

Registered number: 20 75 47 88

adidas Danmark A/S

**Øster Allé 56, 2 sal
2100 Copenhagen Ø**

Annual report and financial statements

for the year ended 31 December 2018

The annual report was presented and adopted at the annual general meeting of the company

Chairman of meeting Karl-Eric Kickuth

Date 27.05.2019

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for the year ended 31 December 2018

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**Statement by Board of Directors and the Executive Board
for the year ended 31 December 2018**

The Board of Directors and the Executive Board have today discussed and approved the annual report of adidas Danmark A/S for the financial year 1 January - 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the company's assets, liabilities and financial position as 31 December 2018 and of the results of the company's operations for the year 1 January - 31 December 2018.

In our opinion, the Management's review includes a fair view of the development in the company's operations and financial matters, of the results for the year and of the company's financial position, and of the matters discussed in the Management's review.

We recommend that the annual report be adopted at the annual general meeting on 27th May 2019.

Copenhagen, 27th May 2019

Executive Board

Krystof Mejstrik

Board of Directors

Karl-Eric Kickuth
Chairman

Andrew Richard Hackett
Deputy Chairman

Krystof Mejstrik
Director



Independent auditor's report

To the shareholder of adidas Danmark A/S

Opinion

We have audited the financial statements of adidas Danmark A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 27th May 2019

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Michael E. K. Rasmussen
State Authorised
Public Accountant
MNE no. 41364

Management Review
for the year ended 31 December 2018

Seen over a five-year period the development of the company is described by the following financial highlights:

	2018	2017	2016	2015	2014
	DKK	DKK	DKK	DKK	DKK
	'000	'000	'000	'000	'000
Gross profit	36,509	44,646	44,073	42,785	37,877
Profit before financial income and expenses	7,703	12,819	12,231	11,660	7,659
Net financials	(111)	1,996	(228)	(94)	37
Profit/loss for the year	5,903	12,007	12,526	8,734	5,671
Balance sheet total	81,069	78,030	73,356	67,093	51,057
Equity	23,480	25,577	22,370	17,344	14,610
Financial Ratios					
Return on assets	9.5%	16.4%	16.7%	17.4%	15.0%
Solvency ratio	29.0%	32.8%	30.5%	25.9%	28.6%
Return on equity	<u>24.1%</u>	<u>50.1%</u>	<u>63.1%</u>	<u>54.7%</u>	<u>38.0%</u>

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts.

Financial highlights are calculated as follows:

Return on assets (Profit before financial income and expenses / Total assets) x 100

Solvency ratio Equity at year end x 100 / Total assets

Return on equity Net profit for the year x 100 / Average equity

**Management Review
for the year ended 31 December 2018**

Business activities

The company's activity is to sell sports merchandise of the brands adidas and Reebok in Denmark.

Development in activities and financial position

The company's income statement for the year ended 31 December 2018 shows a profit of DKK 5,903 thousand, and the balance sheet at 31 December 2018 shows equity of DKK 23,480 thousand.

The company's profit for the year was impacted due to a lower margin than expected.

Risks

Operating risks

In Management's assessment, the company is not exposed to any special risks apart from those generally occurring in this line of business.

Currency risks

As the company primarily sell in Danish Krone and buy in Danish Krone, foreign exchange risk is considered low.

Environment

In Management's assessment, the company's activities do not impact on the external environment.

Research and development activities

The company does not undertake any research, but the product range is undergoing constant development.

Post balance sheet events

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Outlook

The company expects its sales performance to be in line with market development, which for 2019 is expected to be in line with 2018.

adidas Danmark AS

Income Statement
for the year ended 31 December 2018

	Note	2018 DKK '000	2017 DKK '000
Gross profit		36,508,885	44,646,028
Gross profit		<u>36,508,885</u>	<u>44,646,028</u>
Staff Costs	2	(26,437,996)	(29,171,686)
Earnings before interest, taxes, depreciation and amortisation		<u>10,070,889</u>	<u>15,474,342</u>
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(2,368,184)	(2,655,413)
Profit before financial income and expenses		<u>7,702,705</u>	<u>12,818,929</u>
Financial income	3	195,146	2,169,364
Financial expenses	4	(306,524)	(173,810)
Profit/loss before tax		<u>7,591,327</u>	<u>14,814,483</u>
Tax on profit for the year	5	(1,688,689)	(2,807,459)
Net profit for the year	6	<u><u>5,902,637</u></u>	<u><u>12,007,024</u></u>

adidas Danmark AS

Balance Sheet
for the year ended 31 December 2018

	Note	2018 DKK	2017 DKK
Non-current assets			
Intangible assets			
Goodwill	7	606,000	1,333,000
Property, plant and equipment			
Operating equipment	8	286,916	3,766,445
Leasehold upgrades	8	5,293,329	-
Total non-current assets		6,186,245	5,099,445
Current assets			
Inventories			
Finished goods and goods for resale		6,727,200	4,501,253
Receivables			
Trade Receivables		40,191,863	34,792,613
Amounts owed by group companies		6,463,744	26,376,263
Other receivables		12,436,554	1,363,794
Deferred tax asset	9	4,680,679	2,071,443
Corporation tax		-	1,293,187
Prepayments	10	1,265,585	2,283,567
Cash at bank and hand			
Cash at bank and hand		3,116,985	248,261
Total current assets		74,882,609	72,930,381
Total assets		81,068,854	78,029,826

adidas Danmark AS

Balance Sheet
for the year ended 31 December 2018

	Note	2018 DKK	2017 DKK
Equity			
Share capital		8,000,000	8,000,000
Retained Earnings		1,479,636	9,576,999
Proposed dividend for the year		14,000,000	8,000,000
Total equity	11	<u>23,479,636</u>	<u>25,576,999</u>
Provisions			
Other provisions	12	18,952,834	8,418,549
Total provisions		<u>18,952,834</u>	<u>8,418,549</u>
Current liabilities other than provisions			
Trade payables		8,267,245	9,682,329
Payables to group companies		2,084,014	7,942,355
Corporation tax		242,036	-
Other payables		28,043,089	26,409,594
Total current liabilities other than provisions		<u>38,636,384</u>	<u>44,034,278</u>
Total equity and liabilities		<u><u>81,068,854</u></u>	<u><u>78,029,826</u></u>

**Statement of changes in equity
for the year ended 31 December 2018**

	Share capital	Proposed dividend for the year	Retained earnings	Total Equity
Equity at 1 January 2018	8,000,000	8,000,000	9,576,999	25,576,999
Profit for the year	-	-	5,902,637	5,902,637
Ordinary dividend paid	-	(8,000,000)		(8,000,000)
Proposed profit appropriation - dividend	-	14,000,000	(14,000,000)	0
Equity at 31 December 2018	<u>8,000,000</u>	<u>14,000,000</u>	<u>1,479,636</u>	<u>23,479,636</u>

**Notes to the financial statements
for the year ended 31 December 2018**

1. Accounting policies

The annual report of Adidas Danmark A/S for 2018 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act. The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Applied exemption in the Danish Financial Statements Act

In accordance with section 86 (4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement, as such a statement is included in the consolidated cash flow statement of adidas Group.

1.1 Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risks, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received. Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

1.2 Cost of sales

Cost of goods sold comprise direct and indirect costs incurred to generate revenue, including costs for sale and distribution of goods sold.

1.3 Other external costs

Other external costs include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases etc.

1.4 Gross profit

In pursuance of section 32 of the Danish Financial Statements Act, the company does not disclose its revenue. The gross profit reflects an aggregation of revenue, changes in inventories of finished goods and work in progress and other operating income less raw materials and consumables and other external expenses.

1.5 Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc, to the company's employees.

1.6 Financial income and expenses

Financial income and expenses include interest, financial expenses, realised and unrealised exchange adjustments, amortisation of mortgage.

Notes to the financial statements
for the year ended 31 December 2018

1. Accounting policies (continued)

1.7 Tax on profit for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including charges arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

1.8 Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 10 years, as the business is linked to an asset with a long lifespan. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

1.9 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The basis of depreciation is cost less any projected residual value after the end of the useful life. The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour.

Depreciation is provided on a straight-line basis over the expected useful life of the asset based on the following expected useful lives:

Operating Equipment	2-8 years
Leasehold Improvements	3-5 years

Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

**Notes to the financial statements
for the year ended 31 December 2018**

1. Accounting policies (continued)

1.10 Impairment of non-current assets

The carrying amount intangible assets and property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation and amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write downs are made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised write downs are reversed when the basis for the write-down no longer exists. Write-down of goodwill is not reversed.

1.11 Leases

Payments relating to operating leases and other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed as contractual obligations and contingencies, etc.

1.12 Inventories

Inventories are measured using FIFO method. Where the net realisable value is lower than the cost, inventories are carried at this lower value. The cost of goods for resale and consumables comprises the purchase price plus delivery costs.

The net realisable value of inventories is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

1.13 Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable is impaired. If there is objective evidence that an individual receivables is impaired, an impairment loss for that individual asset is recognised.

**Notes to the financial statements
for the year ended 31 December 2018**

1. Accounting policies (continued)

1.14 Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

1.15 Equity

Dividend

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

The expected dividend payment for the year is disclosed as a separate item under equity.

1.16 Provisions

Provisions comprise expected expenses relating to guarantee commitments, reconstructions, etc. Provisions are recognised, when as a result of a past event, the company has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at value in use.

Notes to the financial statements
for the year ended 31 December 2018

1. Accounting policies (continued)

1.17 Corporation tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as estimated tax on the taxable income of the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities measured on the planned use of the asset or settlement of the liability, respectively. However, deferred tax is not recognised on temporary differences relating to office buildings non-deductible for tax purposes and other items where temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

1.18 Liabilities other than provisions

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at amortised cost, which usually corresponds to nominal value.

**Notes to the financial statements
for the year ended 31 December 2018**

1. Accounting policies (continued)

1.19 Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

1.20 Financial highlights overview

Financial ratios are calculated in accordance with the Danish Society of Financial Analyst's guidelines on the calculation of financial ratios "Recommendations Ratios".

**Notes to the financial statements
for the year ended 31 December 2018**

2. Employees

Staff costs were as follows

	2018	2017
	DKK	DKK
Wages and salaries	23,690,061	25,654,783
Social security costs	419,826	996,934
Pensions	2,060,563	2,145,322
Other staff costs	267,547	374,647
	<u>26,437,996</u>	<u>29,171,686</u>

The average monthly number of employees, including the Directors, during the year was as follows:

	2018	2017
	No.	No.
	<u>65</u>	<u>73</u>

The Company has not paid any remuneration to the Managing Director or the Board of Directors during the financial year.

3. Financial Income

	2018	2017
	DKK	DKK
Financial income from group companies	22	-
Other financial income	195,124	2,169,364
	<u>195,146</u>	<u>2,169,364</u>

4. Financial Expenses

	2018	2017
	DKK	DKK
Financial expenses from group companies	53,064	118,949
Other financial expenses	253,461	54,861
	<u>306,524</u>	<u>173,810</u>

Notes to the financial statements
for the year ended 31 December 2018

5. Tax on profit for the year

	2018	2017
	DKK	DKK
Current tax for the year	4,238,036	384,802
Deferred tax for the year	(2,609,236)	2,422,658
Adjustment of current tax concerning previous years	59,889	-
	<u>1,688,689</u>	<u>2,807,459</u>

6. Proposed profit appropriation

	2018	2017
	DKK	DKK
Proposed dividend for the year	14,000,000	8,000,000
Retained earnings	(8,097,363)	4,007,024
	<u>5,902,637</u>	<u>12,007,024</u>

7. Intangible assets

	Goodwill
	DKK
Cost	
At 1 January 2018	7,270,000
At 31 December 2018	<u>7,270,000</u>
Amortisation	
At 1 January 2018	5,937,000
Charge for the year	727,000
At 31 December 2018	<u>6,664,000</u>
Carrying Amount	
At 31 December 2018	<u>606,000</u>

**Notes to the financial statements
for the year ended 31 December 2018**

8. Tangible fixed assets

	Leasehold upgrade DKK	Operating equipment DKK	Total DKK
Cost or valuation			
At 1 January 2018	2,453,932	18,088,773	20,542,705
Additions	3,179,840	275,143	3,454,983
Disposals	(12,129,939)	(954,931)	(13,084,869)
Reclassification	16,849,413	(16,931,812)	(82,399)
At 31 December 2018	<u>10,353,246</u>	<u>477,173</u>	<u>10,830,420</u>
Depreciation			
At 1 January 2018	2,453,932	14,322,328	16,776,260
Charge for the period on owned assets	1,610,632	30,552	1,641,183
Disposals	(12,129,939)	(954,931)	(13,084,869)
Reclassification	13,125,292	(13,207,691)	(82,399)
At 31 December 2018	<u>5,059,917</u>	<u>190,258</u>	<u>5,250,174</u>
Carrying Amount			
At 31 December 2018	<u><u>5,293,329</u></u>	<u><u>286,916</u></u>	<u><u>5,580,245</u></u>

9. Deferred Tax Asset

	2018 DKK	2017 DKK
Deferred tax as at 1 January	2,071,443	4,494,101
Deferred tax adjustment for the year income statement	2,609,236	(2,422,658)
	<u><u>4,680,679</u></u>	<u><u>2,071,443</u></u>

10. Prepayments

Prepayments comprise prepaid expenses regarding rent, service charge, insurance premiums and subscriptions.

11. Equity

The share capital consists of 4 shares of a nominal value of DKK 2,000 thousand. No shares carry any special rights. There have been no changes in the share capital during the last 5 years.

**Notes to the financial statements
for the year ended 31 December 2018**

12. Other Provisions

	2018	2017
	DKK	DKK
Warranty provision	14,432,957	8,167,493
Other	4,519,877	251,056
	<u>18,952,834</u>	<u>8,418,549</u>

13. Contingent assets, liabilities and other financial obligations**Contingent Liabilities**

The company has assumed contractual obligations, including leases and rent agreements, with a residual term of up to 48 months. The liability at 31 December 2018 totalled DKK 14.3 million, of which DKK 8.2 million falls due for payment in 2019.

The company has entered into multi-years sponsor agreements with several sporting associations and athletes. The total liability at 31 December 2018 totalled DKK 5.8 million, of which DKK 3.9 million falls due for payment in 2019.

The company has issued bank guarantees of DKK 0.4 million.

adidas Danmark A/S is party to a minor pending lawsuit. In Management's opinion, the outcome of the lawsuit will not affect the Company's financial position

**Notes to the financial statements
for the year ended 31 December 2018**

14. Related parties and ownership**Controlling interest**

adidas International B.V., Hoogoordreed 9A, Amsterdam, Holland.
adidas International B.V. holds the majority of contributed capital in the Company

Ownership

adidas Danmark A/S is part of the consolidated financial statements of the adidas Group. The consolidated financial statements can be requisitioned at <http://www.adidas-group.com/>

adidas Danmark A/S is part of the consolidated financial statements of the adidas Group, adidas AG, which is the largest and smallest group in which the Company is consolidated.

Related party transactions

	2018	2017
	DKK '000	DKK '000
Transactions with related parties		
Revenue from group entities	(11,297)	(14,208)
Purchase from group entities	421,951	406,027
Purchase from ultimate parent	6,890	4,282
Management fee expense	10,562	14,339
Interest expenses to ultimate parent	53	119
Balances with related parties		
Receivables from group entities	1,716	3,302
Receivables from ultimate parent	4,748	23,074
	<u>6,464</u>	<u>26,376</u>
Payables to group entities	<u>(2,084)</u>	<u>(7,942)</u>