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FINANCIAL RESULTS PRESENTATION

First Half 2011 Speech

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Herbert Hainer, Robin Stalker, John-Paul O'Meara

John-Paul O'Meara

Good afternoon ladies and gentlemen and welcome to our first half 2011 financial results conference call. I'm JP O'Meara and I head up the IR activities here at the adidas Group.

Our presenters today are Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO. They will be covering our strong first half financial performance, and giving you some insights into the various initiatives we have planned to continue our momentum for the remainder of 2011. So, let's get started and over to you, Herbert.

Herbert Hainer

Thanks JP and good afternoon ladies and gentlemen.

Since outlining our strategic vision for the company under the title of Route 2015 last year, we have wasted absolutely no time and come out of the starting blocks in typical adidas Group fashion – fast and focused.

The trajectory of our operational and financial performance over the last six months is clear proof that our short- and long-term goals are not just ambitious aspirations - but very realistic, and very achievable. Let's look at the facts.

- For the first half, we achieved new record sales of 6.3 billion euro, or growth of 14% currency-neutral, as we drove significant market share gains in our key categories.
- By rigorously employing our strength in innovation and design as well as supply chain excellence, we have been able to maintain our gross margin at 48.8%, despite the external pressures from input cost inflation. In Q2, we even increased gross margin by 20 basis points.
- As a result of this development, and unlike most others in our industry, we have been able to keep investing into our future growth, while at the same time keeping a vigilant eye on our overhead expenses to drive operating margin improvement. These investments, as I have said many times before, are critical at this early stage of our strategic plan to ensure we put in place the right building blocks to deliver the long-term quality sales growth and profitability improvements we are striving towards.
- Taking this all together, the strong top-line increase and operating margin expansion of 30 basis points to 8.4% has yielded a perfect first half, with earnings growth of 19%, just shy of 350 million euro.

Looking deeper in the top-line, sales grew at double-digit rates in nearly all regions in the first six months. Revenues in Western Europe increased 10%

currency-neutral, with strong sales growth in Germany, France, Italy and Spain. In European Emerging Markets, Group sales increased 23% currency-neutral due to growth in most of the region's markets, in particular Russia/CIS. In Latin America, sales grew 11% currency-neutral with double-digit increases in most of the region's major markets, in particular Argentina, which benefited from the Copa America football championship.

Without doubt, Greater China was our star performer so far this year, with currency-neutral sales up 38%, leading sales to a new record level of 552 million euro for the half year. Working closely with our local partners, we have put a lot of energy into getting our brands and our business just right in this market over the past twelve months. Today, unlike many of our competitors, which are carrying older stock, and lots of it, our inventories in China are balanced and fresh. Our wholesale partners are achieving significantly higher comp store sales with our brands compared to competitors – and we are seeing limited effects on our business from discounting. Although the easy comparisons with the prior year are now over, momentum on the performance side is strong, particularly in running, outdoor and training. In addition, the wider availability of adidas Originals and the continuing evolution of adidas NEO are allowing us to rapidly capture more of the lifestyle segment. Therefore, as long as there are no major macroeconomic shocks in the region, I am confident we will enjoy healthy growth rates in line with our medium-term aspirations in the quarters and years to come.

Turning to North America, with 15% currency-neutral growth in the first half, our Group is also flourishing in this critical market. And more importantly, the quality of the business is improving with each and every quarter.

While sales growth moderated to 5% currency-neutral in Q2, as we had expected and communicated in May, all of the underlying trends for our brands were strong, which is confirmed by the market share gains you can see in the recent point-of-sale research data.

At adidas, sales were up 13% currency-neutral in Q2, our highest growth rate for this period in five years. All of our key categories – Originals, running, basketball and training – posted solid double-digit growth. And we continue to make great strides in improving our distribution mix, with strong double-digit growth in the mall and sporting goods channels. This is also creating further opportunities for us to refine our exposure to more premium retail channels.

For Reebok in North America, sales in the quarter were lower, as we outlined in May, declining 15% currency-neutral. This decline was exclusively due to the large sell-in of toning products that had propelled sales up 31% in the prior year period. If we exclude the toning category, Reebok revenues were up 24% in North America in Q2, highlighting the continued appeal of Zig, and the successful launch of the RealFlex franchise. Gross margins in this market were also up for the quarter, which is a real testament to the Reebok team, who have successfully managed the developments in the toning

segment, with very little disruption to our business, or that of our retail partners.

In terms of the future, I am very confident in our ability to continue the positive trends for both brands, and we will see solid growth rates in the remaining quarters of the year – obviously excluding the impact from the winding-down of our NFL licensed business at Reebok.

To finish up on the markets, let me make a comment on Other Asian Markets, and in particular Japan. Sales for the half year were up 6% currency-neutral driven by strong growth in South Korea. I am also pleased to report that our business in Japan has shown considerable resilience, declining only 1% currency-neutral in the second quarter.

From a brand perspective, a large part of this success in Japan has been the resurgence of Reebok, where sales increased over 70% in Q2, driven in particular by toning. This helped to more than compensate for mid-single-digit declines at adidas, which was nevertheless much better than the underlying market. TaylorMade-adidas Golf also saw modest growth during the quarter due to the popularity of the R11 driver.

For the total Group in Japan, this means that we have significantly extended our market share during the period, which is a credit to the determination of our team in Japan. We also have to pay tribute to our retail partners, who have been very swift in reopening stores, with over half of the severely affected stores now operational again.

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Barring any major setbacks, we are now unlikely to see the big declines of 15% to 25% we feared back in May. The spirit of the Japanese to recover from the disaster is inspiring, just as much as the Japanese ladies football team showed when they won the exciting FIFA Women's World Cup Final in Frankfurt a few weeks ago.

For the second half of the year, we now expect sales in Japan to decline at a high-single-digit rate. Due to margin pressures, we nevertheless still expect profitability headwinds compared to our original plans for the year.

As you can see with Japan, even in difficult times, there is still so much possible, when your brands are strong and relevant. So let me spend a few minutes on the brand initiatives that have driven our Group-wide success in the first half.

At adidas, revenues increased 14% currency-neutral, in the first six months, with a very strong 10% increase in Q2 versus a prior year World Cup quarter. With the exception of football, we saw strong double-digit growth in each of our key categories:

- In running, sales are up 25% year-to-date, with our strength in lightweight running and the successful global introduction of our new iconic ClimaCool Ride.
- In basketball, momentum for the brand is accelerating, driven by the success of the adiZero Rose, the Crazy 8 and the introduction of the

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lightest shoe in the game – the adiZero Crazylight in June. The sell-through of the Crazy Light has smashed all of our targets, with double-digit sell-through rates at every mall account.

- In training and outdoor, sales were up 15% and almost 40% year-to-date, with second quarter Outdoor sales up well over 50%, and our Terrex platform more than doubling compared to the prior year. Today, we are at the forefront of innovation in the outdoor industry. Just a few weeks ago in Friedrichshafen, we again won the OutDoor industry award, making it a hat-trick of victories for adidas outdoor. This time, the 2011 TERREX Fast R, an ultra-light, fast hiking boot, stole the accolades.

Turning to adidas Sport Style, we had a phenomenal quarter with sales growing 34% currency-neutral, the highest Sport Style growth rate since Q4 2005. Year-to-date, Sport Style sales are up 30% with growth in every market, most at double-digit rates.

A key driver of this success continues to be the diversity of our offering and our ability to re-create and re-invent our unparalleled product heritage, continuously invigorating iconic styles that resonate and speak to our consumer like no other brand.

Turning to Reebok, sales are also up 14% year-to-date and 5% in the quarter, despite the double-digit Q2 decline in North America, which I already mentioned. Exporting the new Reebok globally is leading to very solid momentum for the brand, with international sales up 19% for the quarter.

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Toning footwear was a key driver of Reebok's global growth, and despite double-digit declines in the US, global sales in that category are up double-digit year-to-date. Furthermore, I am confident that the worst of the US toning inventory issue with our main competitor in the space is coming to an end, and we have received good feedback from our US retailers on the next generation of our toning footwear. Therefore, I am confident that toning will stabilise into a sustainable, value-adding category as part of the larger trends towards exercise and healthy living.

Reebok's energy efficiency platform – ZigTech – continues to show robust growth, particularly in North America, Asia and Russia. The popularity of the distinctive style is magnified by the customisation frenzy we have seen on YourReebok.com. In less than a quarter, the number of personalised styles has doubled to over 2 million.

We are also very encouraged by the uptake of RealFlex, particularly as it is establishing itself as a dual gender shoe. Taking all of our brand initiatives together, we continue to see solid improvements in average selling prices and margins for the brand, with footwear ASP's up 15% this year, and gross margins advancing 1.6 percentage points.

Finally, let me spend a moment on TaylorMade-adidas Golf – the jewel of the golf industry. Over the past decade, not only have we grown significantly, we have transformed our golf brands into industry leaders, despite headwinds from a stagnant golf market.

We are outmanoeuvring the competition on all fronts. Our rise to the top of the leader board is founded in being faster and more consistent in developing ground-breaking innovations to meet the high demands of the golf consumer and retailers.

Our 17% currency-neutral sales growth in the first half proves the point.
The game of golf is witnessing a revolution with TaylorMade's sensational white R11 metalwoods. None of our competitors would have either the credibility or audacity to transform the colour of the game. The R11 is already a force on the world's major professional tours, having secured 20 wins so far this year. The consumer has also overwhelmingly voted yes, with our US market share standing at over 40% in the category.

So ladies and gentlemen, for the first half of the year, no matter which way we break down our results - by segment, by region or by brand – all facets of our business are excelling. I'll be back in a few moments to give you an update on what we have in store for the remainder of the year. But first, I'll hand you over to Robin to go through the financials and the second quarter in more detail.

Robin Stalker
Thank you, Herbert. And good afternoon ladies and gentlemen.

As you have just heard, the first half of 2011 has seen the Group achieve many new milestones in terms of growth and operational performance. Let me now

walk you through how this has translated into our financial performance, weighing up the positive and negative influences we have seen during the period and the trends you can read out of these for the remainder of the year.

Starting with the top line. In sharp contrast to previous quarters, currency movements are now having a significant negative impact on Group sales in reported terms. This is due to the year-over-year depreciation of currencies such as the US dollar, the Chinese renminbi, the British pound, as well as various emerging market currencies like the Turkish lira and Argentinian peso, against the euro. As a result, Group sales increased 5% in reported terms to 3.1 billion euro in the second quarter compared to 10% on a currency-neutral basis. For the year-to-date period, sales grew 13% in euro terms to more than 6.3 billion euro, with only a one point negative impact from currencies. For the remainder of the year, based on current spot rates, we will face similar pressures on currency translation as in Q2.

Every region grew in the second quarter with a particularly strong performance in Greater China – where sales increased 41%. Similarly, sales in European Emerging Markets increased 21% on a currency-neutral basis, as we continued to expand our market share in Russia/CIS. Revenues in this key attack market increased 30% on a currency-neutral basis.

In North America, Group currency-neutral sales for the second quarter increased 5%. The strong performance at adidas Sport Style and adidas Sport Performance, which grew 24% and 9% respectively, more than offset declines at Reebok, as already discussed.

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In Western Europe as well as Latin America, second quarter Group sales growth decelerated slightly to 5% and 8% on a currency-neutral basis, respectively. This is mainly a reflection of the importance of the 2010 FIFA World Cup for those two regions, which positively impacted the prior year quarter development.

Finally, in Other Asian Markets adidas Group sales grew 6% currency-neutral mainly due to strong sales growth in South Korea and South East Asia, and only a slight decline in Japan.

By segment, currency-neutral Wholesale revenues increased 6% in the second quarter and 13% for the first half year. Second quarter growth was driven by higher sales in all regions except European Emerging Markets. Greater China was exceptionally strong, growing at an impressive 47% rate.

Gross margin for the segment was down 150 basis points for the quarter and 60 basis points for the first half year to 41.5%. A more favourable product mix as well as less clearance sales helped mitigate the headwinds from rising input costs. In addition, shifts within the regional sales mix positively impacted the Wholesale gross margin development. While the adidas brand wholesale gross margin declined 80 basis points, the Reebok wholesale gross margin was up 40 basis points in the first six months of 2011, a clear sign of the brand's improved product assortment and distribution.

Despite the gross margin headwinds, our Wholesale segmental operating margin expanded 10 basis points to 32.3% in the first half of 2011 as we leveraged our strong top-line growth.

In the Retail segment, comparable store sales growth in Q2 was an impressive 13%, and contributed the largest part to segmental revenues, which increased 20% to 681 million euro. Russia/CIS continues to be the growth engine for Retail, with comparable store sales increasing almost 30% in Q2. For the first half year, currency-neutral Retail sales increased 21%, driven by an impressive 15% comp store growth, with adidas up 15% and Reebok up 13%. All of our store formats showed double-digit growth rates year-to-date, including an 18% comp store sales increase at concept stores.

Retail gross margin improved 70 basis points to 65.8% for the second quarter and 160 basis points to 63.7% in the first six months. Reebok in particular saw a strong gross margin increase of 260 basis points for the quarter and 450 basis points for the year-to-date period.

At the end of the second quarter, we operated 2,335 stores, a net increase of 65 stores versus December last year. During the period, we opened 152 new stores and closed 87 stores, while 73 stores were remodelled. In addition, 110 concept stores were reclassified as other retail formats during the period.

Coming to the segmental operating margin for Retail, our efforts to become a world-class retailer and to deliver healthy, sustainable growth continue to

bear fruit. Segmental operating margin for the second quarter increased 0.8 percentage points to 25.3%, and 2.0 percentage points to 20.8% in the first half.

Finally, in Other Businesses, currency-neutral sales grew 12% in Q2 and 13% year-to-date as all segments recorded higher sales. The performance at TaylorMade-adidas Golf was outstanding, with currency-neutral sales increases of 13% and 17% for the quarter and the six-month period respectively.

Both the quarterly and first half gross margins were up 60 basis points, as we benefited from improved product margins at Rockport and Reebok-CCM Hockey.

The segmental operating margin remained stable in the first half at 28.0%. Higher operating expenses as a percentage of sales due to increased sales and marketing working budget spending for the Q1 launch of the R11 at TaylorMade-adidas Golf offset the gross margin expansion. In the second quarter, segmental operating margin increased 0.8 percentage points.

Moving to the Group's gross margin – I hope you share my enthusiasm about what we achieved on this important metric. In the first half of 2011, Group gross margin remained stable at 48.8%. However, second quarter margin increased 20 basis points to 49.2%, which is an extremely satisfying development in light of industry pressures. In line with our previous communication, the negative impact form higher sourcing costs increased as

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we progressed through the period, hurting gross margin by around 130 basis points for the quarter and around 120 basis points year-to-date.

We have identified several positive margin drivers which helped to offset the negative impact:

- Firstly, the most important positive catalyst was the over-proportionate growth of sales in our Retail segment, which carries higher margins.
- Secondly, we had less clearance compared to the prior year as a result of more current levels of inventory.
- Thirdly, we benefited from positive regional mix effects, which was mainly a result of the over-proportionate growth in higher-margin markets such as Greater China and Russia.
- And finally, Group gross margin was impacted by the improvements in our product assortment leading to a higher-priced sales mix, particularly at Reebok.

In terms of the outlook for margins, the impact from input cost pressures will continue to increase in the second half of this year and into the first half of 2012. While short-term pressures on gross margins continue, there has been some easing in the commodity markets, particularly in relation to cotton prices, which should start to provide some relief in the second half of 2012, especially on the apparel side. Therefore, we maintain our gross margin guidance for 2011 of between 47.5% and 48.0%.

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Moving below the gross profit line, other operating expenses increased 4% for the quarter and 10% year-to-date. As a percentage of sales, however, other operating expenses were down 0.6 percentage points and 1.1 percentage points, respectively.

For the quarter, sales and marketing working budget expenditures declined 2%, which mainly reflects the non-recurrence of activities at the adidas brand to support the FIFA World Cup. For the first six months, our marketing investments were up 10% primarily as a result of the global launch of the "all adidas" campaign. As a percentage of sales, marketing spend declined 0.4 percentage points to 13.1% year-to-date.

Other operating income was down 25% for the quarter, and decreased 50% in the first half, the latter mostly reflecting two one-off effects in the first quarter of 2010 related to the settlement of a lawsuit and the sale of a trademark. Royalty and commission income decreased 9% in currency-neutral terms and 11% in reported terms in the first half of 2011.

Taking all these factors together, Group operating profit increased 17% in the first six months to 532 million euro. This translates into an operating margin of 8.4%, up 0.3 percentage points from the prior year, a proof point of our ability to leverage the Group's top-line momentum. In the second quarter, operating margin expansion was even higher, rising 50 basis points to 7.1%.

Turning now to the non-operating items of the P&L: Net financial expenses increased 41% in the first half compared to a year ago. Key to this

development were negative exchange rate variances, where we were hit by a negative swing of 21 million euro for the period, which more than offset 11% lower interest expenses.

The first half year tax rate came down 200 basis points to 27.5%, which is due to a more favourable regional earnings mix as well as tax rate reductions which have been enacted in the UK for measuring deferred tax assets and liabilities.

Therefore, net income attributable to shareholders for the first six months increased 19% to 349 million euro, the highest net income figure our Group has ever achieved in a first half year. This translates into basic and diluted EPS of 1.67 euro.

Moving to the balance sheet and cash flow, discipline remains on top of our agenda. At the end of June, Group inventories were up 26% currency-neutral to 2.4 billion euro. Despite this strong growth rate, I am not concerned about our inventory position as we are still comparing against an extremely low base from the prior year, when inventories declined 10%. To match our higher sales base and also in preparation for future growth opportunities, we have been rebuilding our inventory levels over the past 12 months.

Therefore, moving into the second half of 2011, you should expect the gap between the Group sales growth rate and inventory growth rate to narrow in line with future sales growth expectations.

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Accounts receivable increased 9% on a currency-neutral basis or 1% in reported terms to 2.0 billion euro, which compares to a 10% increase in Group sales. And accounts payable increased 15% currency-neutral or 10% reported to 1.6 billion euro, reflecting the growth in inventories.

In summary, we were able to maintain a very healthy ratio of operating working capital as a percentage of sales, at 20.7%. The current level marks an improvement of 100 basis points year-over-year. While we may lose some basis points due to the planned growth of our business, I am very confident that our tight management of working capital will ensure we continue to maximise cash flow generation as we go through 2011 and beyond.

Finally, ladies and gentlemen, at the end of June, our net debt stood at 863 million euro, equating to a decrease of 227 million euro or 21% versus the prior year. This represents a ratio of net borrowings over 12-month rolling EBITDA of 0.7, which means we are comfortably within our target corridor of a ratio of below two times. At the end of the prior year period, this ratio stood at 1.0.

Having provided you with a detailed overview of our Q2 and first half 2011 financials, I would like to spend a moment on a technical accounting matter that we announced yesterday evening regarding the DPR's review of our 2009 financial statements.

For those of you not familiar with this official body, the DPR is the German Financial Reporting Enforcement Panel. It was set up in Germany in 2005 to

review the corporate accounting of companies listed on the regulated market. The body strives to review the accounting of each of the DAX 30 members via a random sample every 3 to 5 years. The last time adidas AG was reviewed was in 2005/2006 for the 2004 financial statements.

In the course of this examination, the Enforcement Panel was satisfied with the consolidated financial statements for 2009 and the respective accounting treatments with the exception of two points:

- First, the reorganisation of the segments and its relation to the level at which the impairment test was carried out.
- Second, the disclosure in the Group management report for 2009 not leading the reader to recognise that the Reebok brand made a loss of approximately 160 million euro for the financial year.

On the first point, the DPR is challenging the difference between the segmental reporting and the definition of our cash generating units as reported in the Notes for the purpose of impairment testing. They have not challenged the outcome of our impairment tests, which were carried out on both the new and the old reporting structures, as explained in the Notes to the financial statements.

On the second point, the DPR believes the reader of our 2009 annual report cannot gauge that Reebok made an operating loss of approximately 160 million euro for 2009. Up until the nine month period of 2009, we had reported an operating loss of 130 million euro for the former Reebok

segment. This new information, therefore, should not be a surprise to those who actively follow the company.

Neither of these points requires any change or restatement to our consolidated financial statements for 2009, 2010 or the current fiscal year.

So ladies and gentlemen, this concludes my comments for today. We are on a great track to achieve all of our goals for 2011. Now back to Herbert to take you through our initiatives and outlook for the remainder of the year.

Herbert Hainer
Thanks Robin.

No matter which retailer I speak to, or which market share statistic I read, our product sell-throughs are stronger than they have ever been, and our market shares are increasing virtually everywhere across the globe.

Therefore, we can look out with confidence to the remainder of the year. As always, our success will be driven by the exceptional product offering and marketing concepts we have at our disposal.

At adidas, at the end of August, the IAAF World Championships in South Korea will serve as a great platform to push off the next wave of our lightweight running offensive with the introduction of the adiZero Feather and the adiZero Prime.

In football, we already kicked off the season with the introduction of our various partners' home jerseys such as FC Bayern and Real Madrid, and later this year, we will begin our build-up to UEFA EURO 2012 taking place in Poland and the Ukraine.

In Originals, we are poised to change the way consumers shop for our brand, with the introduction of a first-of-its-kind iPhone app to our industry. The adidas Originals App uses 3D image recognition, whereby the user can take a photo of any shoe, old, new, or even from a different brand, and the application responds with the closest, most relevant matches from our current range. This gives consumers the chance to find the best replacement for their favourite old footwear, to find adidas shoes most similar to shoes that might have caught their eye somewhere, or to simply play around and explore the different styles of adidas Originals in a fun way.

At Reebok, we will continue to exploit the tremendous platforms we have created over the last 18 months. For Zig, we have new campaigns and product introductions such as the ZigFly or ZigDynamic, each offering different takes on highly breathable, lightweight and responsive footwear for running and training. And, we are also extending Zig into baseball cleats as well as into trail running with the Zig Wild.

For RealFlex, we have a big push underway for back-to-school and year-end, with a broadening of the assortment, including kids, and the expansion into new doors – all of which is leading to significant increases in volumes.

In addition, we are also starting to commence our revitalisation of Reebok Classics. In July, Reebok together with Swiss Beatz launched our new Classics "Reethym of Lite" Campaign, the first Reebok Classics campaign in 10 years. And some of the related new product introductions, like the Kamakaze, are already proving to be very popular.

Finally at TaylorMade-adidas Golf, a key strategy for the brand is to replicate our dominating lead in metalwoods in the other important golf categories. Therefore, in the third quarter, we are intensifying our efforts specifically in the irons category. Over the past 12 months, we have already claimed the top spot in the USA, with our market share currently above 20% in this category. The next generation of irons - the R11 series - which were launched live on the web last weekend, will help us assert our lead over the competition in the sport's second most important club category.

As you can see, we have a lot underway to keep momentum for the Group going strong through to the end of the year. Turning now to the guidance, after the strong first half performance, we are amending our full year top- and bottom-line forecasts, despite the increased headwinds from foreign currency translation into the euro which we currently see from the movements of various currencies Robin spoke about earlier. In addition, the prospect of an NBA lockout is also something that we need to bear in mind as having a potential impact on our basketball business.

Nevertheless, we are increasing our sales growth guidance and now expect around 10% currency-neutral growth for the year. This will be driven by

strong performances in markets like Greater China and North America, continuing robust sales in our own retail stores and a less pronounced decline in Japan compared to what we feared in May.

We continue to project the Group gross and operating margins in a range of 47.5% to 48.0%, and 7.5% to 8.0%, respectively. As a result of the higher top-line expectations and our profitability development in the first half of the year, we forecast earnings per share to improve at a rate approaching 15%, to a level between 3.10 and 3.12 euro, thus eclipsing our 2008 pre-crisis record high of 3.07 euro.

And I am pleased to report this means 2011 will be a record year for us in terms of sales and earnings. With that, ladies and gentlemen, I thank you for your attention and we are happy to take your questions.