TaylorMade-adidas Golf Business Performance

Sales for TaylorMade-adidas Golf in 2005 grew 11% on a currency-neutral basis driven by strong increases in all major product categories. In euro terms, this represents an improvement of 12% to € 709 million in 2005 from € 633 million in 2004. TaylorMade-adidas Golf gross margin declined 3.0 percentage points to 44.0% in 2005 from 47.0% in 2004 due to negative impacts from the buy-out of the golf ball manufacturing contract with Dunlop Slazenger. Driven by strong top-line growth combined with significant operating expense leverage, operating profit improved 5% to € 50 million in 2005 from € 48 million in 2004. The adoption of new and revised International Financial Reporting Standards had a small positive impact on the reported operational performance in 2005. On a comparable basis, the operating profit at TaylorMade-adidas Golf increased 4%.

TaylorMade-adidas Golf at a Glance € in millions

	2005	2004	Change
Net sales	**709**	633	12%
Gross margin	**44.0%**	47.0%	(3.0pp)
Operating profit[1]	**50**	48	5%

1) The 2004 figure has been adjusted to reflect the changes in IFRS.

TaylorMade-adidas Golf Net Sales by Quarter € in millions

Currency-Neutral Sales Up 11%

Currency-neutral sales at TaylorMade-adidas Golf increased 11% in 2005. This positive performance was driven by strong growth in all major categories. In euro terms, revenues grew 12% to € 709 million in 2005 from € 633 million in 2004.

Currency-Neutral Sales Growth Driven by New Product Introductions and Expanded Product Offerings

Currency-neutral sales improvement at TaylorMade-adidas Golf was driven by all major product categories. The growth in the irons category was largely due to the continued success with the rac™ family of irons and the introduction of the r7® XD and r7® CGB MAX irons equipped with the Inverted Cone Technology. The metalwoods category also continued to grow, further strengthening TaylorMade-adidas Golf's number one position in the drivers market in 2005. adidas Golf apparel and footwear revenues both grew by double-digit rates, driven by the continued strength of our ClimaLite® and ClimaCool® technologies.

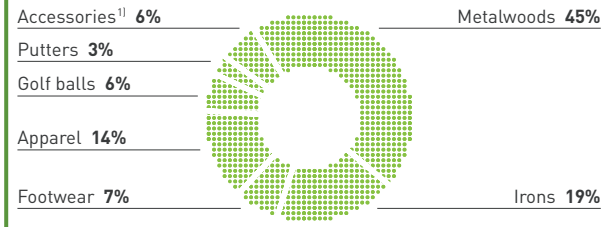
Highest Growth in North America In Three Years

On a regional basis, currency-neutral revenue growth in 2005 was driven by strong performance in North America, where sales were up 21% due to double-digit increases in all major categories as a result of successful product launches within the year. This marks the highest growth in the region in three years. Currency-neutral sales also increased in Europe, up 7% due to solid growth in the UK and Germany. By category, the underlying sales increase was driven by strong performance in the irons and putters categories as well as in adidas Golf footwear and apparel. In Asia, currency-neutral sales were stable compared to prior year levels as a result of growth in countries such as Japan and Australia offsetting declines in South Korea. In Latin America, currency-neutral sales of TaylorMade-adidas Golf increased 39%, albeit from a small base, driven by vigorous growth in all major categories. In euro terms, sales in North America increased 21% to € 383 million in 2005 from € 315 million in the prior year. European sales increased 6% in euro terms to € 102 million (2004: € 96 million). Asian revenues in euro terms increased slightly to € 221 million in 2005 versus € 220 million in the prior year. And in Latin America, sales increased 43% in euro terms to € 3 million (2004: € 2 million).

Gross Margin Declines

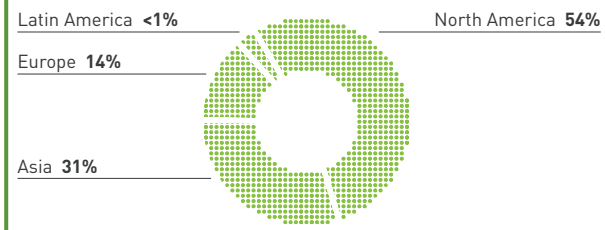
TaylorMade-adidas Golf gross margin decreased 3.0 percentage points to 44.0% in 2005 from 47.0% in the prior year as a result of negative impacts from the buy-out of our golf ball manufacturing contract with Dunlop Slazenger. These declines could only be partly offset by strong improvements in in some product categories, in particular irons. Nevertheless, driven by strong sales improvement, gross profit increased 5% to € 312 million in 2005 from € 298 million in 2004.

TaylorMade-adidas Golf Net Sales by Product



1) Includes golf bags, gloves and other accessories

TaylorMade-adidas Golf Net Sales by Region



TaylorMade-adidas Golf Operating Profit by Quarter[1]
€ in millions

1) 2004 quarterly figures have been adjusted to reflect the changes in IFRS.

Royalty and Commission Income Decreases

Royalty and commission income at TaylorMade-adidas Golf declined 32% to negative € 15 million in 2005 (2004: negative € 11 million) as a result of increased sales at adidas Golf. This amount reflects intra-Group royalties for the adidas Golf business and therefore is recorded as part of royalty and commission income in the adidas segment.

Operating Expenses as a Percentage of Sales Decline Significantly

Operating expenses at TaylorMade-adidas Golf increased 4% to € 247 million in 2005 from € 237 million in the prior year. As a percentage of sales, however, operating expenses declined strongly in 2005, decreasing 2.7 percentage points to 34.8% (2004: 37.5%). This reflects lower marketing expenditures as well as decreased operating overhead costs, driven by efficiency gains, both as a percentage of sales.

No Goodwill Amortization Incurred in 2005

In accordance with the new and revised International Financial Reporting Standards, scheduled goodwill is no longer allowed. No goodwill impairment was incurred at TaylorMade-adidas Golf in 2005. This compares to scheduled goodwill amortization of € 1 million in the prior year (see Notes/note 2).

Operating Profit Increases by 5%

The operating margin declined 0.4 percentage points to 7.1% in 2005 from 7.5% in 2004. This development was a result of the lower gross margin, which more than offset strong sales growth and significantly improved operating expense leverage. Operating profit for TaylorMade-adidas Golf increased 5% to € 50 million in 2005 from € 48 million in 2004. On a comparable basis excluding goodwill amortization and including royalty and commission income for both years, operating profit at TaylorMade-adidas Golf increased 4% while the operating margin decreased 0.6 percentage points in 2005.