts, currency options, and swaps, protect us against unfavorable currency movements. ▶ SEE GLOBAL OPERATIONS ▶ SEE RISK AND OPPORTUNITY REPORT ▶ SEE NOTE 28

Financial Statements and Management Report of adidas AG

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

Operating activities and capital structure of adidas AG

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

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

The opportunities and risks as well as the future development of adidas AG largely reflect those of the adidas Group. ► SEE OUTLOOK ► SEE RISK AND OPPORTUNITY REPORT

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the adidas Group. For example, 48% of total assets as of December 31, 2023, related to financial assets (2022: 42%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 28% of total assets (2022: 42%) and 28% of total equity and liabilities as of December 31, 2023 (2022: 28%).

Preparation of accounts

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as of December 31, 2023, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

Income statement

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

	2023	2022
Net sales	4,510	4,814
Reduction (prior year increase) of finished and unfinished goods	(4)	2
Total output	**4,506**	**4,816**
Other operating income	721	1,226
Cost of materials	(1,678)	(1,878)
Personnel expenses	(852)	(726)
Depreciation and amortization	(139)	(140)
Other operating expenses	(2,801)	(3,415)
Operating result	**(243)**	**(117)**
Financial result	103	2,237
Taxes	(49)	(63)
Net (loss)/income	**(189)**	**2,057**
Retained earnings brought forward	598	724
Allocation to other revenue reserves	–	(500)
Allocation to capital reserves	–	(12)
Utilization for the repurchase/issuance of adidas AG shares	2	(1,546)
Retained earnings	**411**	**723**

adidas AG net sales € in millions

	2023	2022
Royalty and commission income	2,275	2,394
adidas Germany	1,267	1,511
Foreign subsidiaries	88	80
Central distribution	125	118
Other revenues	755	711
Total	**4,510**	**4,814**

Net sales down 6%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas brand as well as revenues from foreign subsidiaries. Revenues of adidas AG also include royalty and commission income, mainly from affiliated companies, revenues from central distribution, and other revenues. From March 2022 until May 2023, the commission income for the Reebok sales is shown in other revenues. In 2023, adidas AG net sales decreased 6% to € 4,510 million compared to € 4,814 million in the prior year.

Other operating income down 41%

In 2023, other operating income of adidas AG decreased 41% to € 721 million (2022: € 1,226 million). This development was primarily due to lower positive currency effects.

Other operating expenses down 18%

In 2023, other operating expenses for adidas AG decreased 18% to € 2,801 million (2022: € 3,415 million). This was largely attributable to lower currency losses.

Depreciation and amortization slightly down

Depreciation and amortization for adidas AG relating to intangible and tangible fixed assets decreased slightly to € 139 million in 2023 (2022: € 140 million).

Operating result below prior year level

In 2023, adidas AG generated an operating loss of € 243 million (2022: € 117 million). The decrease is mainly due to lower sales.

Significant decrease of the financial result

The financial result of adidas AG decreased 95% to € 103 million in 2023 (2022: € 2,237 million). The decrease was attributable to lower income from dividends.

Net loss in 2023

Net loss, after taxes of € 49 million (2022: € 63 million), amounted to € 189 million in 2023 and was thus 109% below the prior year net income of € 2,057 million.

Balance sheet

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

	Dec. 31, 2023	Dec. 31, 2022
Assets		
Intangible assets	359	329
Property, plant and equipment	675	684
Financial assets	4,427	4,408
Fixed assets	**5,461**	**5,421**
Inventories	44	52
Receivables and other assets	2,765	4,719
Cash and cash equivalents, securities	859	195
Current assets	**3,668**	**4,966**
Prepaid expenses	136	88
Total assets	**9,265**	**10,475**
Equity and liabilities		
Shareholders' equity	2,455	2,767
Provisions	813	833
Liabilities and other items	5,997	6,875
Total equity and liabilities	**9,265**	**10,475**

Total assets below prior year

At the end of December 2023, total assets decreased 12% to € 9,265 million compared to € 10,475 million in the prior year. This development was mainly a result of the decrease in receivables and other assets.

Shareholders' equity down 11%

Shareholders' equity decreased 11% to € 2,455 million at the end of 2023 (2022: € 2,767 million). The equity ratio increased to 26.5% (2022: 26.4%).

Provisions decrease 2%

Provisions were down 2% to € 813 million at the end of 2023 (2022: € 833 million).

Liabilities and other items down 13%

At the end of December 2023, liabilities and other items decreased 13% to € 5,997 million (2022: € 6,875 million). This is mainly due to the repayment of a bond in 2023.

No major change in cash and cash equivalents

adidas AG has a syndicated credit facility of € 1,864 million and additional bilateral credit lines of € 889 million. In addition, the company has a multi-currency commercial paper program in an amount of € 2,000 million. ► SEE TREASURY

In 2023, operating activities of adidas AG resulted in a cash inflow of € 212 million (2022: cash outflow of € 1,699 million). The change versus the prior year was mainly a result of lower receivables. Net cash inflow from investment activities was € 104 million (2022: € 2,518 million). This was primarily attributable to lower dividend income. Financing activities resulted in a net cash outflow of € 323 million (2022: € 2,223 million). The net cash outflow from financing activities mainly relates to the dividend payment and interest payments. As a result of these developments, cash and cash equivalents of adidas AG decreased to € 189 million at the end of December 2023 compared to € 195 million at the end of the prior year.

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

Disclosures pursuant to § 315a and § 289a of the German Commercial Code and explanatory report

Composition of subscribed capital

The nominal capital of adidas AG amounts to € 180,000,000 (as at December 31, 2023) and is divided into the same number of registered no-par-value shares with a notional pro rata amount in the nominal capital of € 1 each. The nominal capital and the number of shares did not change in the 2023 financial year. The shares are fully paid in. Any claim on the part of the shareholders to the issuance of individual share certificates is generally excluded pursuant to § 4 section 7 of the Articles of Association unless such issuance is required in accordance with the regulations valid at a stock exchange at which the shares are admitted. Pursuant to § 67 section 2 German Stock Corporation Act (Aktiengesetz – AktG), in relation to adidas AG, only a person who is registered accordingly in the share register shall be deemed a shareholder. Each share grants one vote at the Annual General Meeting and determines the shareholders' share in the company's profit. All shares carry the same rights and obligations. The shareholders' individual rights and obligations follow from the provisions of the German Stock Corporation Act, in particular from §§ 12, 53a et seq., 118 et seq., and 186 AktG. As at December 31, 2023, adidas AG held in total 1,450,916 treasury shares, which do not confer any rights to the company in accordance with § 71b AktG. ► SEE NOTE 25

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

Restrictions on voting rights or transfer of shares

The company is not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. However, based on the Code of Conduct and internal guidelines of adidas AG and based on Article 19 section 11 of the Regulation (EU) No 596/2014 (Market Abuse Regulation), particular trade prohibitions do exist for members of the Supervisory Board and the Executive Board as well as employees with regard to the purchase and sale of adidas AG shares in connection with the (time of) publication of quarterly results as well as half-year and full-year financial reports.

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

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

Shareholdings in share capital exceeding 10% of voting rights

The company has not been notified of, and is not aware of, any direct or indirect shareholdings in the share capital of adidas AG reaching or exceeding 10% of the voting rights.

Shares with special rights

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

Voting right control if employees have a share in the capital

Like other shareholders, employees who hold adidas AG shares can exercise their control rights in accordance with statutory provisions and the Articles of Association. This also applies to the shares acquired by a service provider as part of the employee stock purchase plan. Employees may exercise their voting rights from these shares directly or indirectly.

Executive Board appointment and dismissal

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

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

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

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

Amendments to the Articles of Association

Pursuant to §§ 119 section 1 number 6, 179 section 1 sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution of the Annual General Meeting. Pursuant to § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the nominal capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority of voting rights or capital, this majority is applicable. When it comes to amendments solely relating to the wording, the Supervisory Board is authorized to make these modifications in accordance with § 179 section 1 sentence 2 AktG in conjunction with § 10 section 1 sentence 2 of the Articles of Association.

Authorizations of the Executive Board

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

Authorization of the Executive Board to issue shares

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

Authorized Capital

- Until August 6, 2026, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorized Capital 2021/I). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights.

- Until August 6, 2026, the Executive Board is also authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind and/or cash once or several times by no more than € 20,000,000 altogether (Authorized Capital 2021/II). The Executive Board is authorized, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to wholly or partly exclude shareholders' subscription rights when issuing shares against contributions in kind. Additionally, the Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights if the new shares against contributions in kind are issued at a price not significantly below the stock market price of the company's shares already quoted on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the company's shares on a foreign stock exchange. The authorization to exclude subscription rights under this authorization, however, may only be used to the extent that the pro-rata amount of the new shares in the nominal capital together with the pro-rata amount in the nominal capital of other shares which have been issued by the company since May 12, 2021, subject to the exclusion of subscription rights, on the basis of an authorized capital or following a repurchase or for which subscription or conversion rights or subscription or conversion obligations have been granted through the issuance of convertible bonds and/or bonds with warrants while excluding subscription rights, does not exceed 10% of the nominal capital existing on the date of the entry of this authorization with the Commercial Register or – if this amount is lower – as of the respective date on which the resolution on the utilization of the authorization is adopted. The previous sentence does not apply to the exclusion of subscription rights for residual amounts. The Authorized Capital 2021/II must not be used to issue shares within the scope of compensation or participation programs for Executive Board members or employees or for members of the management bodies or employees of affiliated companies. ▸ SEE NOTE 25

Contingent Capital

The nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2022). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued based on the resolution of the Annual General Meeting on May 12, 2022, option or conversion rights relating to not more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorization granted by the Annual General Meeting on May 12, 2022, the Executive Board is authorized to issue bonds with warrants and/or convertible bonds (together 'bonds') in an aggregate nominal value of up to € 4,000,000,000 with or without a limited term against contributions in cash once or several times until May 11, 2027, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for bonds insofar as this is required for residual amounts, and to also exclude shareholders' subscription rights insofar as and to the extent that this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Finally, the Executive Board is authorized, subject to Supervisory Board approval, to also exclude shareholders' subscription rights insofar as the bonds are issued against contributions in cash and the issue price of the bonds is not significantly below the hypothetical market value of these bonds and the number of shares to be issued do not exceed 10% of the nominal capital. Shares which are issued or sold in accordance with § 186 section 3 sentence 4 AktG during the term of this authorization until its utilization, as well as shares to be issued or granted during the term of this authorization on the basis of bonds issued with the exclusion of subscription rights in accordance with this provision utilizing another authorization, shall be attributed to the aforementioned limit of 10%. The total number of shares to be issued under bonds which are issued with the exclusion of subscription rights based on the authorization and of shares which are issued from an authorized capital with the exclusion of subscription rights during the term of the authorization may not exceed a pro-rata amount of the nominal capital of 10% on the date of the entry of this authorization with the Commercial Register. Notwithstanding the Supervisory Board's right to determine further approval requirements, the Executive Board requires the Supervisory Board's approval for the issuance of bonds based on the resolution of the Annual General Meeting on May 12, 2022, with the exclusion of shareholders' subscription rights.

The Executive Board has so far not utilized the authorization to issue bonds granted by the Annual General Meeting on May 12, 2022.

Authorization of the Executive Board to repurchase shares

The authorizations of the Executive Board to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorization granted by the Annual General Meeting on May 11, 2023.

Until May 10, 2028, the Executive Board is authorized to repurchase adidas AG shares in an amount totaling up to 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization) for any lawful purpose and within the legal framework. The authorization may be used by the company but also by its subordinated Group companies or by third parties on account of the company or its subordinated Group companies or third parties assigned by the company or one of its subordinated Group companies.

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

The purposes for which treasury shares repurchased based on this authorization may be used are set out in the resolution on Item 8 of the Agenda for the Annual General Meeting held on May 11, 2023. The shares may, in particular, be used as follows:

- They may be sold on the stock exchange or through a public offer to all shareholders in relation to their shareholding quota; in case of an offer to all shareholders, subscription rights for residual amounts are excluded. The shares may also be sold differently, provided the shares are sold in exchange for a cash payment and at a price that, at the time of the sale, is not significantly below the stock market price of the company's shares with the same features; the prorated amount of the nominal capital which is attributable to the aggregate number of shares sold under this authorization may not exceed 10% of the company's nominal capital. The prorated amount of the nominal capital attributable to new shares which may be issued between May 11, 2023, and the sale of the shares based on an authorized capital while excluding shareholders subscription rights pursuant to §§ 203 section 1, 186 section 3 sentence 4 AktG is attributed to the limit of 10%. Likewise, the prorated amount of the nominal capital that is attributable to shares which may be issued due to bonds with warrants and/or convertible bonds which are linked to subscription or conversion rights or obligations or the company's right to delivery of shares, provided these bonds are issued on the basis of authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG between May 11, 2023, and the sale of the shares, shall also be attributed to the limit of 10%.

- The shares may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies or participations in companies or other business assets, especially real estate and rights to real estate, or receivables (also from the company) or within the scope of company mergers.

- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licenses relating to such rights, also through subordinated Group companies.

- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.

- In connection with employee stock purchase plans, the shares may be used in favor of (current and former) employees of the company and its affiliated companies as well as in favor of (current and former) members of management bodies of the company's affiliated companies, whereas the amount of shares must not exceed 5% of the nominal capital neither at the point in time when this authorization becomes effective nor at the point in time when the shares are used. Shares assigned to members of the Executive Board as compensation in the form of a share bonus based on this authorization are to be attributed to this limit.

- They may be canceled without such cancelation requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be assigned to members of the Executive Board as compensation in the form of a share bonus subject to the provision that resale by the Executive Board members shall only be permitted following a lock-up period of at least four years. Responsibility in this case lies with the Supervisory Board. The amount of shares which may be used for such purposes must not exceed 5% of the nominal capital, neither at the point in time when this authorization becomes effective nor at the point in time when the shares are used or promised. Shares used for employee stock purchase plans based on this authorization shall be attributed to this limit.

The rights of shareholders to subscribe treasury shares shall be excluded to the extent that such shares are used pursuant to the aforementioned authorization. The Supervisory Board may determine that transactions based on this authorization may only be carried out subject to the approval of the Supervisory Board or one of its committees.

Within the scope of the authorization resolved upon by the Annual General Meeting on May 11, 2023, the Executive Board is furthermore authorized to conduct the share buyback also by using equity derivatives which are arranged with a credit institution or financial services institution in close conformity with market conditions or by using a multilateral trading facility within the meaning of § 2 section 6 Stock Exchange Act (Börsengesetz). adidas AG is authorized to acquire options which entitle the company to purchase shares of the company upon the exercise of the options (call options) and/or to sell options which require the company to purchase shares of the company upon the exercise of the options (put options) or to use a combination of call and put options or other equity derivatives if the option conditions ensure that the shares delivered for these equity derivatives were purchased in compliance with the principle of equal treatment. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of exercising the authorization). The term of the equity derivatives may not exceed 18 months and must furthermore be chosen in such a way that the shares are purchased upon the exercise of the equity derivatives no later than May 10, 2028. The authorization to purchase adidas AG shares while using equity derivatives or via multilateral trading facilities also contains specifications on the highest and lowest amount of consideration per share which may be granted in each case.

For the use, the exclusion of subscription rights and the cancelation of shares purchased using equity derivatives or a multilateral trading facility, the general provisions adopted by the Annual General Meeting (as set out earlier) apply accordingly.

In the 2023 financial year, the Executive Board did not use the authorization to purchase adidas AG shares.

Change of control / compensation agreements

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

No compensation agreements were entered into with members of the Executive Board or employees relating to the event of a takeover bid.

Business Performance by Segment

adidas has divided its operating activities into the following segments: EMEA, North America, Greater China, Asia-Pacific, and Latin America.

EMEA

In 2023, sales in EMEA were flat on a currency-neutral basis and decreased 4% in euro terms to € 8,235 million from € 8,550 million in 2022. The currency-neutral development was driven by a low-single-digit increase in Performance, driven in particular by high-single-digit growth in Football. At the same time, Lifestyle revenues decreased at a low-single-digit rate, reflecting the significantly lower Yeezy sales.

Net sales in EMEA

0% C.N.

€ 8,235 million

EMEA at a glance € in millions

	2023	2022	Change	Change (currency-neutral)
Net sales	8,235	8,550	(4%)	0%
Gross margin	46.4%	50.5%	(4.1pp)	–
Segmental operating profit	1,280	1,679	(24%)	–
Segmental operating margin	15.5%	19.6%	(4.1pp)	–

Gross margin in EMEA decreased 4.1 percentage points to 46.4% from 50.5% in 2022. Unfavorable currency developments, significantly higher supply chain costs and the negative impact from higher discounting weighed on the margin development. This was only partly offset by better pricing and a slightly more favorable business mix. Operating expenses were down 5% to € 2,562 million versus € 2,683 million in 2022, driven by a mid-single-digit decrease in operating overheads. As a percentage of sales, operating expenses were down 0.3 percentage points to 31.1% (2022: 31.4%). Operating profit in EMEA decreased 24% to € 1,280 million versus € 1,679 million in the prior year. As a result of the lower gross margin, operating margin was down 4.1 percentage points to 15.5% (2022: 19.6%).

North America

Revenues in North America decreased 16% on a currency-neutral basis and 19% in euro terms to € 5,219 million (2022: € 6,404 million) as this market was particularly impacted by the company's conservative sell-in strategy to reduce high inventory levels as well as by the significantly lower Yeezy sales. The currency-neutral decrease was driven by declines in both Performance and Lifestyle.

Net sales in North America

(16%) C.N.

€ 5,219 million

North America at a glance[1] € in millions

	2023	2022	Change	Change (currency-neutral)
Net sales	5,219	6,404	(19%)	(16%)
Gross margin	40.1%	42.9%	(2.8pp)	–
Segmental operating profit	273	988	(72%)	–
Segmental operating margin	5.2%	15.4%	(10.2pp)	–

1 2022 figures adjusted due to a shift between the Latin and North America segments.

Gross margin in North America decreased 2.8 percentage points to 40.1% (2022: 42.9%). The significant negative impact from increased supply chain costs and higher discounting was only partly offset by better pricing and a more favorable business mix. Operating expenses were up 2% to € 1,872 million versus € 1,831 million in 2022, driven by a mid-single-digit increase in operating overheads. Operating expenses as a percentage of sales increased 7.3 percentage points to 35.9% (2022: 28.6%). Operating profit in North America decreased 72% to € 273 million from € 988 million in 2022. As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin decreased 10.2 percentage points to 5.2% from 15.4% in 2022.

Greater China

Sales in Greater China increased 8% on a currency-neutral basis. In euro terms, sales were flat at € 3,190 million (2022: € 3,179 million). The currency-neutral increase was due to double-digit growth in Performance, reflecting strong growth in all categories. Currency-neutral revenues in Lifestyle increased at a mid-single-digit rate. Strong double-digit growth in Originals and Sportswear was partly offset by the significantly lower Yeezy business.

Net sales in Greater China

+8% C.N.

€ 3,190 million

Greater China at a glance € in millions

	2023	2022	Change	Change (currency-neutral)
Net sales	3,190	3,179	0%	8%
Gross margin	48.7%	46.7%	2.0pp	–
Segmental operating profit	553	322	72%	–
Segmental operating margin	17.3%	10.1%	7.2pp	–

Gross margin in Greater China improved by 2.0 percentage points to 48.7% from 46.7% in 2022. The significant negative impact from increased supply chain costs was more than offset by less discounting, favorable currency developments, as well as lower inventory write-offs. Operating expenses were down 14% to € 1,002 million (2022: € 1,169 million), mainly driven by a double-digit decrease in operating overheads. Operating expenses as a percentage of sales decreased 5.4 percentage points to 31.4% versus 36.8% in the prior year. Operating profit in Greater China increased 72% to € 553 million versus € 322 million in 2022. As a result of the higher gross margin and lower operating expenses as a percentage of sales, operating margin improved 7.2 percentage points to 17.3% from 10.1% in 2022.

Asia-Pacific

Sales in Asia-Pacific improved 7% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were up 1% to € 2,254 million from € 2,241 million in 2022. On a currency-neutral basis, this development was driven by high-single-digit growth in Performance, reflecting growth across all categories. Lifestyle revenues also grew at a high-single-digit rate, driven by strong double-digit growth in both Originals and Basketball.

Net sales in Asia-Pacific

+7% C.N.

€ 2,254 million

Asia-Pacific at a glance € in millions

	2023	2022	Change	Change (currency-neutral)
Net sales	2,254	2,241	1%	7%
Gross margin	53.5%	52.9%	0.6pp	–
Segmental operating profit	472	486	(3%)	–
Segmental operating margin	20.9%	21.7%	(0.7pp)	–

Gross margin in Asia-Pacific increased 0.6 percentage points to 53.5% (2022: 52.9%), mainly driven by significantly better pricing, a more favorable business mix, and less discounting. At the same time, unfavorable currency developments and increased supply chain costs significantly weighed on the gross margin development. Operating expenses were up 4% to € 749 million versus € 721 million in 2022, driven by a high-single-digit increase in operating overheads. Operating expenses as a percentage of sales were up 1.1 percentage points to 33.2% (2022: 32.2%). Operating profit in Asia-Pacific decreased 3% to € 472 million from € 486 million in 2022. Operating margin was down 0.7 percentage points to 20.9% versus 21.7% in 2022, as the gross margin increase was more than offset by higher operating expenses as a percentage of sales.

Latin America

Revenues in Latin America increased 22% on a currency-neutral basis. In euro terms, sales in Latin America improved 9% to € 2,291 million from € 2,104 million in 2022. On a currency-neutral basis, this improvement was driven by strong double-digit growth in both Performance and Lifestyle. Almost all categories grew at strong double-digit rates.

Net sales in Latin America

+22% C.N.

€ 2,291 million

Latin America at a glance[1] € in millions

	2023	2022	Change	Change (currency-neutral)
Net sales	2,291	2,104	9%	22%
Gross margin	45.6%	47.4%	(1.8pp)	–
Segmental operating profit	482	473	2%	–
Segmental operating margin	21.0%	22.5%	(1.5pp)	–

1 2022 figures adjusted due to a shift between the Latin and North America segments.

Gross margin in Latin America decreased 1.8 percentage points to 45.6% (2022: 47.4%). While improved pricing had a significant positive impact on the margin development, significant negative currency developments, higher discounting, and increased supply chain costs weighed on the gross margin development in the region. Operating expenses were up 6% to € 564 million from € 534 million in 2022. This development reflects increases in both marketing expenditures and operating overhead costs. However, operating expenses as a percentage of sales decreased 0.8 percentage points to 24.6% (2022: 25.4%). Operating profit in Latin America increased 2% to € 482 million versus € 473 million in 2022. As a result of the lower gross margin, the operating margin decreased 1.5 percentage points to 21.0% from 22.5% in 2022.

Outlook

In 2024, we expect macroeconomic challenges and geopolitical tensions to persist. While this may negatively affect consumer sentiment and discretionary spending power, the global sporting goods industry is set to benefit from major sports events in 2024. Against this backdrop, we plan to return to top-line growth this year and expect currency-neutral sales to increase at a mid-single-digit rate in 2024. This top-line guidance assumes that we will sell the remaining Yeezy inventory at cost, which would result in sales of around € 250 million in 2024 and no operating profit contribution. This compares to Yeezy revenues of around € 750 million and profits of around € 300 million in 2023. Unfavorable currency effects are also projected to weigh significantly on the company's profitability in 2024, as we expect them to continue to adversely impact both reported revenues and the gross margin development. Taking all of this into account – the expected translational and transactional FX headwinds as well as the current Yeezy assumptions – we expect to generate an operating profit of around € 500 million in 2024.

Forward-looking statements

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

► SEE RISK AND OPPORTUNITY REPORT

Global economic growth to further decelerate in 2024[26]

Global gross domestic product (GDP) growth is expected to further decelerate to 2.4% in 2024 considering the effects of tight monetary policy, restrictive financial conditions, and weak global trade. Despite declining rates, inflation remains above target in most advanced economies. Hence, monetary policy is forecast to stay restrictive in the short term. Additionally, the conflict in the Middle East on top of the ongoing war in Ukraine is set to continue to impact the global economy. While advanced economies are forecast to see growth of only 1.2%, conditions for developing economies are slightly improving, with growth projected at 3.9% in 2024. However, downside risks persist in the form of weaker-than-expected momentum in major economies in Greater China, North America, and Europe. In addition, a potential escalation of geopolitical conflicts can lead to a resurgence in energy prices and further dampen consumer demand. Ultimately, potential supply-chain disruptions and climate-related disasters remain a concern for the global economy.

26 Source: World Bank Global Economic Prospects.

Sporting goods industry to benefit from major events in 2024

After proving its resilience in 2023, the global sporting goods industry is set to benefit from major sports events in 2024, such as the UEFA EURO 2024 in Germany, the CONMEBOL Copa América 2024, and the Olympic Games Paris 2024. At the same time, existing global trends such as 'athleisure,' increasing sports participation rates, and rising health and fitness awareness continue to support industry growth. Innovative Performance and Lifestyle product newness excites consumers in physical and digital channels alike. Hence, the sporting goods industry is expected to remain fundamentally attractive in the long term. On the other hand, the sector continues to face several challenges in 2024. Even though most markets globally returned to healthier inventory levels, North America is expected to continue facing excess stock, especially in the first half of 2024. Furthermore, elevated inflation and interest rates are set to negatively affect household savings and limit discretionary spending power. Additionally, escalating geopolitical conflicts may lead to global trade disruptions, despite the increased resilience of supply chains in recent years.

2024 outlook

	2023	2024 outlook
Net sales	€ 21,427 million	to increase at a mid-single-digit rate[1]
Operating profit	€ 268 million	around € 500 million
Average operating working capital in % of sales	25.7%	to reach a level of between 23% and 24%
Capital expenditure[2]	€ 504 million	to reach a level of around € 600 million

1 Currency-neutral.
2 Excluding acquisitions and leases.

Currency-neutral sales to increase at a mid-single-digit rate in 2024

In 2024, macroeconomic challenges and geopolitical tensions are projected to persist. Against this backdrop, we plan to return to top-line growth by scaling successful franchises, introducing new ones, and leveraging our significantly better, broader, and deeper product range. Improved retailer relationships, more impactful marketing initiatives, and the company's activities around major sports events will also contribute to the sales increase. As a result, we expect currency-neutral sales to grow at a mid-single-digit rate in 2024.

This top-line guidance assumes that we will sell the remaining Yeezy inventory at cost, which would result in sales of around € 250 million in 2024. This compares to Yeezy revenues of around € 750 million in 2023. Excluding the Yeezy revenues in both years, the top-line guidance reflects currency-neutral growth at a high-single-digit rate in the underlying adidas business. We expect the sales development to accelerate throughout the year, as growth in the first half will still be negatively impacted by our initiatives to bring down elevated inventories in the North American market. In the second half of the year, we project the underlying adidas business to grow at a double-digit rate.

Currency-neutral revenues to grow significantly in almost all market segments

Currency-neutral revenues in the underlying adidas business are expected to grow significantly in all markets except North America. In this market, currency-neutral net sales are expected to decline at a mid-single-digit rate in 2024. This is mainly the result of our continued disciplined sell-in to the wholesale channel during the first half of the year as part of our initiatives to reduce high inventory levels in this particular market. In contrast, we expect the underlying adidas sales in Greater China and Latin America to grow at a double-digit rate in 2024. Currency-neutral revenues in Europe, the Emerging Markets, and Japan/South Korea are expected to grow at a high-single-digit rate versus the prior-year level.

Expected operating profit of around € 500 million

Unfavorable currency effects are projected to weigh significantly on the company's profitability in 2024, as we expect them to continue to adversely impact both reported revenues and the gross margin development. Taking the expected translational and transactional FX headwinds into account, we expect to generate an operating profit of around € 500 million in 2024. While we will continue to increase our marketing and sales investments, the top-line growth and an improving gross margin are projected to drive the bottom-line development in 2024. As we currently expect the sale of the remaining Yeezy inventory to occur at cost, the planned sale of the product is assumed to have no effect on the company's operating profit this year.

Average operating working capital as a percentage of sales to decrease

During 2023, average operating working capital as a percentage of sales increased, reflecting the slight increase in average operating working capital against the background of lower net sales in 2023 compared to 2022. Our focus in 2024 will be on improving our average operating working capital position and returning to top-line growth. Based on this, we forecast average operating working capital as a percentage of sales to decrease to a level of between 23% and 24% in 2024.

Capital expenditure of around € 600 million

We will continue to invest into our business, but at the same time adjust our spending to the financial and operational situation of the company. Consequently, capital expenditure is expected to reach a level of around € 600 million in 2024.

Management proposes dividend payment of € 0.70 per share

The adidas AG Executive and Supervisory Boards will recommend paying a stable dividend of € 0.70 per dividend-entitled share to shareholders at the Annual General Meeting on May 16, 2024 (2023: € 0.70). This corresponds to a total payout of € 125 million in line with the prior-year level (2023: € 125 million). The proposal reflects the company's better-than-expected performance in the transition year 2023 and its robust financial profile, as well as Management's confident outlook for the current year. Going forward, the company plans to return to its dividend policy of paying an annual dividend to shareholders in the range of 30% to 50% of net income from continuing operations. ► SEE OUR SHARE

Risk and Opportunity Report

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

Risk and opportunity management principles

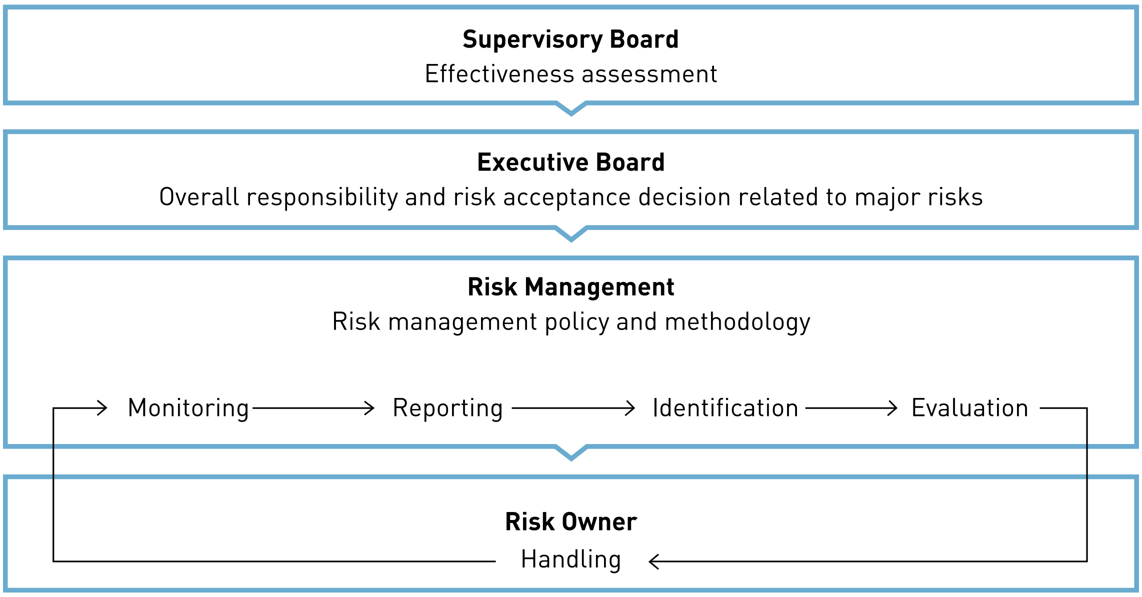
The key objective of the risk and opportunity management is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Enterprise Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements, and communication timelines within our company. Risk and opportunity management is a company-wide activity that utilizes key insights from the members of the Executive Board as well as from global and local business units and functions. We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company's ability to achieve its business objectives or financial goals.

Risk and opportunity management system

The Executive Board has overall responsibility for establishing a risk and opportunity management system that ensures comprehensive and consistent management of all relevant risks and opportunities. The Enterprise Risk Management department governs, operates, and develops the company's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the Executive Board. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. Working independently of all other functions of the organization, the Internal Audit department provides objective assurance to the Executive Board and the Audit Committee regarding the adequacy and effectiveness of the company's risk and opportunity management system on a regular basis. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company's Enterprise Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

Our risk and opportunity management system is based on frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, we have adapted our risk and opportunity management system to more appropriately reflect the structure as well as the culture of the company. This system focuses on the identification, evaluation, handling, systematic reporting, and monitoring of risks and opportunities. Furthermore, we use a quantitative concept for risk capacity and risk appetite. Risk capacity is a liquidity-based measure and represents the maximum level of risk adidas AG can take before being threatened with insolvency. Risk appetite refers to the maximum level of risk the company is willing to take and is linked to the company's liquidity targets.

Risk and opportunity management system



Our risk and opportunity management process comprises the following steps:

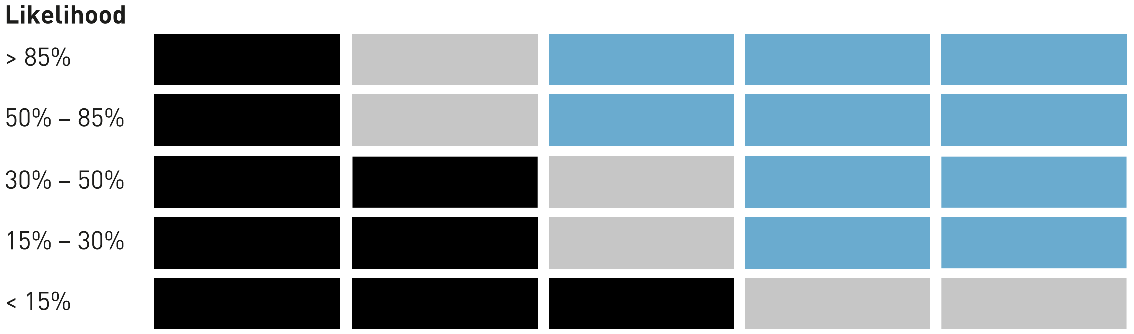
- **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry as well as internal processes to identify risks and opportunities as early as possible. On a semi-annual basis, the Enterprise Risk Management department conducts a survey among senior management and selected middle management to ensure an effective bottom-up identification of risks and opportunities. Enterprise Risk Management has also defined 25 categories to help identify risks and opportunities in a systematic way. In addition, adidas uses various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups, and product styles that show the most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. Furthermore, we consider topics related to environmental, social, and governance aspects in our overall identification process as well as in the following process steps. Our risk and opportunity identification process is however not only limited to external risk factors or opportunities; it also includes an internal perspective that considers company culture, processes, projects, human resources, and compliance aspects.

- **Risk and opportunity evaluation:** We assess identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritization as well as allocation of resources. Risk and opportunity evaluation is part of the responsibility of the Enterprise Risk Management department supported by subject matter experts as well as internal and external data. The Enterprise Risk Management department also conducts assessments with the Executive Board members and senior leaders to validate the evaluation of most relevant risks and opportunities.

  According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materializes. Based on this evaluation, we classify risks and opportunities into three categories: minor, moderate, and major.

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

Risk evaluation categories



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

Potential impact

Risk classification: Minor Moderate Major

1 Based on net income and cash flow.

When evaluating risks and opportunities, we also consider the speed of materialization (velocity). In this respect, we differentiate in which financial year risks and opportunities could occur. We consider both gross and net risk in our risk assessments. While the gross risk reflects the inherent risk before any mitigating action, the net risk reflects the residual risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of selected risks and opportunities that materialized against the original assessment on a yearly basis ('back-testing'). In this way, we ensure continuous monitoring of the accuracy of risk and opportunity evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality, and potential risks. This approach is not only applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

We aggregate risks and opportunities using a stochastic simulation (Monte Carlo simulation) to determine the company's risk and opportunity portfolio (i.e., the company's aggregated risk position), considering interdependencies of individual risks and opportunities. To identify a potential threat to the company as a going concern, we compare the 2024 risk and opportunity portfolio to the company's defined risk capacity and determine the likelihood that the aggregated risk exceeds the risk capacity; to identify a potential threat to the company's rating, we compare the 2024 risk and opportunity portfolio to the defined risk appetite and determine the likelihood that the aggregated risk exceeds the risk appetite.

- **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Enterprise Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to lower impact or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the benefit of any planned mitigating action if applicable. The Enterprise Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action. Depending on the risk class determined by the risk and opportunity evaluation, the authority to make decisions to accept risks resides with the Executive Board, leaders reporting directly to an Executive Board member and the operational management on the next hierarchical level. The decision to accept major risks without taking additional mitigating action can only be made by the entire Executive Board. In its decision-making process, the Executive Board takes into account the risk profile, i.e., the relationship between risk and opportunity portfolio (i.e., the company's aggregated risk position) and risk appetite, as well as risk capacity. To support the Executive Board, the Enterprise Risk Management department defined clear thresholds for the likelihood that the company's aggregated risk exceeds the defined risk appetite and risk capacity. The company's risk appetite must not be exceeded with a likelihood of at least 95%; the company's risk capacity must not be exceeded with a likelihood of at least 99%.

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

Regular risk reporting takes place half-yearly and consists of a five-step reporting stream:

- Enterprise Risk Management identifies risks and opportunities (with a potential effect on net income and cash flow higher than € 1 million) by conducting a survey among senior management and selected middle management as well as utilizing available information concerning the internal and external environment of the company. Enterprise Risk Management evaluates, consolidates, and aggregates the identified risks and opportunities ('bottom-up assessment').

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

- Enterprise Risk Management provides a consolidated report to the Executive Board summarizing the results of both bottom-up and top-down assessment as well as the risk and opportunity profile to highlight a potential threat to the company's rating and going concern. The Executive Board reviews the report, jointly agrees on a company assessment of risks and opportunities and decides if Risk Owners are required to take further action.

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

- The Executive Board presents in collaboration with Enterprise Risk Management the final risk and opportunity assessment results to the Audit Committee of the Supervisory Board.

Material changes in previously reported risks and opportunities or newly identified substantial risks and opportunities are also reported outside the regular half-yearly reporting stream on an ad hoc basis to the Executive Board. To further improve the risk culture at adidas, we are also offering a risk management training to all our employees through our company intranet.

Compliance management system (adidas Fair Play)

We consider compliance with the law as well as with external and internal regulations to be imperative. The Executive Board sets the tone from the top, and every employee is required to act ethically and in compliance with the law as well as with internal and other external regulations while executing the company's business. We believe adidas Fair Play will prevent a majority of potential compliance issues. For that reason, we have specific measures to detect and respond to any concerns. We realize, however, that no compliance system can eliminate all violations.

The adidas Chief Compliance Officer oversees the company's Compliance Management System (CMS). We see compliance as all-encompassing, spanning all business functions throughout the entire value chain. Our central Compliance team works closely with Regional Compliance Managers and Local Compliance Officers to conduct a systematic assessment of key compliance risks on a yearly basis.

The company's CMS is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises and is designed to:

- support the achievement of qualitative and sustainable growth through good corporate governance,
- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct,
- protect and further enhance the value and reputation of the company and its brand through compliant conduct, and
- support 'Diversity, Equity, and Inclusion' ('DEI') initiatives by fighting harassment and discrimination.

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

▶ ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT

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

- **Prevention:** The Compliance team regularly reviews and updates the CMS as necessary. In addition to the revised Fair Play Code of Conduct mentioned above, we also support all initiatives to prevent and fight harassment and discrimination in the workplace. Management also shares compliance-related communication, and the Compliance department provides mandatory training to all employees globally during onboarding and in regular, repeated cycles. The Compliance team and partners also provide targeted in-person compliance training as appropriate with senior management and newly promoted or hired senior executives across the globe in order to further enhance the compliance 'tone from the top,' as well as the 'tone from the middle.' We closely monitor the completion rates for these training measures. We also focused on further enhancing cooperation between the Compliance team and the Internal Audit, the Group Policies and Internal Controls, and the Enterprise Risk Management department.
- **Detection:** adidas has whistleblowing procedures in place to ensure timely detection of potential infringements of statutory regulations or internal guidelines. Employees can report compliance concerns internally to their supervisor, the Chief Compliance Officer, Regional Compliance Managers or Local Compliance Officers, the relevant HR Manager, or, where applicable, the Works Council. Employees can also report externally via the independent, confidential Fair Play hotline and website, which also allow for anonymous complaints. The Fair Play hotline and website are available at all times worldwide, including the services of interpreters, if required. They are promoted digitally and with posters to reach all our locations around the world. The company's work to identify potential compliance violations continued in 2023.
- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report potential incidents of non-compliance worldwide. In 2023, we recorded 590 potential compliance violations (2022: 521). Most importantly, insights gained from the investigation of past violations are used to continuously improve the CMS. Where necessary, we react promptly to confirmed compliance violations, through appropriate and effective sanctions ranging from warnings to termination of employment contracts. In 2023, the Compliance team further strengthened its relationship with the Employee Relations (ER) organization, a key partner in many compliance matters, especially those related to harassment and discrimination. In November 2023, a new case management tool was

implemented allowing both Compliance and ER to effectively document and process cases as well as report on specific developments in more detail.

Potential compliance violations

	2023	2022
Financial, including theft	51	48
Malfeasance, including conflicts of interest and corruption	17	19
Competition	0	1
Behavioral	387	326
Other[1]	135	127

1 Includes payroll issues, intellectual property, and leaks of confidential information, amongst others.

Reporting of potential compliance violations in %

	2023	2022
Anonymous contact to hotline	53	55
Named contact to hotline	23	26
Compliance Officer and other	24	18

The company's Chief Compliance Officer regularly reports to the Executive Board on the further development of the compliance program and on major compliance cases. In addition, the Chief Compliance Officer reports to the Audit Committee on a regular basis. In 2023, the Chief Compliance Officer attended four meetings of the Audit Committee of the Supervisory Board to report on the further development of the compliance program, major compliance cases, and other relevant compliance topics. The Compliance department has revised its process for detecting compliance risks and included new risks, as well as captured some risk areas (e.g., e-commerce) more clearly. In addition, the description of the CMS has been sharpened.

Description of the main features of the internal control and risk management system process pursuant to § 315 section 4 German Commercial Code (Handelsgesetzbuch – HGB)

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

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of ICoFR, the Corporate Internal Audit department, which includes both the Internal Audit and Global Internal Controls functions, regularly reviews accounting-related processes. Additionally, as part of the year-end audit, the external auditor assesses the effectiveness of selected internal controls, including IT controls. The Audit Committee of the Supervisory Board also monitors the effectiveness of ICoFR.

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

The accounting for adidas companies is conducted either locally or by our Global Business Services. Virtually all the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardized SAP system. Following approval by the Finance Director of the respective adidas company, the local financial statements are transferred to a central consolidation system based on SAP Group Reporting. At the corporate level, the regularity and reliability of the financial statements prepared by adidas companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and adherence to the reporting logic. In addition, differences between current-year and prior-year financial data as well as budget figures are analyzed on a market level. If necessary, adidas seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP Group Reporting. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the adidas companies. After finalization of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analyzed with respect to trends and variances. Unless already otherwise clarified, the adidas companies are asked to explain any identified material deviations.

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

Furthermore, the adidas internal control and risk management system includes non-accounting-related controls which serve to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of non-financial reporting, and compliance with applicable laws and regulations. The internal control and risk management system regarding the non-accounting-related activities focuses also on the identification, assessment, mitigation, monitoring, and reporting of relevant risks. It is as well embedded within the company-wide corporate governance system and encompasses various sub-processes in the areas of Brands, Operations (including Procurement and IT), Sales, or Human Resources.

All adidas companies are also required to comply with the non-accounting-related policies ('Policy Manual'), which are available to all employees involved in the various processes through the company-wide intranet and are updated and communicated on a regular basis.

The effectiveness of the non-accounting-related controls is also regularly monitored by the Corporate Internal Audit department and the Global and Market Internal Controls teams. The reporting of internal control testing results to the Audit Committee of the Supervisory Board includes the effectiveness of non-accounting-related controls as well.

Nothing came to our attention that would cause us to doubt the adequacy and effectiveness of the entire internal control and risk management system. However, due to the limitations of any internal control and risk management system, absolute certainty about the appropriateness and effectiveness of these systems cannot be guaranteed.[27]

Illustration of Risks

This report includes an explanation of financial and non-financial risks that we deem to be most relevant to the achievement of the company's objectives in 2024 and beyond. According to our risk assessment methodology, macroeconomic, socio-political, regulatory, and currency risks; risks related to consumer demand and product offering; risks related to the competitive and retail environment; risks related to tax and customs regulations; risks related to impairment of goodwill; personnel risks; and IT and cybersecurity risks are classified as major. The corporate risks overview table illustrates the assessment of all risks described below.

Corporate risks overview

Risk categories	Potential impact	Change (2022 rating)	Likelihood	Change (2022 rating)
Macroeconomic, sociopolitical, regulatory, and currency risks	Significant		30% – 50%	
Risks related to consumer demand and product offering	Significant		15% – 30%	
Risks related to the competitive and retail environment	Significant		15% – 30%	↓ (30% – 50%)
Risks related to tax and customs regulations	Significant		15% – 30%	↓ (30% – 50%)
Risks related to impairment of goodwill	High	not reported in 2022	30% – 50%	not reported in 2022
Personnel risks	High	↓ (Significant)	15% – 30%	
IT and cybersecurity risks	High		15% – 30%	
Risks related to media and stakeholder activities	Medium		30% – 50%	↓ (50% – 85%)
Business partner risks	Significant		< 15%	
Compliance risks	Significant		< 15%	
Hazard risks	Significant		< 15%	
Litigation risks	Significant	↑ (High)	< 15%	
Project risks	Significant	↑ (High)	< 15%	

Macroeconomic, sociopolitical, regulatory, and currency risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, inflation, financial market turbulence, currency exchange rate fluctuations, and sociopolitical factors such as military conflicts (e.g., further expansion of the war in Ukraine or the conflict in the Middle East), changes of government, civil unrest, pandemics, nationalization, expropriation, or nationalism, in particular in regions where adidas is strongly

27 The statement in relation to German Corporate Governance Code A5 was not audited in terms of content as part of the audit of this Group Management Report.

represented, could therefore negatively impact the company's business activities (up to a potential wind-down of subsidiaries) and top- and bottom-line performance. Currency risks are a direct result of multi-currency cash flows within the company, in particular the mismatch of the currencies required for sourcing our products versus the denominations of our sales. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. In addition, substantial changes in the regulatory environment such as trade restrictions (e.g., concerning the US and China, or the EU and China), economic and political sanctions, regulations concerning product compliance, social aspects, human rights, environmental, and climate protection regulations could lead to potential sales shortfalls or cost increases. ► SEE NOTE 28

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

To mitigate the risk related to fluctuations in currency exchange rates, we utilize a centralized currency risk management system and hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-months horizon.
► SEE TREASURY

By building on our leading position within the sporting goods industry and taking into account the interests of our stakeholders, we actively engage in supporting policymakers and regulators in their efforts to liberalize global trade and curtail trade barriers, and to proactively influence and adapt to significant changes in the regulatory environment.

Risks related to consumer demand and product offering

Our success largely depends on our ability to continuously create new, innovative, and sustainable products. Consumer demand changes can be sudden and unexpected, particularly when it comes to the more fashion-related part of our business. Therefore, we face a risk of short-term revenue loss in cases where we are unable to anticipate consumer demand or respond quickly to changes. In addition, creating and offering products that do not resonate with consumers and our retail partners is a critical risk to the success of our brands, especially considering our focus on key product franchises. This risk could be exacerbated if our marketing activities and brand campaigns fail to generate consumer excitement. Even more critical in the long term, however, are the risks of continuously overlooking new trends and failing to continuously introduce and successfully commercialize new product innovation.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brand and sales organizations and, in particular, of the respective Risk Owners. Therefore, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process. By putting the consumer at the center of our decision-making, we intend to create higher brand advocacy and attract new consumers. We continuously expand our consumer analytics efforts to read and quickly react to changes in demand or trend shifts. In addition, direct touchpoints with consumers via our own digital channels, such as the adidas app, and direct communication with consumers on social media platforms strengthen our understanding of consumer preferences and behavior and, as a result, help us to reduce our vulnerability to changes in demand. Through continuous monitoring of sell-through data and disciplined product life-cycle management, in particular for our major product franchises, we are able to better detect demand patterns and prevent excess supply. By leveraging our promotion partnerships and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Utilizing external insights and capabilities in product creation helps us strengthen our product offering and drive consumer demand, brand desire, market share, and profitability.

Risks related to the competitive and retail environment

Changes in the competitive landscape and the retail environment could impact the company's success. Strategic alliances among competitors or retailers, the increase in retailers' own private-label businesses and intense competition for consumers, production capacity, and promotion partnerships between well-established industry peers and new market entrants pose a substantial risk to adidas. This could lead to harmful competitive behavior, such as sustained periods of discounting in the marketplace or intense bidding for promotion partnerships. Failure to recognize and respond to consolidation in the retail industry could lead to increased dependency on particular retail partners, reduced bargaining power, and, consequently, considerable margin erosion. Sustained pricing pressure in key markets, amplified by elevated inventory levels (still relevant for the US marketplace), could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position. The inability to adjust our distribution strategy in a timely manner to a changing retail industry, which is experiencing continuous substitution of physical retail stores by digital commerce platforms as well as increasing connectivity between physical and digital retail, could result in sales and profit shortfalls. A decline in the attractiveness of particular shopping locations such as shopping malls could lead to sales shortfalls in our customers' and our own stores, higher inventory in the marketplace, increased clearance activity, and margin pressure.

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

Risks related to tax and customs regulations

Numerous laws and regulations regarding customs and taxes as well as changes in such laws and regulations affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions, or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties. Changes in regulations regarding customs and taxes may also have a substantial impact on the company's sourcing costs or income taxes. Therefore, we also create provisions in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities. Due to the current geopolitical situation, we assume in individual cases increasingly aggressive positions taken by tax and customs authorities in audits, which could increase the potential impact of such risks and the likelihood that they materialize. In 2021, the 'OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting' agreed on a two-pillar solution to address the tax challenges arising from the digitalization of the economy. Pillar 2, which includes the introduction of global minimum tax, could lead to higher-than-planned income tax expenses from 2024 onwards.

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

Risks related to impairment of goodwill

Our balance sheet carries book values in goodwill. Deterioration in the business performance, and particularly in future business prospects, as well as significant exchange rate fluctuations could require corrections of the book values by incurring impairment charges. In addition, increases in market interest rates could trigger increases in discount rates used in our impairment test for goodwill and require impairment charges. An impairment charge would be a purely accounting, non-cash effect impacting the company’s operating result. ▶ SEE NOTE 11

Personnel risks

Achieving the company’s strategic and financial objectives is highly dependent on our employees and their talents. In this respect, strong leadership and a performance-enhancing culture are critical to the company’s success. Therefore, ineffective leadership as well as the failure to install and maintain a performance-oriented culture that fosters ‘Diversity, Equity, and Inclusion’ (‘DEI’) and strong employee engagement amongst our workforce could substantially impede our ability to achieve our goals. An ineffective, unbalanced, or insufficient allocation of resources to business activities as well as improper planning and untimely execution of reorganization and transformation initiatives may reduce employee engagement, cause business disruption and inefficiencies, and may negatively affect business performance. In addition, global competition for highly qualified personnel remains fierce. As a result, the loss of key personnel in strategic positions and the inability to identify, recruit, and retain highly qualified and skilled talent who best meet the specific needs of our company pose risks to our business performance.

We are taking various measures to ensure that we maintain a culture that fosters ‘DEI.’ Through several specialized programs, ‘DEI’ is embedded into our recruitment processes. Our ‘Global DEI Council’ drives the increase of representation, retention, and advancement of diverse talents within our global workforce. Furthermore, our workforce takes part in ‘DEI’ learning programs. To ensure effective leadership across the company we offer a portfolio of leadership development experiences designed for every level of management across all markets and functions. To optimize staffing levels and resource allocation (i.e., having the right people with the right skillsets in the right roles at the right time), we adjust resource allocation where required to reflect developments in business performance, the economic environment, and our company's strategic priorities. Organizational transformations and reorganizations are supported by change activations with our leadership teams and organizational design consultancy. We continuously invest in improving employer branding activities, and our global recruiting organization constantly enhances our internal and external recruiting services and capabilities. Our global succession management helps create internal talent pipelines for critical leadership positions and therefore reduces succession risk.

IT and cybersecurity risks

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

To mitigate these risks, our Information Security organization proactively drives system preventive maintenance, service continuity planning, adherence to Information Security policies (aligned with the NIST 800-53 framework), and continuous execution of a comprehensive information security program aligned with a zero-trust strategy. Information security architecture design, application security, governance, data security, employee awareness programs, and a 24x7 incident response help us to adequately protect the company. We have also secured limited insurance coverage for damage resulting from cybersecurity incidents.

Risks related to media and stakeholder activities

Adverse or inaccurate media coverage on our products or business practices (including topics related to social, environmental, and governance) as well as negative social media discussion may significantly harm adidas' reputation and brand image, lead to public misperception of the company's business performance and eventually result in a sales slowdown. Similarly, certain activities on the part of key stakeholders (e.g., non-governmental organizations, governmental institutions) could cause reputational damage, distract top management, and disrupt business activities. Despite the termination of the adidas Yeezy partnership in 2022, due to its former size and relevance, related stakeholder reactions and negative media coverage could still be possible.

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

Business partner risks

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

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

To mitigate business partner risks, adidas has implemented various measures. For example, we generally include clauses in contractual agreements with partners that allow us to suspend or even terminate our partnership in case of improper or unethical conduct. In addition, we work with a broad portfolio of promotion partners to reduce the dependency on the success and popularity of a few individual partners. We utilize a broad distribution strategy, which includes further expansion of our direct-to-consumer business to reduce the risk of overreliance on key customers. Specifically, no single customer accounted for more than 5% of the company's sales in 2023. To reduce risk in the supply chain, we work with suppliers who demonstrate reliability, quality, and innovation. Furthermore, in order to minimize any potential negative consequences such as a violation of our Workplace Standards by our suppliers, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to suppliers' premises. To reduce supplier dependency, the company follows a strategy of diversification. In this context, adidas works with a broad network of suppliers in different countries and, for the vast majority of its products, does not have a single-sourcing model.

Compliance risks

As a globally operating company, adidas is subject to various laws and regulations. Non-compliance with such laws and regulations could lead to penalties and fines and cause reputational damage. For example, non-compliance with laws and regulations concerning data protection and privacy, such as the EU General Data Protection Regulation (GDPR), may result in substantial fines. In addition, publication of failure to comply with data protection and privacy regulations could cause reputational damage and result in a loss of consumer trust in our brands. We also face the risk that members of top management as well as our employees breach rules and standards that guide appropriate and responsible business behavior. This includes the risks of fraud, financial misstatements or manipulation, anti-competitive business practices, bribery, corruption, discrimination, and harassment in the workplace.

Our Compliance Management System (CMS) helps us to prevent, detect, and adequately respond to these risks. Our Global Policy Manual provides a framework for basic work procedures and processes, and our Fair Play Code of Conduct stipulates that every employee and our business partners shall act ethically in compliance with the laws and regulations of the legal systems where they conduct company business. In addition, our Regional Compliance Managers and Local Compliance Officers guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilize controls such as segregation of duties in IT systems and data analytics technology to prevent or detect fraudulent activities. We are also working with external partners and law firms to ensure we are informed about legal requirements across the globe, and we take appropriate action to ensure compliance. To mitigate the risk of non-compliance with laws and regulations concerning data protection and privacy, we developed a global privacy management framework that introduces the company's privacy principles and provides guidance for the use and deletion of personal information. This framework applies to all adidas businesses worldwide and also sets our expectations of third-party business partners for managing personal information for or on behalf of adidas. Our Global Privacy Officer and the Global Privacy department drive the operational establishment of the framework and monitoring capabilities to track and report its implementation. During the implementation, they are continuously providing further implementation guidance and training.

Hazard risks

As climate change intensifies, the likelihood and intensity of natural disasters such as storms, floods, droughts, pandemics, or heat waves increases, and so does adidas' potential risk. In addition, our business activities could be impacted by port congestions, strikes, riots, armed conflicts, or terrorist attacks. All of the above could damage our offices, stores, or distribution centers or disrupt our operational processes (e.g., sourcing, logistics) leading to loss of sales, higher cost, and a decrease in profitability.

To manage and mitigate these risks, we continuously monitor potential threats and have implemented business continuity plans including but not limited to fallback solutions for transportation, dynamic capacity management of containers and carriers, and reallocation of production. We also maintain high safety standards in all our locations and have secured insurance coverage for property damage and business interruptions.

Litigation risks

adidas may be involved in legal disputes and proceedings in different jurisdictions. For example, despite a rigid internal clearance process, legal steps may be taken against adidas due to the company's use of certain technologies or trademarks that are protected by a third party's intellectual property rights. These actions may result in, among others, the company having to stop using certain technologies or designs, imposed royalty payment obligations, the withdrawal of products from certain markets, legal costs, or reputational damage. In particular, in commercial disputes involving the company, third parties may also claim financial damages, including lost profits, as a result of an alleged breach of contract by the company.

Our Legal team actively defends adidas' intellectual property rights and regularly communicates with all relevant internal business partners to ensure that our products, including our designs and other innovations, are cleared and adequately protected prior to use. We retain specialized external counsel (and other advisors, if needed) in case legal action is taken against the company.

Project risks

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

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

Illustration of Opportunities

In this report, we illustrate financial and non-financial opportunities considered most relevant in 2024 and beyond. According to our assessment methodology, opportunities related to existing Yeezy inventory; opportunities related to consumer demand and product offering; macroeconomic, sociopolitical, regulatory, and currency opportunities; opportunities related to order and supply management; opportunities related to the distribution strategy; and personnel opportunities are considered major. The assessment is illustrated in the corporate opportunities overview table.

Corporate opportunities overview

Opportunity categories	Potential impact	Change (2022 rating)	Likelihood	Change (2022 rating)
Opportunities related to existing Yeezy inventory	Significant		30% – 50%	↑ (15% – 30%)
Opportunities related to consumer demand and product offering	Significant		30% – 50%	↑ (15% – 30%)
Macroeconomic, sociopolitical, regulatory, and currency opportunities	Significant	↑(High)	30% – 50%	↑ (15% – 30%)
Opportunities related to order and supply management	Significant		15% – 30%	↓ (30% – 50%)
Opportunities related to the distribution strategy	Significant		15% – 30%	↓ (30% – 50%)
Personnel opportunities	High	↑(Medium)	15% – 30%	
Opportunities related to product engineering and manufacturing processes	Significant		< 15%	↓ (30% – 50%)
Litigation opportunities	Medium	not reported in 2022	30% – 50%	not reported in 2022
Opportunities related to tax and customs regulations	Medium	↓ (Significant)	15% – 30%	↓ (50% – 85%)

Opportunities related to existing Yeezy inventory

The full-year 2024 guidance as outlined in this Annual Report assumes that adidas will sell the remaining Yeezy inventory at cost. In the event of a better-than-anticipated sale of the existing product, the company's top- and bottom-line development could be positively impacted by higher-than-planned sales and margins.

Opportunities related to consumer demand and product offering

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

Macroeconomic, sociopolitical, regulatory, and currency opportunities

Positive macroeconomic developments could strengthen consumer sentiment and purchasing power, for example, if inflation rates declined at a faster pace than anticipated. Favorable exchange rate developments can potentially have a positive impact on the company's financial results. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might also positively impact our company's financial performance. Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements can create cost savings or potentially open up new channels of distribution and, as a result, positively impact profitability in the mid- to long term.

Opportunities related to order and supply management

The introduction of a more flexible order management, supported by our continued investment in our IT systems, could effectively reduce inventory risk and drive incremental net sales and higher margins. This could be achieved by reducing initial order sizes while ensuring continuous reproduction and replenishment of products. In this context, data and analytics play a crucial role in enabling fact-based decision-making. Therefore, we have a dedicated Data and Analytics team to support business decision-making by leveraging the power of data. Expanded nearshoring capabilities could further reduce lead times to ensure that product demand can be fulfilled at all times and to respond more quickly to the latest trends in our industry.

Opportunities related to the distribution strategy

Our wholesale channel, where we clearly focus on partners that provide consumers with the best shopping experience and customer service, could generate higher-than-expected sales and profit. In addition, organic growth of our business in Latin America, Asia-Pacific, and Emerging Markets could provide further upside potential in terms of sales and profit.

Personnel opportunities

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

Opportunities related to product engineering and manufacturing processes

We constantly monitor which of our product features are perceived as most relevant by our consumers. According to this, a further optimization of our product design could result in higher net sales and margins by consistently focusing on product features that add the most value to our consumers, while increasing the cost efficiency of less relevant components or reducing complexity in product design. By working closely with our suppliers, we also see respective potential for more efficient manufacturing processes.

Litigation opportunities

Our Legal department is constantly monitoring the market for potential infringements of our own rights by third parties, e.g., related to trademarks, patents, or other intellectual property rights. In the event that a third party breaches our contracts or infringes our rights, we try to enforce and protect our legal positions and, to the extent required, retain specialized external counsel. This may result in, among others, the company demanding contractual penalties or other financial damages payments from third parties.

Opportunities related to tax and customs regulations

The potential release of valuation allowances on deferred tax assets or the release of tax risk reserves (e.g., relating to transactions or internal reorganizations in prior years) could positively impact income tax expense. In addition, changes in local tax regulations may offer the company the option to realize benefits that could result in a reduction of tax expenses and higher net income. Furthermore, we see potential in reducing the total amount of customs duties in the long term by increasing our sourcing from manufacturing partners in countries with more favorable customs treaties.

Illustration of climate-related risks and opportunities

In 2023, we evolved our climate risk and opportunity assessment by using climate scenario analysis as well as different time horizons which include short-, medium-, and long-term (up to 2050) timeframes. Climate scenario analysis confirmed our previous findings that the overall global greenhouse gas emission levels will be an important factor influencing the magnitude of risks and opportunities. Moreover, these risks and opportunities will gain relevance for our business, especially in the medium to long term.

We have categorized climate-related risks and opportunities following the 'Task Force on Climate-Related Financial Disclosures' ('TCFD') framework. Given the different time horizons and complexity of climate-related risks and opportunities, the overview is presented separately from the illustration of risks and opportunities in this Risk and Opportunity Report. We do not expect this to result in any additional major risks and opportunities for the forecast for the 2024 fiscal year compared to the explanations given in the Risk and Opportunity Report.

Physical risks

- **Physical damage and business disruption in our own or our business partners' properties:** Extreme weather events and changes in the overall weather patterns could increasingly lead to damages to owned or business partners' properties (such as office buildings, distribution centers, and retail stores) and inventories, as well as business disruptions. In turn, these could result in lower revenues and higher insurance and operating costs.

- **Changing cost and availability of materials:** Changes in weather patterns could negatively affect availability of materials, leading to higher operating costs.

- **Harm to and lower productivity of our own and business partners' workforce and decreased participation in sports:** An increase in average temperatures and heat waves could lead to harm and reduced productivity of our own and our business partners' workforce. Changes in weather patterns could negatively influence consumers' participation in sports, which could lead to decreased consumer demand.

Transition risks (policy and legal, technology, market and reputation risks)

- **Energy- and carbon-related prices:** Higher prices for energy as well as direct and indirect taxation linked to greenhouse gas emissions could negatively impact our business partners and lead to higher operating costs.

- **Exposure to carbon-related regulation and litigation:** An increase in regulation (especially product-related), could lead to increased reporting requirements, as well as the inability to market certain products in specific markets. An increase in regulation could also lead to a higher exposure to litigation for non-compliance.

- **Cost of low-carbon technologies:** High costs for low-carbon technologies could impact our business partners' ability to lower their emissions, resulting in higher operating costs and potential non-compliance with regulation limiting greenhouse gas emissions.

- **Stakeholder scrutiny:** A change in stakeholders' expectations could lead to reduced capital availability and market valuation due to concerns about our resilience to climate change impacts.

Climate-related opportunities

- **Development of low-emission products and services:** The development of low-emission products and services could address specific consumer preferences and lead to a competitive advantage and increased consumer demand.

- **Resource efficiency and increased use of renewable energy sources:** The development and use of more efficient production and distribution processes, as well as the increased share of renewable energy (mainly by our business partners), could lead to lower greenhouse gas emissions and improved climate change resilience.

- **Improved stakeholder perception:** A strong environmental performance, with lower greenhouse gas emissions and improved climate change resilience, could lead to increased capital availability (green financing) and market evaluation, as well as increased employer attractiveness.

Management Assessment of Performance, Risks and Opportunities, and Outlook

Assessment of performance versus targets

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In the transition year 2023, adidas made operational and financial progress and performed significantly better than initially expected. The overall business environment continued to be characterized by geopolitical tensions, macroeconomic challenges, and high inventory levels. As a result of our decisive actions, we were able to significantly reduce inventory levels during the year. Our successful initiatives included limiting the sell-in to the wholesale channel, which negatively impacted our top-line development. At the same time, the underlying business performed above our expectations. In addition, the company also benefited from the sale of parts of the remaining Yeezy inventory. Consequently, we were able to upgrade our guidance twice in the course of the year. Ultimately, our 2023 financial results significantly exceeded our latest guidance from October on both the top and bottom line.

▶ SEE ECONOMIC AND SECTOR DEVELOPMENT

Company targets versus actual key metrics

	2022 Results	2023 Initial targets[1]	2023 Updated targets[2]	2023 Latest targets[3]	2023 Results	2024 Outlook
Currency-neutral net sales development	1%	to decline at a high-single-digit rate	to decline at a mid-single-digit rate	to decline at a low-single-digit rate	0%	to increase at a mid-single-digit rate
Operating margin/ operating profit/loss	3.0%	operating loss of € 700 million	operating loss of € 450 million	operating loss of € 100 million	operating profit of € 268 million	operating profit of around € 500 million
Average operating working capital in % of net sales	24.0%	to reach a level of between 25% and 26%	to reach a level of between 25% and 26%	to reach a level of between 25% and 26%	25.7%	to reach a level of between 23% and 24%
Capital expenditure[4]	€ 695 million	to reach a level of around € 600 million	to reach a level of around € 600 million	to reach a level of around € 600 million	€ 504 million	to reach a level of around € 600 million

1 As published on February 9, 2023. For average working capital and capital expenditure as of March 8, 2023.
2 As published on July 24, 2023.
3 As published on October 17, 2023.
4 Excluding acquisitions and leases.

In 2023, revenues were flat on a currency-neutral basis. This was significantly better than our initial expectations (February 2023: high-single-digit decline) and also ahead of our latest guidance (October 2023: low-single-digit decline). The development reflects strong double-digit growth in Latin America. Revenues in both Greater China and Asia-Pacific grew at high-single-digit rates. Currency-neutral sales in EMEA were flat. North America recorded a double-digit decline as this market was particularly impacted by the company's conservative sell-in strategy to reduce high inventory levels. The discontinuation of the Yeezy business represented a drag of around € 500 million on the year-over-year comparison during 2023. The sale of parts of the remaining Yeezy product positively impacted net sales in the amount of around € 750 million. This compares to a total of more than € 1,200 million of Yeezy revenues in 2022.

Our operating profit reached € 268 million in 2023, ahead of our latest guidance, provided in October, of an operating loss of € 100 million. Compared to our initial guidance provided at the beginning of 2023 (operating loss of € 700 million), the reported operating profit of € 268 million is around € 1,000 million higher than initially expected. This outperformance was partly driven by a better operational business. In addition, the company's decision to only write off a small portion of its remaining Yeezy inventory and sell a significant part of it in 2023 also drove the better-than-expected operating profit development last year.

▶ SEE INCOME STATEMENT

Average operating working capital as a percentage of sales ended the year 2023 at 25.7%. This was in line with the guided level of between 25% and 26% and represents a year-over-year increase of 1.6 percentage points. This reflects the slight increase in average operating working capital against the backdrop of lower net sales in 2023 compared to 2022. Capital expenditure decreased 27% to € 504 million in 2023, below our guidance of a level of around € 600 million. More than 75% of these investments were spent on controlled space initiatives and IT activities. Controlled space initiatives comprise investments in new or remodeled own retail or franchise stores as well as shop-in-shop presentations of our products in our customers' stores. ▶ SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Beyond our financial performance, we also actively monitor other KPIs. These other KPIs include, among others, our sustainable article offering and the share of women in management positions. In 2023, with almost eight out of ten of our articles being sustainable, meaning that they are – to a significant degree – made with environmentally preferred materials, we exceeded the planned annual milestone for 2023. With 40% female representation in management positions in 2023, we decided to establish a new goal and committed to achieving a level of 50% by 2033 (previously: to increase to more than 40% by 2025).

▶ SEE INTERNAL MANAGEMENT SYSTEM

Assessment of overall risks and opportunities

Our Risk Management team aggregates all risks and opportunities identified through the half-yearly risk and opportunity assessment process to determine the company's risk and opportunity portfolio (i.e., the company's aggregated risk position). Results from this process are analyzed and reported to the Executive Board accordingly. The Executive Board discusses and assesses risks and opportunities on a regular basis and takes into account the relationship between the risk and opportunity portfolio (i.e., the company's aggregated risk position) and risk appetite as well as risk capacity in its decision-making. Compared to the prior year, our assessment of certain risks and opportunities has changed in terms of likelihood of occurrence and/or potential financial impact. Our risk and opportunity aggregation using a Monte Carlo simulation determined that the company's aggregated risk position does not exceed the company's risk capacity threshold with a likelihood of at least 99%. Therefore, we do not foresee any material jeopardy to the viability of the company as a going concern. ▶ SEE RISK AND OPPORTUNITY REPORT

Assessment of financial outlook

In 2024, we expect macroeconomic challenges and geopolitical tensions to persist. This may negatively affect consumer sentiment and discretionary spending power. In North America, we will continue our initiatives to reduce high inventory levels, which will weigh on our sales and profitability during the first half of the year. In addition, unfavorable currency effects are projected to adversely impact both reported revenues and the gross margin development in 2024. The assumed sale of the remaining Yeezy inventory at cost with no operating profit contribution is also expected to weigh on the company's operational and financial performance versus the prior year. At the same time, the global sporting goods industry is set to benefit from major sports events in 2024.

Against this backdrop, we plan to return to top-line growth by scaling successful franchises, introducing new ones, and leveraging our significantly better, broader, and deeper product range. Improved retailer relationships, more impactful marketing initiatives, and our activities around the major sports events will also contribute to the sales increase. As a result, we expect currency-neutral sales to grow at a mid-single-digit rate in 2024. Our operating profit is currently expected to reach a level of around € 500 million in 2024. While we will continue to increase our marketing and sales investments, the top-line growth and an improving gross margin are projected to drive the bottom-line development in 2024. ► SEE OUTLOOK

We believe our outlook for 2024 realistically describes the underlying development of the company. However, the outlook for 2024 as outlined in this report is subject to change. Ongoing uncertainties regarding macroeconomic challenges, the impact from geopolitical conflicts, and the development of consumer sentiment as well as potential supply-chain disruptions represent risks to the achievement of our stated financial goals and aspirations. No other material event between the end of 2023 and the publication of this report has altered our view. ► SEE OUTLOOK