

adidas

**HALF YEAR
REPORT**

JANUARY-JUNE
2023

HALF YEAR REPORT

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

adidas uses alternative performance measures (APM) in its regulatory and mandatory publications that may represent so-called non-GAAP measures. An overview of these APMs can be found on our website. ► [ADIDAS-GROUP.COM/S/FINANCIAL-PUBLICATIONS](https://www.adidas-group.com/s/financial-publications)

FINANCIAL HIGHLIGHTS (IFRS)

FINANCIAL HIGHLIGHTS 2023 (IFRS)

	First half year 2023	First half year 2022	Change
Operating Highlights (€ in millions)			
Net sales	10,617	10,897	(3%)
Gross profit	5,082	5,463	(7%)
Other operating expenses	4,949	4,759	4%
EBITDA	800	1,413	(43%)
Operating profit	236	828	(71%)
Net income from continuing operations	73	671	(89%)
Net income attributable to shareholders	45	776	(94%)
Key Ratios			
Gross margin	47.9%	50.1%	(2.3pp)
Other operating expenses in % of net sales	46.6%	43.7%	2.9pp
Operating margin	2.2%	7.6%	(5.4pp)
Effective tax rate	53.1%	5.7%	47.4pp
Net income attributable to shareholders in % of net sales	0.4%	7.1%	(6.7pp)
Average operating working capital in % of net sales ¹	27.1%	21.0%	6.0pp
Equity ratio ²	24.8%	28.3%	(3.5pp)
Adjusted net borrowings ³ /EBITDA ⁴	4.8	1.7	3.1
Financial leverage	126.1%	77.5%	48.6pp
Return on equity ²	0.9%	12.9%	(11.9pp)
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	19,338	21,324	(9%)
Inventories	5,540	5,483	1%
Receivables and other current assets	4,618	5,767	(20%)
Operating working capital	5,896	5,191	14%
Shareholders' equity	4,790	6,032	(21%)
Capital expenditure	175	315	(45%)
Net cash generated from/(used in) operating activities	460	(424)	n.a.
Per Share of Common Stock (€)			
Basic earnings	0.29	3.47	(92%)
Diluted earnings	0.29	3.47	(92%)
Net cash generated from/(used in) operating activities	2.58	(2.27)	n.a.
Dividend	0.70	3.30	(79%)
Share price at end of period	177.78	168.76	5%
Other (at end of period)			
Number of employees	57,334	60,661	(5%)
Number of shares outstanding	178,549,084	182,527,479	(2%)
Average number of shares	178,537,986	186,510,429	(4%)

1 Twelve-month trailing average.

2 Based on shareholders' equity.

3 Adjusted net borrowings = short-term borrowings + long-term borrowings + current and non-current lease liabilities + pensions and similar obligations + factoring – accessible cash and cash equivalents.

4 EBITDA of last twelve months.

BUSINESS PERFORMANCE

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMY WITH MULTIPLE CHALLENGES IN THE FIRST HALF OF 2023¹

Around the globe, economies faced heightened uncertainty related to residual negative effects of the coronavirus pandemic, the war in Ukraine, and the tightening of monetary policy to counter elevated levels of inflation. In combination, these dynamics increased recession risks, particularly in North America and Europe, while the speed and extent of the economic recovery in Greater China remained uncertain. Stress in the banking sector, tighter credit conditions, weakening labor markets, and lingering effects of last year's energy and commodity price spikes also weighed on economic activity in advanced economies. In developing economies, growth was constrained by tight domestic monetary policies, fiscal consolidation, and weak external demand. In addition, all regions faced downside risks from potential additional geopolitical conflicts and supply chain disruptions. As a result, consumer sentiment remains pressured, despite showcasing some degree of resilience in the first half of 2023.

SPORTING GOODS INDUSTRY GROWTH PRESSURED IN FIRST SIX MONTHS OF 2023

In the first half of 2023, the global sporting goods industry faced several challenges. Supply chain costs remained elevated as a consequence of last year's peak in freight rates and raw material prices. Additionally, multi-year high inflation continued to negatively affect discretionary spending. Excess inventory and heightened promotional activity also weighed on industry growth. On a positive note, the easing of strict lockdown measures in Greater China led to a return of physical events and increased local store traffic. At the same time, the speed and extent of the recovery – particularly for Western brands – remain unclear. While major sporting events such as the FIFA Women's World Cup 2023 or the World Marathon Majors are supporting growth in the sporting goods industry, downside risks related to a global economic downturn, rising geopolitical tensions, supply chain disruptions, and the resulting adverse effects on consumer spending also continue to exist.

INCOME STATEMENT

ADIDAS WITH FLAT REVENUE DEVELOPMENT IN THE FIRST HALF OF 2023

In the first half of 2023, currency-neutral revenues were flat versus the prior-year period. In euro terms, revenues decreased 3% to € 10,617 million (2022: € 10,897 million). While sell-out trends improved throughout the period, the adidas top-line development continued to be negatively impacted by the company's conservative sell-in strategy in order to reduce high inventory levels, particularly in North America and Greater China.

The discontinuation of the regular Yeezy business represented a drag of around € 400 million on the year-over-year comparison during the first half of the year. The first sale of some of the company's remaining Yeezy inventory positively impacted net sales in the amount of around € 400 million in the second quarter of 2023, which was largely in line with the prior year's quarter. At the same time, however, there were no Yeezy revenues in the first quarter of 2023, while the company had generated around € 400 million of

¹ Source: World Bank, Global Economic Prospects.

Yeezy sales in the first quarter of 2022. As a result, the company's Yeezy revenues reached around € 400 million in the first half of 2023 compared to a total of around € 800 million in the prior-year period.

While currency-neutral revenues in North America declined at a double-digit rate, Greater China returned to growth and EMEA posted a low-single-digit increase. At the same time, the strong momentum continued in Latin America and Asia-Pacific as both regions grew at a double-digit rate. From a category perspective, Performance was up double digits driven by broad-based growth in almost all categories, including Football, Running, Outdoor, Golf and Specialist Sports. These increases were driven by new product launches, such as the latest iterations of the iconic football franchises Predator, Copa, and X, the Adizero family of running footwear or the Free Hiker Outdoor franchise. In contrast, revenues in the Lifestyle category were down year-over-year despite extraordinary demand for the company's Samba, Gazelle, and Campus franchises. While adidas slowly started to scale its offering for these product families during the second quarter, the total volume still only represents a small portion of the company's overall business.

The company's gross margin declined 2.3 percentage points to 47.9% (2022: 50.1%) during the first half of the year. The development improved significantly between the first and the second quarter, partly driven by better sell-through and improving discounting levels. Higher supply chain costs, negative currency developments, higher inventory allowances, as well as the promotional activity weighed on the gross margin development during the six-month period. At the same time, price increases benefited the gross margin in the first half of 2023.

Royalty and commission income decreased 8% to € 46 million (2022: € 50 million); other operating income declined 23% to € 57 million (2022: € 74 million).

KEY FINANCIAL HIGHLIGHTS

	First half year 2023	First half year 2022	Change
Operating highlights (€ in millions)			
Net sales	10,617	10,897	(3%)
Operating profit	236	828	(71%)
Net income from continuing operations	73	671	(89%)
Net income attributable to shareholders ¹	45	776	(94%)
Key ratios			
Gross margin	47.9%	50.1%	(2.3pp)
Other operating expenses in % of net sales	46.6%	43.7%	2.9pp
Operating margin	2.2%	7.6%	(5.4pp)
Per share of common stock (€)			
Diluted earnings ¹	0.29	3.47	(92%)

¹ Includes continuing operations.

Other operating expenses, including depreciation and amortization, consist of marketing and point-of-sale as well as operating overhead expenses. In the first half of 2023, other operating expenses were up 4% to € 4,949 million (2022: € 4,759 million). As a percentage of sales, other operating expenses increased 2.9 percentage points to 46.6% (2022: 43.7%). Marketing and point-of-sale expenses amounted to € 1,218 million (2022: € 1,304 million), a decrease of 7% compared to the prior year. The company continued its marketing investments to support new product launches such as the X Crazylight Football boot, latest additions to the Barricade franchise in Tennis, and partnership drops with Bad Bunny in Lifestyle. Major brand campaigns in the first half of the year included 'Ridiculous Run' centered around women's safety in running and 'Play Until They Can't Look Away', celebrating the next generation of

players at the FIFA Women's World Cup 2023. At the same time, adidas reduced point-of-sale expenses in regions with heightened promotional activity in the market. As a percentage of sales, marketing and point-of-sale expenses were down 0.5 percentage points to 11.5% in the first half of 2023 (2022: 12.0%). Operating overhead expenses increased 8% to € 3,731 million (2022: € 3,455 million), reflecting higher logistics costs. In addition, the company recorded one-off costs of around € 70 million related to the strategic review the company is currently conducting as well as donations and accruals for further donations in an amount of around € 110 million. As a percentage of sales, operating overhead expenses increased 3.4 percentage points to 35.1% (2022: 31.7%). In the first six months of 2023, adidas recorded an operating profit of € 236 million (2022: € 828 million). The initial sale of the Yeezy product in the second quarter positively impacted adidas' operating profit by an incremental amount of around € 150 million during the first half of the year. At the same time, the company's operating profit includes extraordinary expenses of in total around € 180 million reflecting the one-off costs related to the strategic review as well as the donations and accruals for further donations. The operating margin reached 2.2% in the first half of 2023 (2022: 7.6%).

Financial income increased to € 30 million (2022: € 24 million). Financial expenses decreased to € 111 million (2022: € 140 million) driven by more favorable foreign exchange rate developments. Consequently, net financial expenses decreased to € 81 million compared to € 117 million in the prior-year period. The company recorded income taxes of € 82 million resulting in a tax rate of 53.1% (2022: 5.7%), reflecting the lower income before taxes. During the six-month period, the company incurred net income from continuing operations of € 73 million (2022: € 671 million), resulting in basic and diluted earnings per share (EPS) from continuing operations of € 0.29 (2022: € 3.47). ► [SEE FINANCIAL HIGHLIGHTS](#)

In the first half of 2023, adidas' loss from discontinued operations net of tax amounted to € 7 million related to the Reebok divestiture (2022: gain of € 128 million). Net income attributable to non-controlling interests was € 20 million (2022: € 23 million). As a result, the net income attributable to shareholders, which, in addition to the net income from continuing operations, includes the loss from discontinued operations, amounted to € 45 million (2022: € 776 million). Consequently, both basic and diluted EPS from continuing and discontinued operations were € 0.25 (2022: € 4.16).

The total number of shares outstanding slightly increased to 178,549,084 in the first half of 2023, reflecting the grant of 11,886 shares to Bjørn Gulden in connection with his Executive Board remuneration. The average number of shares used in the calculation of EPS was 178,537,986. ► [SEE FINANCIAL HIGHLIGHTS](#)

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Changes in the statement of financial position are discussed in relation to the respective positions at the end of June 2022.

ASSETS

At the end of June 2023, total assets were down 9% to € 19,338 million compared to the prior year (2022: € 21,324 million), mainly driven by a decrease in current assets.

Total current assets decreased 13% to € 11,151 million at the end of June 2023 (2022: € 12,828 million). Cash and cash equivalents were down 37% to € 993 million (2022: € 1,578 million). Accounts receivable decreased by 15% to € 2,567 million (2022: € 3,022 million), reflecting top-line declines in the Wholesale channel in North America and EMEA. On a currency-neutral basis, receivables were down 11%. Other current financial assets declined by 39% to € 795 million (2022: € 1,311 million) mainly due to the adjustment of the fair value of financial instruments and the settlement of deferred considerations with regard to the divestiture of the Reebok business. Inventories increased 1% to € 5,540 million versus the

prior-year level of € 5,483 million. During the first six months of the year, the company's inventory level declined by more than € 400 million as a result of adidas' initiatives around inventory management, including significantly reducing buying volumes and tactically repurposing existing inventory. On a currency-neutral basis, inventories increased 6% compared to the prior year. Other current assets decreased by 15% to € 1,134 million (2022: € 1,334 million), mainly due to the reduction of tax receivables.

Total non-current assets decreased 4% to € 8,186 million at the end of June 2023 (2022: € 8,496 million). Fixed assets were down 8% to € 6,490 million (2022: € 7,072 million). Deferred tax assets were up 32% to € 1,290 million (2022: € 974 million).

STRUCTURE OF STATEMENT OF FINANCIAL POSITION¹ (IN % OF TOTAL ASSETS)

	June 30, 2023	June 30, 2022
Assets (€ in millions)	19,338	21,324
Cash and cash equivalents	5.1	7.4
Accounts receivable	13.3	14.2
Inventories	28.6	25.7
Fixed assets	33.6	33.2
Other assets	19.4	19.6

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

LIABILITIES AND EQUITY

Total current liabilities decreased 9% to € 8,726 million at the end of June 2023 (2022: € 9,602 million). Short-term borrowings increased 193% to € 915 million at the end of June 2023 (2022: € 313 million), mainly reflecting the reclassification of the equity-neutral convertible bond of € 500 million due to its maturity in September 2023. Accounts payable decreased 33% to € 2,210 million (2022: € 3,314 million) as a result of lower sourcing volumes compared to the prior-year period. On a currency-neutral basis, accounts payable also decreased 33%. Other current financial liabilities declined by 32% to € 337 million (2022: € 496 million), mainly due to the adjustment of the fair value of financial instruments.

Total non-current liabilities increased 3% to € 5,450 million at the end of June 2023 (2022: € 5,301 million). Long-term borrowings increased 20% to € 2,938 million compared to the prior year (2022: € 2,459 million) due to the issuance of two new bonds amounting to € 1,000 million in November 2022 and the reclassification of the equity-neutral convertible bond of € 500 million. The non-current lease liability decreased 12% to € 2,110 million (2022: € 2,401 million), mainly due to currency effects and lease modifications.

Compared to the prior year, the total number of shares outstanding decreased by 2% or 3,978,395 shares to 178,549,084 at the end of June 2023. ► [SEE FINANCIAL HIGHLIGHTS](#)

Shareholders' equity decreased 21% to € 4,790 million at the end of June 2023 (2022: € 6,032 million), mainly reflecting the repurchase of adidas AG shares, currency effects, and the dividend payment. Consequently, the company's equity ratio decreased 3.5 percentage points from 28.3% to 24.8%.

STRUCTURE OF STATEMENT OF FINANCIAL POSITION¹ (IN % OF TOTAL LIABILITIES AND EQUITY)

	June 30, 2023	June 30, 2022
Liabilities and equity (€ in millions)	19,338	21,324
Short-term borrowings	4.7	1.5
Accounts payable	11.4	15.5
Long-term borrowings	15.2	11.5
Other liabilities	41.9	41.4
Total equity	26.7	30.1

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

OPERATING WORKING CAPITAL

Operating working capital increased 14% to € 5,896 million at the end of June 2023 (2022: € 5,191 million). On a currency-neutral basis, operating working capital was up 22%. The average operating working capital as a percentage of sales increased 6.0 percentage points to 27.1% (2022: 21.0%). This development reflects a significant decrease of receivables as a result of the company's conservative sell-in approach as well as a high double-digit decrease in payables due to lower sourcing volumes in line with the company's activities to reduce elevated inventory levels. ► [SEE FINANCIAL HIGHLIGHTS](#)

LIQUIDITY ANALYSIS

In the first half of 2023, net cash generated from operating activities was € 460 million (2022: net cash used € 464 million), mainly reflecting more effective working capital management. Net cash used in investing activities amounted to € 88 million (2022 net cash generated: € 880 million). The majority of investing activities in the first half of 2023 related to spending for property, plant, and equipment, such as investments into controlled space as well as for other intangible assets, such as the development of software, but also included proceeds from investments and other long-term assets. Net cash used in financing activities totaled € 137 million (2022: € 2,757 million), reflecting the repayment of lease liabilities, the dividend paid to shareholders for the year 2022, and proceeds from short-term borrowings in the first half of 2023.

Cash and cash equivalents decreased € 584 million from € 1,578 million at the end of June 2022 to € 993 million at the end of June 2023. In these twelve months, net cash generated from operating activities was more than offset by net cash used in investing activities and net cash used in financing activities.

Adjusted net borrowings at June 30, 2023, amounted to € 6,039 million, representing an increase of € 1,366 million compared to adjusted net borrowings of € 4,673 million at the end of June 2022. The decline in lease liabilities was more than offset by a significant increase in short- and long-term borrowings as well as a decrease in cash and cash equivalents. The company's ratio of adjusted net borrowings over EBITDA amounted to 4.8. ► [SEE FINANCIAL HIGHLIGHTS](#)

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: EMEA, North America, Greater China, Asia-Pacific, Latin America, and Other centrally managed businesses. EMEA comprises Europe and Emerging Markets (Middle East, Africa, and Russia/CIS). The Asia-Pacific market consists of Japan, South Korea, Southeast Asia, and the Pacific region.

ADIDAS REVENUES FLAT VERSUS THE PRIOR YEAR IN FIRST HALF OF 2023

In the first half of 2023, currency-neutral revenues were flat versus the prior-year period. While sell-out trends improved throughout the period, the adidas top-line development continued to be negatively impacted by the company's conservative sell-in strategy in order to reduce high inventory levels, particularly in North America and Greater China. The discontinuation of the regular Yeezy business represented a drag of around € 400 million on the year-over-year comparison during the first half of the year. The first sale of some of the company's remaining Yeezy inventory positively impacted net sales in the amount of around € 400 million in the second quarter of 2023, which was largely in line with the prior year's quarter. At the same time, however, there were no Yeezy revenues in the first quarter of 2023, while the company had generated around € 400 million of Yeezy sales in the first quarter of 2022. As a result, the company's Yeezy revenues reached around € 400 million in the first half of 2023 compared to a total of around € 800 million in the prior year period.

Against this background currency-neutral revenues increased in all markets except for North America, where revenues declined at a double-digit rate. While currency-neutral revenues in EMEA and Greater China grew at low single-digit rates, Latin America and Asia-Pacific continued their strong momentum and delivered double-digit growth. While price increases benefited the gross margin in most markets, these developments were more than offset by significantly higher supply chain costs and higher discounting. Furthermore, negative currency developments as well as higher inventory allowances weighed on gross margin developments in most segments. In addition to gross margin pressure, higher operating expenses as a percentage of sales weighed on operating margins in all regions except for Greater China and Latin America.

EMEA

Sales in EMEA increased 2% on a currency-neutral basis. In euro terms, sales decreased 1% to € 3,975 million. The currency-neutral increase was mainly driven by broad-based growth in Performance reflecting improvements in Football, Running, Golf and Specialist Sports.

Gross margin in EMEA was down 4.8 percentage points to 46.3%, as the benefits from price increases were more than offset by higher supply chain costs as well as negative currency developments. Operating expenses declined 1% to € 1,207 million, reflecting an increase in marketing spend and a decrease in operating overhead costs. As a percentage of sales, operating expenses were up 0.1 percentage points to 30.4%. Operating profit in EMEA decreased 24% to € 648 million. The operating margin declined 5.0 percentage points to 16.3%.

EMEA AT A GLANCE € IN MILLIONS

	First half year 2023	First half year 2022	Change	Change (currency- neutral)
Net sales	3,975	4,014	(1%)	2%
Gross profit	1,841	2,051	(10%)	(8%)
Gross margin	46.3%	51.1%	(4.8pp)	(4.9pp)
Segmental operating profit	648	853	(24%)	(22%)
Segmental operating margin	16.3%	21.2%	(5.0pp)	(5.0pp)

NORTH AMERICA

Sales in North America decreased 18% on a currency-neutral basis. In euro terms, sales were down 17% to € 2,575 million. This decline was despite strong growth in key Performance categories such as Football, Golf, Specialist Sports and US Sports.

Gross margin in North America decreased 5.9 percentage points to 39.2%. Price increases and a better channel mix could not offset higher discounts, increased supply chain costs as well as higher inventory allowances. Operating expenses increased 10% to € 900 million, reflecting stable marketing expenditure and a strong increase in operating overhead costs. Operating expenses as a percentage of sales were up 8.7 percentage points to 34.9%. The operating profit in North America declined 76% to € 145 million. As a result, operating margin in the region decreased 14.2 percentage points to 5.6%.

NORTH AMERICA AT A GLANCE¹ € IN MILLIONS

	First half year 2023	First half year 2022	Change	Change (currency- neutral)
Net sales	2,575	3,111	(17%)	(18%)
Gross profit	1,009	1,404	(28%)	(29%)
Gross margin	39.2%	45.1%	(5.9pp)	(6.0pp)
Segmental operating profit	145	617	(76%)	(77%)
Segmental operating margin	5.6%	19.8%	(14.2pp)	(14.2pp)

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

GREATER CHINA

Sales in Greater China increased 1% on a currency-neutral basis. In euro terms, sales were down 4% to € 1,650 million. The currency-neutral increase was mainly driven by the growth in almost all Performance categories including Football, Running, Outdoor and Specialist Sports.

Gross margin in Greater China was down 2.3 percentage points to 50.3% as positive currency developments and lower inventory allowances were more than offset by less favorable pricing effects and higher supply chain costs. Operating expenses were down 17% to € 487 million, reflecting strong decreases in both marketing expenditure and operating overhead costs. Operating expenses as a percentage of sales declined 4.6 percentage points to 29.5%. Operating profit in Greater China increased 6% to € 344 million. Consequently, the operating margin was up 2.0 percentage points to 20.8%.

GREATER CHINA AT A GLANCE € IN MILLIONS

	First half year 2023	First half year 2022	Change	Change (currency- neutral)
Net sales	1,650	1,723	(4%)	1%
Gross profit	831	907	(8%)	(4%)
Gross margin	50.3%	52.7%	(2.3pp)	(2.3pp)
Segmental operating profit	344	325	6%	12%
Segmental operating margin	20.8%	18.8%	2.0pp	2.0pp

ASIA-PACIFIC

Sales in Asia-Pacific increased 11% on a currency-neutral basis. In euro terms, sales were up 6% to € 1,117 million. On a currency-neutral basis, this development is based on strong double-digit growth in all Performance categories, particularly in Football, Running, and Training as well as high single-digit increases in Lifestyle mainly driven by a double-digit increase in Originals.

Gross margin in Asia-Pacific remained stable at 53.9%. The favorable effects of price increases, lower discount levels, and a positive channel mix were offset by increased supply chain costs as well as negative currency fluctuations. Operating expenses were up 13% to € 374 million, reflecting an increase in marketing expenditure and a strong increase in operating overhead costs. As a percentage of sales, operating expenses increased 2.1 percentage points to 33.5%. Operating profit in Asia-Pacific decreased 6% to € 236 million. The operating margin in the region declined 2.5 percentage points to 21.2%.

ASIA-PACIFIC AT A GLANCE € IN MILLIONS

	First half year 2023	First half year 2022	Change	Change (currency- neutral)
Net sales	1,117	1,056	6%	11%
Gross profit	602	569	6%	11%
Gross margin	53.9%	53.9%	0.0pp	(0.1pp)
Segmental operating profit	236	250	(6%)	(1%)
Segmental operating margin	21.2%	23.7%	(2.5pp)	(2.6pp)

LATIN AMERICA

Sales in Latin America increased 39% on a currency-neutral basis. In euro terms, sales rose 28% to € 1,191 million. The currency-neutral increase was driven by strong double-digit growth in all Performance categories as well as in Lifestyle.

Gross margin in Latin America increased 0.6 percentage points to 47.5%, as significant price increases more than offset less favorable currency developments, higher supply chain costs and increased discounting. Operating expenses were up 22% to € 284 million, reflecting strong increases in both marketing expenditure and operating overhead costs. Operating expenses as a percentage of sales declined 1.1 percentage points to 23.8%. Operating profit in Latin America rose 35% to € 283 million. The operating margin in the region increased 1.2 percentage points to 23.7%.

LATIN AMERICA AT A GLANCE¹ € IN MILLIONS

	First half year 2023	First half year 2022	Change	Change (currency- neutral)
Net sales	1,191	929	28%	39%
Gross profit	566	436	30%	43%
Gross margin	47.5%	46.9%	0.6pp	1.5pp
Segmental operating profit	283	209	35%	56%
Segmental operating margin	23.7%	22.5%	1.2pp	2.6pp

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

OUTLOOK²

GLOBAL ECONOMIES FACE ELEVATED RECESSION RISKS IN 2023³

In 2023, global GDP growth is now forecast to slow to 2.1%, with economic activity expected to moderate significantly in the second half of 2023. Soaring inflation and tight monetary policy are forecast to substantially weigh on growth as pressure on demand continues to build. In addition, softening labor markets and lingering effects of the 2022 energy and commodity price spike due to the war in Ukraine further elevate recession risks, especially in North America and Europe. At the same time, the speed and extent of the economic recovery in Greater China remain uncertain. As a result, consumer confidence is likely to remain pressured as geopolitical conflicts and supply chain disruptions pose additional downside risks.

SPORTING GOODS INDUSTRY WITH SEVERAL CHALLENGES IN 2023

Given continued macroeconomic challenges, the global sporting goods industry is facing increased risks of a slowdown in the second half of 2023 as well. Many markets around the globe are expected to be further impacted by multi-year high inflation in a negative way, while higher prices continue to weigh on consumer spending. Despite easing sequentially, excess inventory and heightened promotional activity will further weigh on industry growth. In Greater China, the future recovery path for Western brands remains unclear, despite a rebound of economic activity so far. Apart from these challenges, major sports events such as the FIFA Women's World 2023 as well as existing global trends such as 'athleisure' and the rising awareness for health, wellness, and sustainability are expected to make the sporting goods industry fundamentally attractive in the long run.

RISKS AND OPPORTUNITIES

Risks related to elevated inventory levels in the marketplace, in particular in the US, negative macroeconomic developments, as well as uncertainties regarding the geopolitical situation could negatively impact our financial results.

We continue to see major opportunities in the medium- to long-term related to consumer demand, brand heat, product offering, product lifecycle management and margin improvements. In the short term, upside potential is mainly related to the successful launch of additional Yeezy drops.

Given the company's strong risk-bearing capacity due to its current liquidity position and financial health, Management does not foresee any material jeopardy to the viability of the company as a going concern. We remain confident that the earnings strength forms a solid foundation for our business development and provides the necessary resources to pursue future opportunities.

² This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of adidas. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this First Half Year Report. In addition, such forward-looking statements are subject to uncertainties as described in the Risk and Opportunity Report of the adidas 2022 Annual Report 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.

³ Source: World Bank, Global Economic Prospects.

ADIDAS ADJUSTS ITS OUTLOOK FOR FULL YEAR 2023

On July 24, adidas had adjusted its full year financial guidance to reflect the positive impact of the first sale of some of its Yeezy inventory and a slightly better-than-expected development of the adidas business in the first half of the year. At the same time, macroeconomic challenges and geopolitical tensions persist. Elevated recession risks in North America and Europe as well as uncertainty around the recovery in Greater China continue to exist. In addition, the company's revenue development will continue to be impacted by the initiatives to significantly reduce high inventory levels. As a result, adidas now expects currency-neutral revenues to decline at a mid-single-digit rate in 2023 (previously: decline at a high single-digit rate).

The company's underlying operating profit – excluding any one-offs related to Yeezy and the ongoing strategic review – is still anticipated to be around the break-even level. Including the positive impact from the first Yeezy drop of around € 150 million, the potential write-off of the remaining Yeezy inventory of now € 400 million (previously: € 500 million) and one-off costs related to the strategic review of up to € 200 million (unchanged), the company now expects to report an operating loss of € 450 million in 2023 (previously: loss of € 700 million).

On August 2, the company launched a second drop of Yeezy inventory. Throughout the month of August, adidas is making a range of existing products available through both its own e-commerce channel as well as the digital platforms of selected wholesale partners. If successful, this second drop would further improve the company's results. However, as the results of this drop are yet unknown, it is not accounted for in the company's current top- and bottom-line outlook for 2023.

During 2022, average operating working capital as a percentage of sales increased reflecting elevated inventory levels driven by longer lead times, a higher sourcing volume as well as increased product and freight costs. The company's focus in 2023 remains on strongly reducing its inventory levels. As this improvement takes time and against the background of the expected top-line decline, we still forecast average operating working capital as a percentage of sales to increase to a level of between 25% and 26% in 2023.

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 still expected to reach a level of around € 600 million in 2023.

COMPANY TARGETS VERSUS ACTUAL KEY METRICS

	2022 Results	2023 Previous Targets ¹	2023 Updated Targets ²
Net sales (€ in millions)	22,511	to decline at a high-single-digit rate ³	to decline at a mid-single-digit rate ³
Operating margin/ operating loss	3.0%	operating loss of € 700 million	operating loss of € 450 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%
Capital expenditure (€ in millions) ⁴	695	to reach a level of around € 600 million	to reach a level of around € 600 million

¹ As published in the Annual Report 2022.

² As published on July 24, 2023.

³ Currency-neutral.

⁴ Excluding acquisitions and leases.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	June 30, 2023	June 30, 2022	Change in %	December 31, 2022
Assets				
Cash and cash equivalents	993	1,578	(37.0)	798
Accounts receivable	2,567	3,022	(15.1)	2,529
Other current financial assets	795	1,311	(39.3)	1,014
Inventories	5,540	5,483	1.0	5,973
Income tax receivables	122	100	21.9	102
Other current assets	1,134	1,334	(15.0)	1,316
Total current assets	11,151	12,828	(13.1)	11,732
Property, plant and equipment	2,148	2,346	(8.4)	2,279
Right-of-use assets	2,350	2,732	(14.0)	2,665
Goodwill	1,247	1,278	(2.4)	1,260
Other intangible assets	436	418	4.5	429
Long-term financial assets	309	298	3.7	301
Other non-current financial assets	345	366	(5.7)	336
Deferred tax assets	1,290	974	32.4	1,216
Other non-current assets	62	84	(26.3)	76
Total non-current assets	8,186	8,496	(3.6)	8,563
Total assets	19,338	21,324	(9.3)	20,296

ADIDAS AG CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS) € IN MILLIONS

	June 30, 2023	June 30, 2022	Change in %	December 31, 2022
Liabilities and equity				
Short-term borrowings	915	313	192.6	527
Accounts payable	2,210	3,314	(33.3)	2,908
Current lease liabilities	572	608	(5.9)	643
Other current financial liabilities	337	496	(32.2)	424
Income taxes	343	448	(23.5)	302
Other current provisions	1,379	1,338	3.0	1,589
Current accrued liabilities	2,445	2,579	(5.2)	2,412
Other current liabilities	525	506	3.9	452
Total current liabilities	8,726	9,602	(9.1)	9,257
Long-term borrowings	2,938	2,459	19.5	2,946
Non-current lease liabilities	2,110	2,401	(12.1)	2,343
Other non-current financial liabilities	13	53	(76.0)	44
Pensions and similar obligations	121	108	11.9	118
Deferred tax liabilities	138	155	(11.0)	135
Other non-current provisions	119	108	9.8	88
Non-current accrued liabilities	4	8	(53.5)	7
Other non-current liabilities	7	9	(23.8)	6
Total non-current liabilities	5,450	5,301	2.8	5,688
Share capital	179	183	(2.2)	179
Reserves	350	758	(53.9)	466
Retained earnings	4,262	5,092	(16.3)	4,347
Shareholders' equity	4,790	6,032	(20.6)	4,991
Non-controlling interests	372	388	(4.1)	360
Total equity	5,162	6,420	(19.6)	5,351
Total liabilities and equity	19,338	21,324	(9.3)	20,296

CONDENSED CONSOLIDATED INCOME STATEMENT

ADIDAS AG CONDENSED CONSOLIDATED INCOME STATEMENT (IFRS) € IN MILLIONS

	First half year 2023	First half year 2022	Change	Second quarter 2023	Second quarter 2022	Change
Net sales	10,617	10,897	(2.6%)	5,343	5,596	(4.5%)
Cost of sales	5,535	5,435	1.9%	2,625	2,781	(5.6%)
Gross profit	5,082	5,463	(7.0%)	2,719	2,815	(3.4%)
(% of net sales)	47.9%	50.1%	(2.3pp)	50.9%	50.3%	0.6pp
Royalty and commission income	46	50	(7.8%)	21	27	(21.6%)
Other operating income	57	74	(23.0%)	18	51	(64.1%)
Other operating expenses	4,949	4,759	4.0%	2,582	2,501	3.2%
(% of net sales)	46.6%	43.7%	2.9pp	48.3%	44.7%	3.6pp
Marketing and point-of-sale expenses	1,218	1,304	(6.6%)	617	663	(6.9%)
(% of net sales)	11.5%	12.0%	(0.5pp)	11.5%	11.8%	(0.3pp)
Operating overhead expenses ¹	3,731	3,455	8.0%	1,965	1,838	6.9%
(% of net sales)	35.1%	31.7%	3.4pp	36.8%	32.8%	3.9pp
Operating profit	236	828	(71.5%)	176	392	(55.0%)
(% of net sales)	2.2%	7.6%	(5.4pp)	3.3%	7.0%	(3.7pp)
Financial income	30	24	26.8%	19	16	20.0%
Financial expenses	111	140	(20.7%)	71	107	(33.1%)
Income before taxes	155	711	(78.2%)	123	300	(59.0%)
(% of net sales)	1.5%	6.5%	(5.1pp)	2.3%	5.4%	(3.1pp)
Income taxes	82	41	102.1%	27	(60)	n.a.
(% of income before taxes)	53.1%	5.7%	47.4pp	21.9%	(20.0%)	n.a.
Net income from continuing operations	73	671	(89.2%)	96	360	(73.3%)
(% of net sales)	0.7%	6.2%	(5.5pp)	1.8%	6.4%	(4.6pp)
(Loss)/gain from discontinued operations, net of tax	(7)	128	n.a.	(1)	(52)	97.4%
Net income	65	799	(91.8%)	95	309	(69.3%)
(% of net sales)	0.6%	7.3%	(6.7pp)	1.8%	5.5%	(3.7pp)
Net income attributable to shareholders	45	776	(94.2%)	84	294	(71.4%)
(% of net sales)	0.4%	7.1%	(6.7pp)	1.6%	5.3%	(3.7pp)
Net income attributable to non-controlling interests	20	23	(11.1%)	11	15	(26.2%)
Basic earnings per share from continuing operations (in €)	0.29	3.47	(91.6%)	0.48	1.88	(74.5%)
Diluted earnings per share from continuing operations (in €)	0.29	3.47	(91.6%)	0.48	1.88	(74.5%)
Basic earnings per share from continuing and discontinued operations (in €)	0.25	4.16	(94.0%)	0.47	1.60	(70.5%)
Diluted earnings per share from continuing and discontinued operations (in €)	0.25	4.16	(94.0%)	0.47	1.60	(70.5%)

¹ Aggregated distribution and selling expenses, general and administration expenses, sundry expenses, and impairment losses (net) on accounts receivable and contract assets.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ADIDAS AG CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS) € IN MILLIONS

	First half year 2023	First half year 2022	Second quarter 2023	Second quarter 2022
Net income	65	799	95	309
Items of other comprehensive income that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans (IAS 19), net of tax ¹	2	136	(1)	79
Net loss on other equity investments (IFRS 9), net of tax	(0)	(1)	(0)	(1)
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	2	135	(1)	78
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met				
Net (loss)/gain on cash flow hedges and net foreign investment hedges, net of tax	(53)	78	0	69
Net gain/(loss) on cost of hedging reserve – options, net of tax	5	5	2	(1)
Net gain/(loss) on cost of hedging reserve – forward contracts, net of tax	29	(11)	15	(7)
Reclassification of foreign currency translation differences due to disposal of foreign operations	–	(228)	–	–
Currency translation differences	(113)	386	(33)	310
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met	(132)	230	(16)	372
Other comprehensive income	(131)	366	(17)	450
Total comprehensive income	(65)	1,165	78	759
Attributable to shareholders of adidas AG	(78)	1,110	67	719
Attributable to non-controlling interests	13	54	11	39

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ADIDAS AG CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS) € IN MILLIONS

	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Cost of hedging reserve - options	Cost of hedging reserve - forward contracts	Other reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2021	192	1,294¹	(542)	(64)	(8)	(12)	(200)	6,860¹	7,519	318	7,837
Other comprehensive income	-	-	127	78	5	(12)	135	-	334	32	366
Net income	-	-	-	-	-	-	-	776	776	23	799
Total comprehensive income	-	-	127	78	5	(12)	135	776	1,110	54	1,165
Repurchase of adidas AG shares	(9)	-	-	-	-	-	-	(1,945)	(1,954)	-	(1,954)
Repurchase of adidas AG shares due to equity-settled share-based payment	(0)	-	-	-	-	-	-	(7)	(7)	-	(7)
Reissuance of treasury shares due to equity-settled share-based payment	0	-	-	-	-	-	-	19	20	-	20
Dividend payment	-	-	-	-	-	-	-	(610)	(610)	(1)	(611)
Equity-settled share-based payment	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Acquisition of shares from non-controlling interests shareholders in accordance with IAS 32	-	-	4	-	-	-	(48)	-	(44)	17	(27)
Balance at June 30, 2022	183	1,294	(410)	14	(3)	(24)	(112)	5,092	6,032	388	6,420
Balance at December 31, 2022	179	1,338	(608)	(90)	(9)	(48)	(116)	4,347	4,991	360	5,351
Other comprehensive income	-	-	(106)	(53)	5	29	2	-	(123)	(7)	(131)
Net income	-	-	-	-	-	-	-	45	45	20	65
Total comprehensive income	-	-	(106)	(53)	5	29	2	45	(78)	13	(65)
Repurchase of adidas AG shares due to equity-settled share-based payment	(0)	-	-	-	-	-	-	(14)	(14)	-	(14)
Reissuance of treasury shares due to equity-settled share-based payment	0	-	-	-	-	-	-	14	14	-	14
Dividend payment	-	-	-	-	-	-	-	(125)	(125)	(1)	(126)
Equity-settled share-based payment	0	7	-	-	-	-	-	(5)	2	-	2
Balance at June 30, 2023	179	1,345	(714)	(143)	(4)	(19)	(115)	4,262	4,790	372	5,162

¹ Disclosure adjustment from previous years.

CONSOLIDATED STATEMENT OF CASH FLOWS

ADIDAS AG CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS) € IN MILLIONS

	First half year 2023	First half year 2022
Operating activities:		
Income before taxes	155	711
Adjustments for:		
Depreciation, amortization, and impairment losses	579	652
Reversals of impairment losses	(7)	(2)
Interest income	(9)	(13)
Interest expense	82	65
Unrealized foreign exchange losses, net	35	41
Losses on sale of property, plant, and equipment and intangible assets, net	5	4
Other non-cash effects from operating activities	(3)	(36)
Operating profit before working capital changes	837	1,422
Decrease/(Increase) in receivables and other assets	178	(1,277)
Decrease/(Increase) in inventories	332	(1,318)
(Decrease)/Increase in accounts payable and other liabilities	(733)	961
Net cash generated from/(used in) operations before taxes	613	(212)
Income taxes paid	(152)	(212)
Net cash generated from/(used in) operating activities – continuing operations	460	(424)
Net cash used in operating activities – discontinued operations	-	(40)
Net cash generated from/(used in) operating activities	460	(464)
Investing activities:		
Purchase of trademarks and other intangible assets	(64)	(111)
Proceeds from sale of trademarks and other intangible assets	0	1
Purchase of property, plant, and equipment	(111)	(204)
Proceeds from sale of property, plant, and equipment	5	2
Proceeds from sale of a disposal group from prior years	-	12
Proceeds from disposal of discontinued operations net of cash disposed	-	1,165
Proceeds from investments and other long-term assets	73	3
Interest received	9	13
Net cash (used in)/generated from investing activities – continuing operations	(88)	881
Net cash used in investing activities – discontinued operations	-	(1)
Net cash (used in)/generated from investing activities	(88)	880

ADIDAS AG CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS) € IN MILLIONS

	First half year 2023	First half year 2022
Financing activities:		
Interest paid	(64)	(56)
Repayments of lease liabilities	(321)	(376)
Dividend paid to shareholders of adidas AG	(125)	(610)
Dividend paid to non-controlling interest shareholders	(1)	(1)
Acquisition of non-controlling interests	-	(27)
Repurchase of treasury shares	-	(1,953)
Repurchase of treasury shares due to share-based payments	(14)	(15)
Proceeds from reissuance of treasury shares due to share-based payments	12	13
Proceeds from short-term borrowings	377	274
Net cash used in financing activities – continuing operations	(137)	(2,751)
Net cash used in financing activities – discontinued operations	-	(7)
Net cash used in financing activities	(137)	(2,757)
Effect of exchange rates on cash	(40)	90
Increase/(Decrease) in cash and cash equivalents	196	(2,251)
Cash and cash equivalents at beginning of year	798	3,828
Cash and cash equivalents at end of period	993	1,578

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT JUNE 30, 2023

01 GENERAL

The interim consolidated financial statements of adidas AG and its subsidiaries (collectively 'adidas,' the 'Group,' or 'the company') for the first half year ending June 30, 2023, are prepared in compliance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The company applied all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee effective as at June 30, 2023, insofar as they have already been adopted into European law.

These interim consolidated financial statements were prepared in compliance with International Accounting Standard IAS 34 'Interim Financial Reporting.' Accordingly, these interim consolidated financial statements do not include all of the information and notes required for annual consolidated financial statements at financial year-end. Therefore, these interim consolidated financial statements should be read in conjunction with the 2022 annual consolidated financial statements. The accounting policies, as well as the recognition, measurement, and disclosure principles applied in the consolidated financial statements for the year ending December 31, 2022, also apply to the interim consolidated financial statements for the first half year ending June 30, 2023.

The following new standards and interpretations, as well as amendments to existing standards, which were issued by the IASB and endorsed by the EU are effective for financial years beginning on January 1, 2023, have been applied for the first time:

- IFRS 17 Insurance Contracts and Amendments to IFRS 17
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

These do not have any material impact on the interim consolidated financial statements of adidas AG. Further information can be found in the consolidated financial statements 2022.

New accounting standards and interpretations, as well as amendments to existing standards that are not yet effective in the EU or effective for financial years beginning after January 1, 2023, are not expected to have any material impact on the consolidated financial statements. The company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

In October 2022, adidas terminated the Yeezy partnership with immediate effect and ceased distribution of Yeezy-branded products for the time being. In May 2023, adidas announced it would begin selling some of the remaining inventory of adidas Yeezy products. An initial release of products with existing designs and designs initiated in 2022 for sale in 2023 occurred end of May 2023 through the company's own e-commerce channel. As communicated in a press release on May 19, 2023, the company will donate a significant amount to selected organizations working to combat discrimination and hate, including racism

and antisemitism. A provision for this present obligation has been recognized in the interim consolidated financial statements as of June 30, 2023. For the remaining adidas Yeezy products on stock, at adidas' discretion, there was no lower net realizable value as of June 30, 2023, and therefore no valuation allowance was recognized on the existing inventory.

There were no changes in the scope of consolidation in the first half of 2023.

The interim consolidated financial statements and the interim Group management report were not audited in accordance with § 317 German Commercial Code (Handelsgesetzbuch – HGB) nor reviewed in accordance with § 115 section 5 German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) by an auditor.

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

The results of operations for the first half year ending June 30, 2023, are not necessarily indicative of results to be expected for the entire year.

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

02 REVENUE

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

A disaggregation of revenue into product categories is contained in these Notes. ► [SEE NOTE 07](#)

03 DISCONTINUED OPERATIONS

DESCRIPTION

On February 11, 2021, the company decided to initiate a formal process aimed at divesting Reebok, which was completed with signing of a sales agreement with Authentic Brands Group LLC on August 12, 2021. Due to the concrete plans to divest Reebok and the approval by the relevant committees, the Reebok operating business has been reported as discontinued operations and classified as a disposal group held for sale since the resolution.

The Reebok business was sold on February 28, 2022, with effect from March 1, 2022. The majority of the purchase price was paid in cash upon completion of the transaction, with the remainder comprising deferred and contingent consideration. The fair value of earn-out components was determined using the discontinued cash flow method and Monte Carlo method, respectively.

FINANCIAL PERFORMANCE

The gain from the discontinued Reebok operations relates to the first half of 2023 and 2022:

DISCONTINUED OPERATION REEBOK

€ in millions	First half year 2023	First half year 2022
Net sales	15	316
Expenses	(2)	(306)
Gain from operating activities before taxes	13	10
Income taxes	(8)	(28)
Gain/(Loss) from operating activities, net of tax	5	(18)
(Loss)/Gain from the sale of discontinued operations	(19)	522
Other loss from revaluation of contingent consideration receivable	(1)	(7)
Transaction costs	(13)	(26)
Income taxes	21	(343)
(Loss)/Gain from the sale of discontinued operations, net of tax	(12)	146
(Loss)/Gain from discontinued operations, net of tax	(7)	128

Losses from discontinued operations for the first half year 2023 in an amount of € 7 million (2022: gains of € 128 million) are entirely attributable to the shareholders of adidas AG.

In the event the operations of the Reebok business achieve certain performance criteria during the period March 1, 2022, to December 31, 2031, specified as earn-out components in the sale agreement, additional cash consideration of up to € 500 million will be receivable. At the time of the sale, the fair value of the consideration was determined to be € 247 million. It has been recognized as a financial asset at fair value through profit or loss.

At first half year end, the fair value was re-estimated to be € 226 million. The loss of € 1 million compared with the fair value at year-end 2022 is presented in discontinued operations net of related income tax.

Additionally, as contemplated in the sale agreement relating to the Reebok business, the purchase is subject to deferred considerations for inventory and contractually specified items, which had been completed by the end of the first half year 2023 (2022: € 274 million).

04 SHAREHOLDERS' EQUITY

During the period from January 1, 2023, to June 30, 2023, the nominal capital of adidas AG remained unchanged. Consequently, on June 30, 2023, the nominal capital of adidas AG amounted to € 180,000,000 divided into 180,000,000 registered no-par-value shares.

adidas AG transferred 11,886 treasury shares to Bjørn Gulden. This was used as compensation for the loss of variable remuneration under his previous employment. Based on the stock market price at the time, the transferred 11,886 treasury shares had an equivalent value of € 2,041,777.08, corresponding to a notional amount of € 11,886 in the nominal capital and consequently to approximately 0.01% of the nominal capital.

On May 11, 2023, the Annual General Meeting of adidas AG approved the proposal of the Executive Board and Supervisory Board on the appropriation of retained earnings for the 2022 financial year. The dividend in the amount of € 0.70 per share was paid on May 16, 2023. Based on the number of dividend-entitled shares at the time of the Annual General Meeting, this resulted in a dividend distribution of € 124,976,038.60.

On June 30, 2023, adidas AG held a total of 1,450,916 treasury shares, corresponding to a notional amount of € 1,450,916 in the nominal capital and consequently 0.81% of the nominal capital. In accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG), the treasury shares held directly or indirectly do not confer any rights to the company.

05 FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AND THEIR FAIR VALUES INCLUDING HIERARCHY ACCORDING TO IFRS 13 € IN MILLIONS

	Category	June 30, 2023					December 31, 2022				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets											
Cash and cash equivalents											
Cash and cash equivalents	Amortized cost	843	-	-	-	-	726	-	-	-	-
Cash equivalents	Fair value through profit or loss	150	150	-	150	-	72	72	-	72	-
Accounts receivable	Amortized cost	2,567	-	-	-	-	2,529	-	-	-	-
Other current financial assets											
Derivatives used in hedge accounting	n.a.	150	150	-	150	-	168	168	-	168	-
Derivatives not used in hedge accounting	Fair value through profit or loss	46	46	-	46	-	65	65	-	65	-
Other investments	Amortized cost	12	-	-	-	-	78	-	-	-	-
Other financial assets	Amortized cost	587	-	-	-	-	703	-	-	-	-
Long-term financial assets											
Other equity investments	Fair value through profit or loss	89	89	-	-	89	89	89	-	-	89
Other equity investments	Fair value through other comprehensive income	85	85	2	-	83	86	86	2	-	84
Other investments	Fair value through profit or loss	44	44	-	44	-	42	42	-	42	-
Other investments	Amortized cost	90	-	-	-	-	83	-	-	-	-
Loans	Amortized cost	-	-	-	-	-	0	-	-	-	-
Other non-current financial assets											
Derivatives used in hedge accounting	n.a.	3	3	-	3	-	1	1	-	1	-
Derivatives not used in hedge accounting	Fair value through profit or loss	0	0	-	0	-	-	-	-	-	-
Earn-out components	Fair value through profit or loss	226	226	-	-	226	227	227	-	-	227
Other financial assets	Amortized cost	116	-	-	-	-	108	-	-	-	-
Financial assets per level		-	-	2	393	399	-	-	2	347	400

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AND THEIR FAIR VALUES INCLUDING HIERARCHY ACCORDING TO IFRS 13 € IN MILLIONS

	Category	June 30, 2023					December 31, 2022				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial liabilities											
Short-term borrowings											
Bank borrowings	Amortized cost	416	-	-	-	-	29	-	-	-	-
Convertible bond	Amortized cost	499	496	496	-	-	498	490	490	-	-
Accounts payable	Amortized cost	2,210	-	-	-	-	2,908	-	-	-	-
Current accrued liabilities	Amortized cost	852	-	-	-	-	997	-	-	-	-
Current accrued liabilities for customer discounts	Amortized cost	791	-	-	-	-	808	-	-	-	-
Other current financial liabilities											
Derivatives used in hedge accounting	n.a.	115	115	-	115	-	127	127	-	127	-
Derivatives not used in hedge accounting	Fair value through profit or loss	43	43	-	43	-	64	64	-	64	-
Other financial liabilities	Amortized cost	179	-	-	-	-	232	-	-	-	-
Current lease liabilities	n.a.	572	-	-	-	-	643	-	-	-	-
Long-term borrowings											
Bank borrowings	Amortized cost	54	-	-	-	-	63	-	-	-	-
Eurobond	Amortized cost	2,885	2,624	2,624	-	-	2,883	2,604	2,604	-	-
Non-current accrued liabilities	Amortized cost	4	-	-	-	-	4	-	-	-	-
Other non-current financial liabilities											
Derivatives used in hedge accounting	n.a.	6	6	-	6	-	44	44	-	44	-
Derivatives not used in hedge accounting	Fair value through profit or loss	6	6	-	6	-	-	-	-	-	-
Other financial liabilities	Amortized cost	0	-	-	-	-	-	-	-	-	-
Non-current lease liabilities	n.a.	2,110	-	-	-	-	2,343	-	-	-	-
Financial liabilities per level		-	-	3,120	171	-	-	-	3,095	235	-

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AND THEIR FAIR VALUES INCLUDING HIERARCHY ACCORDING TO IFRS 13 € IN MILLIONS

Category	June 30, 2023					December 31, 2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Thereof: aggregated by category according to IFRS 9										
Financial assets at fair value through profit or loss (FVTPL)	555					495				
Thereof: held for trading (FAHfT)	87					87				
Financial assets at fair value through other comprehensive income (FVOCI)	85					86				
Thereof: equity investments (without recycling to profit and loss)	85					86				
Financial assets at amortized cost (AC)	4,216					4,288				
Financial liabilities at fair value through profit or loss (FVTPL)	49					124				
Financial liabilities at amortized cost (AC)	7,888					8,423				

Level 1 is based on quoted prices in active markets for identical assets or liabilities.

Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3 IN 2023 € IN MILLIONS

	Fair value Jan. 1, 2023	Additions	Disposals	Realized		Unrealized		Transfers	Currency translation	Fair value June 30, 2023
				Gains	Losses	Gains	Losses			
Investments in other equity instruments held for trading (FAHfT)	87	-	-	-	-	-	-	-	-	87
Investments in other equity instruments (FVTPL)	2	-	-	-	-	-	-	-	-	2
Investments in other equity instruments (FVOCI)	84	0	(0)	-	-	-	-	-	-	83
Earn-out components - assets (FVTPL)	227	-	-	-	-	-	(1)	-	-	226

RECONCILIATION OF FAIR VALUE HIERARCHY LEVEL 3 IN 2022 € IN MILLIONS

	Fair value Jan. 1, 2022	Additions	Disposals	Realized		Unrealized		Transfers	Currency translation	Fair value Dec. 31, 2022
				Gains	Losses	Gains	Losses			
Investments in other equity instruments held for trading (FAHfT)	87	-	-	-	-	0	-	-	-	87
Investments in other equity instruments (FVTPL)	2	-	-	-	-	-	-	-	-	2
Investments in other equity instruments (FVOCI)	80	6	(0)	-	-	4	(3)	(3)	-	84
Promissory notes (FVTPL)	12	-	(12)	-	-	-	-	-	-	-
Earn-out components - assets (FVTPL)	-	247	-	-	-	-	(20)	-	-	227

The valuation methods used in measuring Level 1, Level 2, and Level 3 fair values remain unchanged and can be found in the Notes to the 2022 consolidated financial statements.

NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENT € IN MILLIONS

	Period ending June 30, 2023	Year ending Dec. 31, 2022
Financial assets classified at amortized cost (AC)	0	(79)
Financial assets at fair value through profit or loss (FVTPL)	10	(4)
Thereof: designated as such upon initial recognition	-	-
Thereof: classified as held for trading	-	0
Equity instruments at fair value through profit or loss (FVTPL)	-	-
Equity instruments at fair value through other comprehensive income (FVOCI)	-	-
Financial liabilities at amortized cost (AC)	2	24
Financial liabilities at fair value through profit or loss (FVTPL)	-	-
Thereof: designated as such upon initial recognition	-	-
Thereof: classified as held for trading	-	-

06 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income from continuing operations attributable to shareholders by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by adidas and held as treasury shares. If negative earnings per share are reported, according to IAS 33.41, no anti-dilutive effect may be taken into account.

EARNINGS PER SHARE

	Continuing operations		Discontinued operations		Total	
	First half year 2023	First half year 2022	First half year 2023	First half year 2022	First half year 2023	First half year 2022
Net income from continuing operations (€ in millions)	73	671	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	20	23	–	–	–	–
Net income attributable to shareholders (€ in millions)	53	648	(7)	128	45	776
Weighted average number of shares	178,537,986	186,510,429	178,537,986	186,510,429	178,537,986	186,510,429
Basic earnings per share (€)	0.29	3.47	(0.04)	0.69	0.25	4.16
Net income attributable to shareholders (€ in millions)	53	648	(7)	128	45	776
Net income used to determine diluted earnings per share (€ in millions)	53	648	(7)	128	45	776
Weighted average number of shares	178,537,986	186,510,429	178,537,986	186,510,429	178,537,986	186,510,429
Dilutive effect of share-based payments	12,120	2,926	–	–	12,120	2,926
Weighted average number of shares for diluted earnings per share	178,550,106	186,513,355	178,550,106	186,510,429	178,550,106	186,513,355
Diluted earnings per share (€)	0.29	3.47	(0.04)	0.69	0.25	4.16

07 SEGMENTAL INFORMATION

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

As at June 30, 2023, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments,' five operating segments were identified: EMEA, North America, Greater China, Asia-Pacific, and Latin America.

Each market comprises all wholesale, retail, and e-commerce business activities relating to the distribution and sale of products of the adidas brand to retail customers and end consumers.

Other Businesses includes the business activities of the Y-3 label and other subordinated businesses that are not monitored separately by the chief operating decision-maker. Also, certain centralized corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes, in particular, functions such as Global Brands and Global Sales (central brand and distribution management), central treasury, global sourcing, and other headquarter functions. Assets, liabilities, income, and expenses relating to these corporate functions are presented in the reconciliations.

The chief operating decision-maker for adidas has been defined as the entire Executive Board of adidas AG.

Net sales represents revenue from contracts with customers. There are no intersegment sales between the reportable segments. Accounting and valuation policies applied for reporting segmental information are the same as those used for adidas.

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

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

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

SEGMENTAL INFORMATION € IN MILLIONS

	Net sales (third parties) ²		Segmental operating profit ²		Segmental assets ³		Segmental liabilities ³	
	2023	2022	2023	2022	2023	2022	2023	2022
EMEA	3,975	4,014	648	853	3,182	3,056	177	241
North America	2,575	3,111	145	617	2,475	2,548	83	153
Greater China	1,650	1,723	344	325	689	1,369	42	141
Asia-Pacific	1,117	1,056	236	250	880	663	128	46
Latin America	1,191	929	283	209	964	718	121	156
Reportable segments	10,509	10,832	1,655	2,254	8,190	8,353	551	737
Other Businesses	81	65	24	10	49	55	2	3
Total	10,590	10,897	1,679	2,264	8,239	8,408	553	740

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

2 First half year.

3 At June 30.

Taking into account net sales of € 27 million (2022: € 0 million) which are not directly attributable to a segment, total net sales amount to € 10.617 million (2022: € 10.897 million).

OPERATING PROFIT € IN MILLIONS

	First half year 2023	First half year 2022
Operating profit for reportable segments	1,655	2,254
Operating profit for Other Businesses	24	10
Segmental operating profit	1,679	2,264
HQ	(872)	(954)
Central expenditure for marketing	(409)	(458)
Consolidation	(162)	(24)
Operating profit	236	828
Financial income	30	24
Financial expenses	(111)	(140)
Income before taxes	155	711

NET SALES (THIRD PARTIES) € IN MILLIONS

	First half year 2023	First half year 2022
Footwear	6,112	6,240
Apparel	3,733	3,958
Hardware	745	700
Total	10,590	10,897

08 EVENTS AFTER THE BALANCE SHEET DATE

Between the end of the first half year 2023 and the finalization of these interim consolidated financial statements on July 26, 2023, there were no major events that might have a material influence on the assets, liabilities, financial position, and profit or loss of the company.

Herzogenaurach, July 26, 2023

The Executive Board of adidas AG

RESPONSIBILITY STATEMENT

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

Herzogenaurach, July 26, 2023



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CONCEPT AND REALIZATION

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