

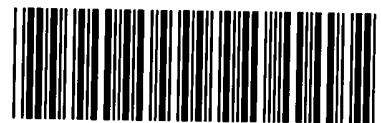
Registered number: 1075951

ADIDAS (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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ADIDAS (UK) LIMITED

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ADIDAS (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Principal Activities

The principal activity 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 28.1% (2015: 42.2%) versus prior year. The increase was primarily due to growth in the wholesale market, increased market share and a portfolio of performing products.

Profit before tax increased by 26.1% (2015: 47.2%) versus prior year to £29.0 million (2015: £23.0 million).

In 2015 adidas AG, the ultimate parent company of the adidas Group, sold the Rockport brand from its brand portfolio. Certain subsidiaries of adidas Group, including adidas (UK) Limited, will transfer the Rockport brand ownership at a later date. During this period, adidas (UK) Limited will transfer profits or losses made by the Rockport brand in the UK to the new owners on behalf of adidas AG. In the year ended 31 December 2016, profits transferred on behalf of adidas AG amounted to £226,000 (2015: £163,000). This amount is shown as an intragroup debtor in the financial statements.

Key performance indicators

The core KPI's used to monitor the performance of the business include turnover £888,171,000 (2015: £693,359,000), gross profit margin 17.7% (2015: 23.7%) and operating profit margin 3.3% (2015: 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

Retail

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 2016**

Principal risks and uncertainties

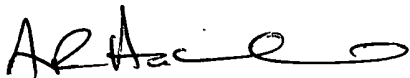
The company's primary commercial and operational risks include loss of market share to competitors, retailer trading environment, supply chain risk, bad debts and IT/power failures.

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

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 channel.

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



AR Hackett
Director

Date: 17 August 2017

ADIDAS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and financial statements for the year ended 31 December 2016.

Results and dividends

The profit for the year, after taxation, amounted to £22,066,000 (2015 : £17,290,000).

No interim dividend was paid during the year (2015: £nil). The directors have proposed a final ordinary dividend in respect of the current financial year of £40 million (2015: £35 million). This has not been included within creditors as it was not approved before the year end.

Directors and directors' interests

The directors who served during the year were:

GACR Steyaert
AJ Richter
AR Hackett
GP Thomson

GP Thomson, GACR Steyaert and AR Hackett were remunerated in their capacities as directors of adidas (UK) Limited. AJ Richter was remunerated by another group company.

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 contributions

The Company made no political donations or incurred any political expenditure during the year (2015: 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 2016

Auditors

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditors and will therefore continue in office.

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



AR Hackett
Director

Date: 17 August 2017

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

ADIDAS (UK) LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.



KPMG LLP

1 St Peter's Square
Manchester
M2 3AE
United Kingdom

Independent auditor's report to the members of adidas (UK) Limited

We have audited the financial statements of adidas (UK) Limited for the year ended 31 December 2016 set out on pages 8 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic and Directors' Reports:

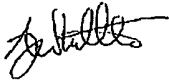
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of adidas (UK) Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.



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

29 August 2017

ADIDAS (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Note | 2016 £000 | 2015 £000 |
|--|------|----------------|--------------|
| Turnover | 1 | 888,171 | 693,359 |
| Cost of sales | | (730,696) | (528,796) |
| Gross profit | | 157,475 | 164,563 |
| Distribution costs | | (166,557) | (126,640) |
| Administrative expenses | | (18,023) | (14,930) |
| Other operating income | 9 | 56,106 | - |
| Operating profit | | 29,001 | 22,993 |
| Interest receivable and similar income | 5 | 28 | 20 |
| Interest payable and similar expenses | 6 | (63) | (35) |
| Profit before tax | | 28,966 | 22,978 |
| Tax on profit | 7 | (6,900) | (5,688) |
| Profit for the year | | 22,066 | 17,290 |

There were no recognised gains and losses for 2016 or 2015 other than those included in the profit and loss account.

The notes on pages 12 to 25 form part of these financial statements.

ADIDAS (UK) LIMITED
REGISTERED NUMBER: 1075951

BALANCE SHEET
AS AT 31 DECEMBER 2016

| | Note | 2016 £000 | 2016 £000 | 2015 £000 | 2015 £000 |
|---|-------------|----------------------|----------------------|----------------------|----------------------|
| Fixed assets | | | | | |
| Tangible assets | 10 | | 28,365 | | 23,581 |
| | | | 28,365 | | 23,581 |
| Current assets | | | | | |
| Stocks | 11 | 4,586 | | 4,476 | |
| Debtors: amounts falling due after more than one year | | 1,409 | | 1,265 | |
| Debtors: amounts falling due within one year | 12 | 184,166 | | 99,501 | |
| Cash at bank and in hand | | 2,638 | | 1,258 | |
| | | 192,799 | | 106,500 | |
| Creditors: amounts falling due within one year | 13 | (172,105) | | (67,728) | |
| Net current assets | | | 20,694 | | 38,772 |
| Total assets less current liabilities | | | 49,059 | | 62,353 |
| Creditors: amounts falling due after more than one year | 14 | | (2,254) | | (1,826) |
| | | | 46,805 | | 60,527 |
| Provisions for liabilities | | | | | |
| Other provisions | 16 | (3,449) | | (4,237) | |
| | | | (3,449) | | (4,237) |
| Net assets | | | 43,356 | | 56,290 |
| Capital and reserves | | | | | |
| Called up share capital | 17 | | 1,000 | | 1,000 |
| Profit and loss account | | | 42,356 | | 55,290 |
| | | | 43,356 | | 56,290 |

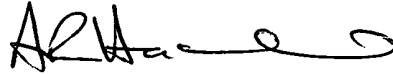
ADIDAS (UK) LIMITED
REGISTERED NUMBER: 1075951

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016

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



GP Thomson
Director



AR Hackett
Director

Date: 17 August 2017

The notes on pages 12 to 25 form part of these financial statements.

ADIDAS (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Called up share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|------------------------------------|------------------------------------|----------------------|
| At 1 January 2015 | 1,000 | 38,000 | 39,000 |
| Comprehensive income for the year | | | |
| Profit for the year | - | 17,290 | 17,290 |
| Total comprehensive income for the year | - | 17,290 | 17,290 |
| At 31 December 2015 / 1 January 2016 | 1,000 | 55,290 | 56,290 |
| Comprehensive income for the year | | | |
| Profit for the year | - | 22,066 | 22,066 |
| Total comprehensive income for the year | - | 22,066 | 22,066 |
| Contributions by and distributions to owners | | | |
| Dividends: Equity capital | - | (35,000) | (35,000) |
| Total transactions with owners | - | (35,000) | (35,000) |
| At 31 December 2016 | 1,000 | 42,356 | 43,356 |

The notes on pages 12 to 25 form part of these financial statements.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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.

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.

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.

In the transition to FRS 101, which was first adopted for the year ended 31 December 2015, the Company applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. The transition to FRS 101 resulted in no differences between the profit and loss account or balance sheet presented under FRS 101 and the same documents presented under UK GAAP.

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.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

1.3 Going concern

The board has prepared forecasts for the forthcoming 12 month period which indicate that the Company has sufficient financial resources to enable it to meet its obligations as they fall due. As a consequence the board believes that it is well placed to manage its business risk in the current economic environment.

After making all enquiries, the board has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing its accounts.

1.4 Cashflow 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.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

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.

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

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

1.8 Financial instruments (continued)

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.

1.9 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.

1.10 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.

1.11 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.

ADIDAS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

1.12 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.

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.

1.13 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 when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. Accounting policies (continued)

1.14 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.

2. Expenses and auditors' remuneration

| | 2016 | 2015 |
|--|------------------------|-----------------|
| | £000 | £000 |
| Depreciation and other amounts written off owned tangible fixed assets | 7,698 | 6,760 |
| Hire of other assets - operating leases | 11,615 | 9,846 |
| Restructuring costs | (256) | 269 |
| | <hr/> 19,057 | <hr/> 16,875 |
| Auditors' remuneration | | |
| Audit of these financial statements | 72 | 70 |
| Taxation Compliance | 35 | 43 |
| | <hr/> 107 <hr/> | <hr/> 113 <hr/> |

The company paid the above amounts to its auditors in respect of the audit of the financial statements and for taxation compliance services provided to the Company.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. Employees

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

| | 2016 £000 | 2015 £000 |
|-------------------------------------|----------------------|---------------|
| Wages and salaries | 33,026 | 30,148 |
| Social security costs | 3,052 | 3,000 |
| Cost of defined contribution scheme | 1,205 | 1,187 |
| | <u>37,283</u> | <u>34,335</u> |

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

| | 2016 No. | 2015 No. |
|-------------------------|---------------------|--------------|
| Office Management | 458 | 438 |
| Distribution and retail | 685 | 682 |
| | <u>1,143</u> | <u>1,120</u> |

4. Directors' remuneration

| | 2016 £000 | 2015 £000 |
|---|----------------------|--------------|
| Directors' emoluments | 2,537 | 1,755 |
| Company contributions to defined contribution pension schemes | 97 | 134 |
| | <u>2,634</u> | <u>1,889</u> |

During the year retirement benefits were accruing to 3 directors (2015 : 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £1,418,000 (2015 : £952,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £70,000 (2015 : £75,000).

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

5. Interest receivable

| | 2016 £000 | 2015 £000 |
|---|----------------------|--------------|
| Interest receivable from group undertakings | 28 | 20 |
| | <u>28</u> | <u>20</u> |

6. Interest payable and similar charges

| | 2016 £000 | 2015 £000 |
|---------------------------------------|----------------------|--------------|
| Amounts payable to group undertakings | 55 | 32 |
| Other interest payable | 8 | 3 |
| | <u>63</u> | <u>35</u> |

7. Taxation

| | 2016 £000 | 2015 £000 |
|--|----------------------|--------------|
| Corporation tax | | |
| Current tax on profits for the year | 7,190 | 5,734 |
| Adjustments in respect of previous periods | 212 | 78 |
| | <u>7,402</u> | <u>5,812</u> |
| Total current tax | <u>7,402</u> | <u>5,812</u> |
| Deferred tax | | |
| Origination and reversal of timing differences | (507) | (307) |
| Changes to tax rates | 132 | 266 |
| Adjustment in respect of prior years | (127) | (83) |
| Total deferred tax | <u>(502)</u> | <u>(124)</u> |
| Taxation on profit on ordinary activities | <u>6,900</u> | <u>5,688</u> |

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015: higher) the standard rate of corporation tax in the UK of 20.00% (2015 : 20.25%). The differences are explained below:

| | 2016 | 2015 |
|--|---------------|---------------|
| | £000 | £000 |
| Profit on ordinary activities before tax | 28,966 | 22,978 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 : 20.25%) | 5,793 | 4,653 |
| Effects of: | | |
| Capital items expensed and depreciation on non-qualifying assets | 304 | 621 |
| Expenses not deductible for tax purposes, | 159 | 215 |
| Income not taxable for tax purposes | (85) | (59) |
| Depreciation for the year higher than capital allowances | 423 | 337 |
| Other timing short term timing differences | 596 | (33) |
| Adjustment to tax charge in respect of previous periods | 212 | 78 |
| Deferred tax movements | (502) | (124) |
| Total tax charge for the year | 6,900 | 5,688 |

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 2016 has been calculated based on these rates.

8. Dividends

| | 2016 | 2015 |
|-------------------------|---------------|-------------|
| | £000 | £000 |
| Final Ordinary Dividend | 35,000 | - |
| | 35,000 | - |

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. Other Operating Income

| | 2016 £000 | 2015 £000 |
|--|-----------------|--------------|
| Income from the early termination of promotion and advertising contracts | (56,106) | - |
| | <u>(56,106)</u> | <u>-</u> |

Other operating income is a non-recurring gain during the second quarter of 2016, which related to the early termination of the Chelsea F.C. contract.

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 2016 | 25,121 | 14,770 | 22,707 | 5,512 | 68,110 |
| Additions | 67 | 11 | 10,827 | 1,576 | 12,481 |
| Disposals | (525) | (335) | (1,604) | (451) | (2,915) |
| At 31 December 2016 | <u>24,663</u> | <u>14,446</u> | <u>31,930</u> | <u>6,637</u> | <u>77,676</u> |
| Depreciation | | | | | |
| At 1 January 2016 | 14,819 | 13,284 | 11,556 | 4,870 | 44,529 |
| Charge for the period on owned assets | 1,256 | 1,350 | 4,558 | 534 | 7,698 |
| Disposals | (525) | (336) | (1,604) | (451) | (2,916) |
| At 31 December 2016 | <u>15,550</u> | <u>14,298</u> | <u>14,510</u> | <u>4,953</u> | <u>49,311</u> |
| Net book value | | | | | |
| At 31 December 2016 | <u>9,113</u> | <u>148</u> | <u>17,420</u> | <u>1,684</u> | <u>28,365</u> |
| At 31 December 2015 | <u>10,302</u> | <u>1,486</u> | <u>11,151</u> | <u>642</u> | <u>23,581</u> |

Included in the cost of freehold property is £22.5 million (2015: £23.0 million) of depreciable assets.

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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11. Stocks

| | 2016 £000 | 2015 £000 |
|-------------------------------------|----------------------|----------------------|
| Finished goods and goods for resale | 4,586 | 4,476 |
| | <u>4,586</u> | <u>4,476</u> |

Replacement costs of stock

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. Debtors

| | 2016 £000 | 2015 £000 |
|-------------------------------------|----------------------|----------------------|
| Due after more than one year | | |
| Deferred tax asset | 1,409 | 1,265 |
| | <u>1,409</u> | <u>1,265</u> |

| | 2016 £000 | 2015 £000 |
|------------------------------------|-----------------------|----------------------|
| Due within one year | | |
| Trade debtors | 59,133 | 29,668 |
| Amounts owed by group undertakings | 9,936 | 34,715 |
| Other debtors | 3,680 | 23 |
| Prepayments and accrued income | 109,625 | 33,661 |
| Deferred taxation | 1,792 | 1,434 |
| | <u>184,166</u> | <u>99,501</u> |

ADIDAS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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13. Creditors: Amounts falling due within one year

| | 2016 £000 | 2015 £000 |
|------------------------------------|----------------------|----------------------|
| Trade creditors | 87,820 | 38,327 |
| Amounts owed to group undertakings | 55,438 | 142 |
| Corporation tax | 4,147 | 2,641 |
| Other taxation and social security | - | 4,961 |
| Other creditors | 752 | 148 |
| Accruals and deferred income | 23,948 | 21,509 |
| | <u>172,105</u> | <u>67,728</u> |

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

| | 2016 £000 | 2015 £000 |
|------------------------------|----------------------|----------------------|
| Accruals and deferred income | 2,254 | 1,826 |
| | <u>2,254</u> | <u>1,826</u> |

15. Deferred taxation

| | 2016 £000 | 2015 £000 |
|---------------------------|----------------------|----------------------|
| At beginning of year | 2,699 | 2,574 |
| Charged to profit or loss | 502 | 125 |
| At end of year | <u>3,201</u> | <u>2,699</u> |

The deferred tax asset is made up as follows:

| | 2016 £000 | 2015 £000 |
|-----------------------|----------------------|----------------------|
| Tangible fixed assets | 1,409 | 1,265 |
| Financial assets | - | 33 |
| Provisions | 1,792 | 1,401 |
| | <u>3,201</u> | <u>2,699</u> |

ADIDAS (UK) LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2016**

16 Provisions

| | Long term incentive plan £000 | Restructuring provision £000 | Dismantling provision £000 | Total £000 |
|----------------------------|--|------------------------------------|----------------------------------|---------------|
| At 1 January 2016 | 2,681 | 378 | 1,178 | 4,237 |
| Charged to profit or loss | 1,084 | (190) | - | 894 |
| Utilised in year | (1,536) | (113) | (33) | (1,682) |
| At 31 December 2016 | 2,229 | 75 | 1,145 | 3,449 |

17. Share capital

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 1,000,000 Ordinary shares of £1 each | 1,000 | 1,000 |

18. Contingent liabilities

adidas (UK) Limited has given guarantees to HM Customs & Excise in respect of VAT and duty deferment of £200,000 (2015: £200,000).

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 £1,205,000 (2015 : £1,187,000). No contributions (2015 : £nil) were payable to the fund at the balance sheet date

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20. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 £000 | 2015 £000 |
|--|-----------------------|-----------------------|
| Not later than 1 year | 10,571 | 8,757 |
| Later than 1 year and not later than 5 years | 43,733 | 46,197 |
| Later than 5 years | 109,269 | 110,701 |
| | <u>163,573</u> | <u>165,655</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 adidas AG, Adi-Dassler-Strasse 1-2, D-91074 Herzogenaurach, Germany.