

# LETTER FROM THE CEO

KASPER RORSTED

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## DEAR SHAREHOLDERS,

At adidas, we believe that, through sport, we have the power to change lives. This core belief guides the way we run our company, how we work with our partners, how we create our products, and how we engage with our consumers.

Athletes will not settle for average. And neither do we. Every day, we come to work to create and sell the best sports and fitness products in the world, and to offer the best service and consumer experience – and to do it all in a sustainable way.

### WHAT MAKES A WINNING TEAM

Physical power is not enough – athletes need mental strength in their game. We foster an athlete's mindset through three people behaviors that are at the core of our culture: Confidence, Collaboration, and Creativity.

**Confidence** allows athletes to make quick decisions on the field, to reach higher. Confidence enables us to be an industry leader and to redefine what today's sports company looks like.

Every elite athlete relies on partners: coaches, team mates, and nutritionists. We, too, get stronger together through industry-leading **collaborations**. Internally, we are a team that plays to win and trusts in each other's abilities and talents.

No great athlete succeeds by copying their predecessors' training plans and strategies. It takes **creativity** to gain an edge and stand out. Our mission is to be the best sports company in the world by staying authentic to all athletes, tailoring to their unique needs, tastes, and experiences.

### LEADERSHIP IN ACTION

Confidence, Collaboration, and Creativity are the foundations of the leadership framework we launched globally last year – it defines what great leadership at adidas looks like. In 2017, we saw three new leaders joining the Executive Board: Harm Ohlmeyer taking over as Chief Financial Officer, Karen Parkin being elevated to Board Member responsible for Human Resources, and Gil Steyaert becoming Board Member responsible for Global Operations. All three were internal promotions, a nod to our people potential.

To continue to excel in leadership development, we established a Core Leadership Group and an Extended Leadership Group consisting of leaders from our most important markets and

functions. Their job is to make sure we implement our strategy with excellence in every category and market, and to promote the development of future leaders, with a focus on female talent.

To align the interests of our senior leaders with those of the adidas AG shareholders, we also linked long-term remuneration of senior executives to the development of our share price.

### PROGRESS ON OUR GAME PLAN: 'CREATING THE NEW'

An athlete's mindset drives us to raise the standards for the entire industry. We have until 2020 to implement Creating the New, which is the right strategy to succeed in the highly attractive industry we are in. We are making great strides and clearly delivering against our financial ambition. But we are far from the finish line.

#### Speed, Cities, and Open Source

In 2017, we picked up the pace in becoming the first true fast sports company in the world, based on our strategic choice **Speed**. The net sales share of speed-enabled products increased to 28% in 2017. We also made further progress to achieve a 20% higher share of full-price sales with this part of our business. In addition to embedding Speed in our existing supply chain and production processes, we explore new, disruptive business models and technologies. In our Speedfactories in Ansbach, Germany, and Atlanta, USA, smart manufacturing brings production closer to our consumer. Last year saw the first major product created at the Speedfactory: the AM4 series, an individually crafted shoe made exclusively for our global key cities.

To make our mark on a global scale, we need to win the consumer in major metropolitan centers. We over-invest to grow share of mind, share of market, and share of trend in six global mega **Cities**: London, Los Angeles, New York, Paris, Shanghai, and Tokyo. In 2017, we improved brand desire in most of these cities by delivering extraordinary experiences to our consumers. As a result, our key cities made an above-average contribution to the overall growth of our company and helped us win market share.

The direction of sport – and our company – is set by all creators. As defined in our strategic choice **Open Source**, we invite athletes, consumers, and partners to collaborate with our brands. By inspiring innovation in the industry and beyond, creative partnerships help us shape the future of sport – and the sports culture.

Our creative collaborations with Alexander Wang, Kanye West, and Stella McCartney to name a few, continued to drive brand desire and growth. By partnering up with the world's best athletes and teams, we build communities of advocates. This also takes place on a local level;

the 'adidas Runners' community, for instance, currently has over 50,000 active runners in Western Europe alone.

Our appetite for collaboration allows us to share our sports knowledge by working with the best in other fields. Our partnership with Parley for the Oceans is a prime example: In 2017, we released multiple franchise silhouettes, such as the UltraBOOST, NMD and EQT, made of Parley Ocean Plastic. We also joined forces with Carbon, a pioneer in 3D printing, to launch a new product and platform: Futurecraft 4D. Driven by athlete data, a production process called 'Digital Light Synthesis' enables us to print previously impossible designs without labor-intensive and complex assembly.

### Portfolio, adidas North America, Digital, and ONE adidas

On top of focusing on Speed, Cities, and Open Source, along with our unique culture, we accelerated Creating the New with four priorities: Portfolio, adidas North America, Digital, and ONE adidas. We moved ahead with actively managing our brand portfolio and completed the divestiture of the TaylorMade, Adams Golf and Ashworth golf brands, as well as the CCM hockey business. In the meanwhile, the 'Muscle-Up' turnaround at Reebok is in full motion.

In North America, the largest sporting goods market in the world, we grew our adidas brand business by over 30% and kept building capabilities and infrastructure. Our global e-commerce business was up more than 50%. Digital, however, means much more to us; gearing up for the future, we are driving digital transformation across the entire organization. Finally, we are pulling levers to improve our operational efficiency and to become a more agile and truly global company.

### Sustainability

It is our obligation to operate responsibly. We have integrated **sustainability** in most aspects of our business, from product creation and supplier management to store concept development and facilities. Through our actions, we challenge and inspire everyone to contribute to a more sustainable future.

In 2017, we created more than one million pairs of shoes made with Parley Ocean Plastic, while 93% of all cotton we sourced globally was Better Cotton. Following our decision to go plastic-free at our offices, the changes we have implemented will avoid more than 40 tons of single-use plastic items per year.

Externally, our efforts continue to receive recognition, with adidas being listed in the Dow Jones Sustainability Indices for the 18th consecutive year, and being awarded the third re-accreditation of our social supply chain program by the Fair Labor Association. What's more, this Annual Report marks the beginning of paper-free reporting – another testament to walking the talk in our daily business.

### AN ATHLETE'S MINDSET TURNS TO PERFORMANCE

Competition is in our DNA. We are constantly reassessing our processes, thinking of ways to get faster, stronger, and more attractive for the consumer. In this spirit, we **continued to break records** in the way we operate and the value we bring to our stakeholders.

### 2017 financial results

In 2017, we achieved record sales of € 21.2 billion, reflecting currency-neutral growth of 16%. The adidas brand continued to grab share of mind and market around the globe, growing at double-digit rates in all regions except Russia/CIS.

Despite currency headwinds, our gross margin climbed 120 basis points to 50.4%. We increased our investments into our brands while strictly managing costs. As a result, we fed the gross margin improvement through to the operating margin, which expanded to a level of 9.8%. Our net income from continuing operations, excluding the negative one-time impact of the US tax reform, grew more than twice as fast as our top line, up 32% to € 1.430 billion.

### 2018 outlook

We will continue our momentum in 2018, with a bias for quality growth. We are targeting a currency-neutral sales increase of around 10% against difficult comparisons, given two consecutive years of strong double-digit growth.

By increasingly leveraging our scalable operating model, net income is expected to once again grow significantly faster than revenues, to a level of more than € 1.6 billion. This will not only keep us on track toward our 2020 financial ambition, but also allows us to raise the bar once more: We are now targeting even higher net income growth, between 22% and 24% on average per year, for our current strategic cycle from 2015 until 2020.

## IN CLOSING

Our mission is to be the best sports company in the world, but we are only as good as what our consumers, athletes, teams, partners, shareholders, and the media say about us. When all our stakeholders call us the best, market share, leadership, and profitability will follow.

This logic is reflected in our 2017 performance and 2018 outlook. Our strategy Creating the New paired with an athlete's mindset enables us to deliver sustainable value for our stakeholders, our employees, and for society at large – now and in the future.

We will consistently put Creating the New into practice. Our strategy might span only until 2020 but, like any athlete, we keep aiming for better. **We play to win.**

Thank you for your ongoing support.

Sincerely yours,



**KASPER RORSTED**

CEO