

Registered number: 1075951

ADIDAS (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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ADIDAS (UK) LIMITED

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ADIDAS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Principal Activities

The principal activity of adidas (UK) Limited ('the Company') during the year was the distribution and retail of sports goods to the sports trade in the UK.

Business Model

Supported by strong overseas central functions which continuously strive to improve products and to optimize the supply chain, the Company focuses on the consumers and is committed to match and exceed consumer expectations and to provide them with the highest value. The Company aims to maintain and reinforce its market position in the UK by continuing to expand its cooperation with leading wholesalers.

Business review and results

Sales increased by 7.6% (2017: 18.8%) from £1,055,286,000 to £1,135,504,000 versus prior year. The increase was primarily due to the transfer in of the eCommerce business into the local market generating new income of £134,254,000, offset by a decrease in wholesale revenue of £51,946,000 and retail revenue of £2,090,000.

Profit before tax increased by 1.7% (2017: 18.9%) versus prior year to £35,026,000 (2017: £34,447,000) due to efficiency savings across the business and the non-recurrence of costs relating to the divesture of the Rockport brand in 2017.

Key performance indicators

The core KPI's used to monitor the performance of the business include turnover £1,135,504,000 (2017: £1,055,286,000), gross profit margin 21.7% (2017: 21.0%) and operating profit margin 3.1% (2017: 3.3%). The following KPI's are also monitored by the business:

Wholesale

Brand Share
Market Growth
Sales and margin by Product Group
Sales and margin by Customer Group
Sales and Outstanding Orders and Contracts by Customer Group
Orderbook Conversion
Employee headcount, turnover and absence
Net Promoter Score
Employee Promoter Score

Retail and eCommerce

Footfall
Average transaction value
Units per transaction
Conversion (transaction value/footfall)

All financial KPI's are monitored compared to budget, forecast, and previous years.

ADIDAS (UK) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Principal risks and uncertainties

The Company's primary commercial and operational risks include loss of market share to competitors, retailer trading environment, supply chain risk, bad debts and IT/power failures.

The management of these risks include process manuals and documentation, annual risk assessments, internal audits, disaster recovery procedures and insurance.

The prospect of the UK leaving the European Union ("Brexit") has given rise to uncertainty. The board has carefully considered the potential implications for its business and will continue to do so. The conclusion to date is that Brexit is unlikely to represent a significant risk to our ability to operate effectively.

The business trades predominantly in the UK with minimal sales in other European countries. Stock is predominately warehoused and distributed in the local market, and staff are generally local. Discussions continue with our group supplier to identify and manage potential issues. Foreign exchange rate fluctuations represent a potential risk, however, in each trading country the principal revenues and costs arise in the same local currency.

Naturally, a general economic downturn could impact all businesses. The board will continue to monitor the situation.

Future developments

We have maintained good relationships with our customers and continued to develop our business with them. We continue to place new product and marketing initiatives into the UK, whilst serving the consumer directly through our retail and eCommerce channels.

This report was approved by the board and signed on its behalf by:



AR Hackett
Director

Date: 17.6.2019

ADIDAS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Results and dividends

The profit for the year, after taxation, amounted to £27,538,000 (2017 - £26,976,000).

No interim dividend was paid during the year (2017: £nil). The directors have not yet proposed a final ordinary dividend in respect of the current financial year however the 2017 dividend (£20,000,000) was paid in the current financial year (2016 dividend paid during 2017: £40,000,000).

Directors and directors' interests

The directors who served during the year were:

AJ Richter
AR Hackett
GP Thomson
ACC Pourcelot (appointed 23 October 2017, resigned 1 July 2018)
AA Hoeld (appointed 1 July 2018)

GP Thomson and AR Hackett were remunerated in their capacities as directors of adidas (UK) Limited. AJ Richter, ACC Pourcelot and AA Hoeld were remunerated by other group companies.

Employee involvement

The Company arranges annual meetings to present financial information and factors affecting the achievements of the Company, as well as matters of employee interest.

Disabled employees

Consideration and effort is made to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Company, through training and career development.

Political contribution

The Company made no political donations or incurred any political expenditure during the year (2017: nil).

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ADIDAS (UK) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



**AR Hackett
Director**

Date: 17.6.2019

The adidas Centre
Pepper Road
Hazel Grove
Stockport
Cheshire
SK7 5SA

ADIDAS (UK) LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADIDAS (UK) LIMITED

Opinion

We have audited the financial statements of adidas (UK) Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and loss account, Balance sheet and Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of tangible fixed assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

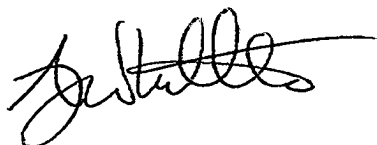
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Antony Whittle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peters Square
Manchester
M2 3AE

19.6.2019

ADIDAS (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Turnover		1,135,504	1,055,286
Cost of sales		(889,479)	(833,589)
Gross profit		246,025	221,697
Distribution costs		(192,799)	(168,523)
Administrative expenses	2	(18,030)	(19,295)
Other operating income	9	-	663
Operating profit		35,196	34,542
Interest receivable and similar income	5	27	41
Interest payable and similar expenses	6	(197)	(136)
Profit before tax		35,026	34,447
Tax on profit	7	(7,488)	(7,471)
Profit for the financial year		27,538	26,976

There were no recognised gains and losses for 2018 or 2017 other than those included in the profit and loss account.

The notes on pages 13 to 31 form part of these financial statements.

The company has initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

ADIDAS (UK) LIMITED
REGISTERED NUMBER: 1075951

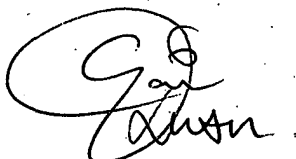
BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Tangible assets	10		32,765		29,814
			<u>32,765</u>		<u>29,814</u>
Current assets					
Stocks	11	9,166		6,558	
Debtors: amounts falling due after more than one year	12	11,810		2,341	
Debtors: amounts falling due within one year	12	139,988		118,269	
Cash at bank and in hand		1,499		1,740	
		<u>162,463</u>		<u>128,908</u>	
Creditors: amounts falling due within one year	13	(143,847)		(122,091)	
Net current assets			<u>18,616</u>		<u>6,817</u>
Total assets less current liabilities			<u>51,381</u>		<u>36,631</u>
Creditors: amounts falling due after more than one year	14		(2,477)		(1,184)
			<u>48,904</u>		<u>35,447</u>
Provisions for liabilities					
Other provisions	16	(14,175)		(5,115)	
			<u>(14,175)</u>		<u>(5,115)</u>
Net assets			<u>34,729</u>		<u>30,332</u>
Capital and reserves					
Called up share capital	17	1,000		1,000	
Profit and loss account		33,729		29,332	
			<u>34,729</u>		<u>30,332</u>

ADIDAS (UK) LIMITED
REGISTERED NUMBER: 1075951

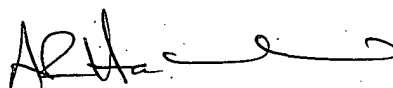
BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



GP Thomson
Director

Date: 17.6.2019



AR Hackett
Director

17.6.2019

The notes on pages 13 to 31 form part of these financial statements.

The company has initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

ADIDAS (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2017	1,000	42,356	43,356
Comprehensive income for the year			
Profit for the year	-	26,976	26,976
Total comprehensive income for the year	-	26,976	26,976
Contributions by and distributions to owners			
Dividends: Equity capital	-	(40,000)	(40,000)
Total transactions with owners	-	(40,000)	(40,000)
At 31 December 2017 and 1 January 2018	1,000	29,332	30,332
Adjustment on initial application of IFRS 9 & IFRS 15 (net of tax)	-	(3,141)	(3,141)
At 1 January 2018 (adjusted balance)	1,000	26,191	27,191
Comprehensive income for the year			
Profit for the year	-	27,538	27,538
Total comprehensive income for the year	-	27,538	27,538
Contributions by and distributions to owners			
Dividends: Equity capital	-	(20,000)	(20,000)
Total transactions with owners	-	(20,000)	(20,000)
At 31 December 2018	1,000	33,729	34,729

The notes on pages 13 to 31 form part of these financial statements.

Dividends paid in 2018 and 2017 relate to the final ordinary dividend declared for the 2017 and 2016 financial years respectively. There is no final ordinary dividend declared for 2018 at the date these financial statements were authorised.

The company has initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies

1.1 Basis of preparation of financial statements

adidas (UK) Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 1075951 and the registered address is: The adidas Centre, Pepper Road, Hazel Grove, Stockport, Cheshire, SK7 5SA.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company accounting policies.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of the compensation of Key Management Personnel.

The following new standards and interpretations are effective for financial years beginning on 01 January 2018 and have been applied for the first time to these financial statements:

IFRS 9 Financial Instruments (EU effective date: 01 January 2018):

The new standard prescribes rules for the accounting of financial instruments, replacing the former guidelines in IAS 39 'Financial Instruments: Recognition and Measurement'. In particular, IFRS 9 prescribes new classification methods for financial assets, which has an effect on the company's classification and subsequent presentation of certain financial assets. The standard eliminates the previous IAS 39 categories for financial assets, which include held to maturity, loans and receivables and available for sale. Instead, upon initial recognition under IFRS 9, a financial asset is classified and measured as follows: amortized cost, fair value through other comprehensive income (equity), fair value through other comprehensive income (debt instrument) or fair value through profit or loss. For transition purposes, adidas applied the modified retrospective method and thus did not restate prior periods regarding the classification and measurement.

IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 (EU effective date: 01 January 2018):

This new standard replaces the previous guidance on recognizing revenue in accordance with IFRS, in particular IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The new standard provides a holistic framework for all aspects of revenue recognition. IFRS 15 creates a single five-step model for recognizing revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at the transfer of control of the goods to the customer whereas under IAS 18 revenue recognition was dependent on the transfer of risks and rewards. adidas determined that the accounting for revenue recognition at the transfer of control is comparable to previous practice in accordance with IAS 18. It was also determined that customer incentives and options such as volume rebates and cooperative advertising allowances as well as

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.1 Basis of preparation of financial statements (continued)

any obligation of adidas to pay for the delivery of goods to the customer do not create performance obligations under IFRS 15. Under IAS 18, customer incentives which were contractually agreed upon were accounted for as sales discounts and were accrued over the financial year. Customer incentives which were not contractually agreed upon as well as promises that were implied by adidas customary business practice and did not bear the characteristics of a discount were accounted for as marketing and point-of-sale expenses. According to IFRS 15, customer incentives are now principally treated as a reduction of sales, except in cases where adidas receives from its customer a distinct service as consideration for the payment to the customer.

In accordance with IAS 18, adidas accrued revenue related to estimated returns based on past experience. adidas previously recognized the return provision on a net basis in the amount of the gross margin (i.e. the difference between gross sales and cost of sales) for the products sold which are expected to be returned. Under IFRS 15, a gross presentation of the return provision is required. Therefore, an asset for the right to recover products from customers upon settling the refund liability is recognized.

adidas applied the modified retrospective method (also called 'cumulative effect method') for transition to IFRS 15, whereby the cumulative effect of the initial application of IFRS 15 is presented in the opening balance as at 01 January 2018. Accordingly, the comparative information presented for 2017 was not restated. Instead, it was accounted for according to the standards for revenue recognition effective during the 2017 financial year.

The Company's ultimate parent undertaking, adidas AG includes the Company in its consolidated financial statements. The consolidated financial statements of adidas AG are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from adidas AG, Adi-Dassler-Strasse 1-2, D-91074 Herzogenaurach, Germany.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.3 Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reason. The Company is expected to generate positive cash flows on its own for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is therefore dependent for its working capital on funds provided to it by adidas AG, the Company's ultimate controlling party. They have indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.4 Cash flow statement

As a wholly owned subsidiary undertaking of a parent company established under the law of a member state of the European Union, the Company has taken advantage of the exemption in FRS 101.8 and has not prepared a cash flow statement. The parent company's financial statements include a consolidated cash flow statement.

1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Freehold property	- 25 years
Plant and machinery	- 4 - 5 years
Fixtures and fittings	- 3 - 10 years
Computer equipment	- 2 - 4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

1.6 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.7 Operating leases

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.8 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Profit and Loss Account. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.8 Financial instruments (continued)

Trade and other debtors that were classified as loans and receivables under IAS 39 are now classified at amortised cost. Impairment losses for trade and other debtors measured at amortised cost or at fair value through other comprehensive income (debt) are recognized in accordance with IFRS 9 'Financial Instruments'. The standard requires that not only historical data, but also future expectations and projections are taken into consideration when accounting for impairment losses ('expected credit loss' model). adidas consistently applies the simplified approach and recognizes lifetime expected credit losses for all accounts receivable.

Under previous policy based on IAS 39, which was in place before 01 January 2018, adidas applied the 'incurred credit loss' model for a calculation of impairment losses on its trade debtors. The rates used for recognizing the loss allowances were determined based on the past due status of the accounts receivable. They did not reflect any forward-looking assumptions but rather focused on past experience.

1.9 Impact of new international reporting standards, amendments and interpretations

IFRS 9

The £1,983,000 reduction in debtors in the table below, and related tax and reserves impact, is a result of applying the expected credit loss method in accordance with IFRS 9 as described in note 1.8 which has increased the bad debt provision accordingly.

IFRS 15

From 01 January 2018, the Company has applied IFRS 15 using the cumulative effect method.

There have been no material impacts on the Company's financial statements as a result of adopting IFRS 15 from 01 January 2018.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

The following tables summarise the impacts of adopting new reporting standards on the Company's financial statements.

Balance Sheet (extract)

	31 December 2017 As originally presented £000	IFRS 9 £000	IFRS 15 £000	1 January 2018 As restated £000
Current assets				
Stocks	6,558	-	2,068	8,626
Debtors	137,129	(1,983)	(3,868)	131,278
Deferred tax	4,208	337	305	4,850
Total current assets	147,895	(1,646)	(1,495)	144,754
Total assets less current liabilities	147,895	(1,646)	(1,495)	144,754
Net assets	147,895	(1,646)	(1,495)	144,754
Capital and reserves				
Profit and loss account	29,332	(1,646)	(1,495)	26,191
	29,332	(1,646)	(1,495)	26,191

There was some impact on the presentation of the customer's right of return as a result of the application of IFRS 15. Under IAS 18, adidas recognized a return provision on a net basis based on past experience. The net value was determined by the amount of the gross margin (i.e. the difference between gross sales and cost of sales) for the products sold which are expected to be returned. The accounting for the return provision was adjusted in accordance with IFRS 15. As at 01 January 2018, a liability in the amount of the credit notes for expected returns is recognized. Corresponding with this treatment, an asset for the right to recover products from customers upon settling the refund liability is recognized. The first-time application of IFRS 15 on 01 January 2018 resulted in an increase in the return provision of £3,868,000, the recognition of a return asset in an amount of £2,068,000 and a decrease in retained earnings in an amount of £1,800,000 in the company's balance sheet. The application of IFRS 15 had no significant impact on the company's statement of comprehensive income for the year ending 31 December 2018.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.10 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

1.11 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

1.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

Upon the adoption of IFRS 15, return assets are recognised in relation to products sold with right of return based on expected returns.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.13 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income. Current tax is calculated using the tax rates in force for the year and deferred tax is calculated using rates substantively enacted at the balance sheet date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.14 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised on the satisfaction of performance obligations, such as the transfer of a promised good, identified in the contract between the Company and the customer.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Under IFRS 15, turnover principally is recognized at the transfer of control of the goods to the customer whereas under IAS 18 revenue recognition was dependent on the transfer of risks and rewards. No significant changes in the timing or amount of revenue due to the application of IFRS 15 were identified. Accordingly, there was no significant impact on the company's income statement for the year ending 31 December 2018.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.15 Provisions

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

1.16 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Expenses incurred in operating profit

	2018 £000	2017 £000
Depreciation	14,007	9,779
Hire of other assets - operating leases	18,582	10,911
(Gain) / loss on sale of tangible assets	(840)	354
Restructuring costs	183	333
	<u>31,932</u>	<u>21,377</u>
Auditors' remuneration		
Audit of these financial statements	73	73
	<u>73</u>	<u>73</u>

The Company paid the above amounts to its auditors in respect of the audit of the financial statements.

3. Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £000	2017 £000
Wages and salaries	38,029	34,135
Social security costs	3,651	3,264
Cost of defined contribution scheme	1,361	1,274
	<u>43,041</u>	<u>38,673</u>

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

	2018 No.	2017 No.
Office management	531	536
Distribution and retail	634	600
	<u>1,165</u>	<u>1,136</u>

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	1,173	2,532
Company contributions to defined contribution pension schemes	10	10
	<u>1,183</u>	<u>2,542</u>

During the year retirement benefits were accruing to 1 director (2017 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £799,000 (2017 - £1,360,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10,000 (2017 - £10,000).

5. Interest receivable

	2018 £000	2017 £000
Interest receivable from group undertakings	27	9
Other interest receivable	-	32
	<u>27</u>	<u>41</u>

6. Interest payable and similar charges

	2018 £000	2017 £000
Amounts payable to group undertakings	164	109
Other interest payable	33	27
	<u>197</u>	<u>136</u>

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Taxation

	2018 £000	2017 £000
Corporation tax		
Current tax on profits for the year	7,916	7,080
Adjustments in respect of previous periods	391	1,398
	8,307	8,478
Total current tax	8,307	8,478
Deferred tax		
Origination and reversal of timing differences	(369)	68
Changes to tax rates	38	(8)
Adjustment in respect of prior years	(488)	(1,067)
	(819)	(1,007)
Total deferred tax	(819)	(1,007)
Taxation on profit on ordinary activities	7,488	7,471

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Taxation (continued)**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	<u>35,026</u>	<u>34,446</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 : 19.25%)	6,655	6,631
Effects of:		
Capital items expensed and depreciation on non-qualifying assets	706	303
Expenses not deductible for tax purposes	43	129
Income not taxable for tax purposes	-	85
Depreciation for the year higher than capital allowances	364	230
Other timing short term timing differences	148	(298)
Adjustment to tax charge in respect of previous periods	391	1,398
Deferred tax movements	(819)	(1,007)
Total tax charge for the year	<u>7,488</u>	<u>7,471</u>

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Dividends

	2018 £000	2017 £000
Final Ordinary Dividend	20,000	40,000
	20,000	40,000

Dividends paid in 2018 and 2017 relate to the final ordinary dividend declared for the 2017 and 2016 financial years respectively. There is no final ordinary dividend declared for 2018 at the date these financial statements were authorised.

9. Other operating income

	2018 £000	2017 £000
Income from the early termination of promotion and advertising contracts	-	(663)
	-	(663)

Recognised in the prior year, other operating income was a non-recurring gain which related to the early termination of the Chelsea F.C. contract.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. Tangible fixed assets

	Freehold property £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2018	13,927	14,454	42,397	7,483	78,261
Additions	6	23	16,515	534	17,078
Disposals	(120)	-	(570)	-	(690)
At 31 December 2018	13,813	14,477	58,342	8,017	94,649
Depreciation					
At 1 January 2018	6,319	14,323	22,034	5,771	48,447
Charge for the period on owned assets	732	24	12,326	925	14,007
Disposals	-	-	(570)	-	(570)
At 31 December 2018	7,051	14,347	33,790	6,696	61,884
Net book value					
At 31 December 2018	6,762	130	24,552	1,321	32,765
At 31 December 2017	7,608	131	20,363	1,712	29,814

Included in the cost of freehold property is £11.9 million (2017: £11.8 million) of depreciable assets.

The fixtures and fittings additions are in relation to branded space investment with key retailers, own retail store investment and investment in head office facilities.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. Stocks

	2018 £000	2017 £000
Finished goods and goods for resale	9,166	6,558
	<u>9,166</u>	<u>6,558</u>

The company has initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

12. Debtors

	2018 £000	2017 £000
Due after more than one year		
Prepayments and accrued income	9,000	-
Deferred tax asset	2,810	2,341
	<u>11,810</u>	<u>2,341</u>

Prepayments due after more than one year are in relation to a new marketing contract.

	2018 £000	2017 £000
Due within one year		
Trade debtors	60,077	66,329
Amounts owed by group undertakings	63,938	42,616
Other debtors	2,077	818
Prepayments and accrued income	11,037	6,639
Deferred taxation	2,859	1,867
	<u>139,988</u>	<u>118,269</u>

The company has applied the expected credit loss method under IFRS 9 which has increased the bad debt provision. The company has also initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	32,608	33,552
Amounts owed to group undertakings	44,693	32,843
Corporation tax	2,488	5,433
Other taxation and social security	15,299	11,634
Other creditors	2,177	1,419
Accruals and deferred income	46,582	37,210
	143,847	122,091

14. Creditors: Amounts falling due after more than one year

	2018 £000	2017 £000
Accruals and deferred income	2,477	1,184
	2,477	1,184

15. Deferred taxation

	2018 £000	2017 £000
At beginning of year	4,208	3,201
Charged to profit or loss	819	1,007
Adjustment on initial application of IFRS 9 & IFRS 15	642	-
At end of year	5,669	4,208

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2018 £000	2017 £000
Tangible fixed assets	2,810	2,341
Provisions	2,859	1,867
	<u>5,669</u>	<u>4,208</u>

The company has initially applied IFRS 15 using the modified retrospective method, also known as the cumulative effect method. Under this method, the comparative information is not restated. See note 1.9 for further detail.

16. Provisions

	Long term incentive plan £000	Restructuring provision £000	Dismantling provision £000	Oxford St lease provision £000	Total £000
At 1 January 2018	3,630	333	1,152	-	5,115
Charged to profit or loss	2,386	167	2,579	5,772	10,904
Utilised in year	(1,468)	(90)	(286)	-	(1,844)
At 31 December 2018	<u>4,548</u>	<u>410</u>	<u>3,445</u>	<u>5,772</u>	<u>14,175</u>

Of the Oxford St lease provision, £4.156m is considered to be long term.

17. Share capital

	2018 £000	2017 £000
Shares classified as equity		
Allotted, called up and fully paid		
1,000,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

18. Contingent liabilities

adidas (UK) Limited has given guarantees to HM Customs & Excise in respect of VAT and duty deferment of £200,000 (2017: £200,000).

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

19. Pension commitments

The Company operates a defined contributions pension scheme. The pension cost charge for the period represents contributions payable by the Company to the fund and amounted to £1,361,000 (2017: £1,274,000). No contributions (2017: £nil) were payable to the fund at the balance sheet date.

20. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Not later than 1 year	16,575	15,008
Later than 1 year and not later than 5 years	57,154	62,466
Later than 5 years	101,773	103,848
	<u>175,502</u>	<u>181,322</u>

21. Related party transactions

As a wholly owned subsidiary of adidas AG, the Company has taken advantage of the exemptions available under FRS 101 not to disclose related party transactions within the group. Details of the immediate and ultimate controlling parties are described in note 22.

22. Controlling party

The immediate parent company is adidas International BV, incorporated in the Netherlands. The ultimate parent company is adidas AG, incorporated in Germany. The consolidated accounts of the group may be obtained from our ultimate parent company at adidas AG, Adi-Dassler-Strasse 1-2, D-91074 Herzogenaurach, Germany.