

**adidas-Salomon**

**Reebok Transaction and First Half Year 2005 Financial Results Presentation**

**August 3, 2005**

**Conference Call 3:30 p.m. (CET)**

**Q & A Session**

**adidas-Salomon participants:**

**Herbert Hainer, CEO of adidas-Salomon**

**Robin Stalker, CFO of adidas-Salomon**

**Natalie Knight, Vice President Investor Relations**

**Reebok participant:**

**Paul Fireman, CEO of Reebok**

***Bob Drbul - Lehman Brothers, New York***

*In terms of the combined enterprise, do you have any plans for an adidas athlete to do something for Reebok – a multi-branded athlete perspective, if you like?*

**Herbert Hainer**

It is a little early to talk about all the details, but there is no doubt that this combination gives us a huge opportunity to play with the different sport categories, athletes and events which we have, in order to utilize the portfolio in the best possible way. There are plenty of opportunities to capitalize on the portfolio and the two brands in the future but we do not currently foresee utilizing athletes across the brands.

***Bob Drbul***

*Would you expect to keep marketing expenditure as a percentage of sales at the same level, or would you ratchet that down? What would be your commitment to that?*

**Herbert Hainer**

We will definitely spend what is necessary in the market; we have always said that for the adidas brand. Our group marketing working budget currently represents around 13% of sales and we are always focused on optimizing or spend. The same is true for the Reebok brand, and together we will try to achieve more for the money we spend. As you can imagine, without wanting to go into details today, there is no doubt that we can achieve more for the money we are spending.

***Bob Drbul***

*Could you update us on what you are seeing in the European market at retail around athletic footwear and give us your expectations for the rest of this year?*

**Herbert Hainer**

There is a tough retail environment in many European countries at the moment, but other countries are doing quite well. For example, the Eastern European markets are performing quite well, whereas in the UK and Iberia the retail landscape is more difficult. I think we are seeing the first signs of improvement, especially in Germany, where with the upcoming World Cup; momentum is definitely returning and I believe that will continue,

going into 2006, and we will see a better climate in Europe. It will not change dramatically from one day to the next, but we are seeing the first signs of improvement.

**Margaret Mager - Goldman Sachs, New York**

*Is there any assumption that the market share transfer will not be clean-cut to adidas in categories where adidas might be a stronger player? In other words, when you evaluate this deal, would it still make sense to you to expect a fall in certain Reebok revenues in order to position the combined company in a more effective way going forward? Is there anything of that nature built into your assumptions?*

**Herbert Hainer**

We definitely believe that this combination is about growth; we definitely want to grow all of our brands, and there are many opportunities available. Let me give you a few examples. Looking at the collegiate licensed business, we have the licenses; Reebok has the skills to produce and to be fast to market, and to date we have not been able to fully exploit this. In terms of branded apparel, we are strong in the high-end department store area. In previous calls, I have quoted our success with Nordstrom for example. I believe that we can help Reebok on the branded apparel side, where they are not as strong as they are with licensed apparel. While we are just starting to enter the huge category of women's sportswear with our adidas by Stella McCartney collection, Reebok has a very strong presence and is the market leader in the women's business, and they can definitely help us with their expertise. I am absolutely convinced that, with this deal, one plus one equals three.

**Margaret Mager**

*Is there anything about the nature of the sports marketing contracts with athletes or teams that would preclude you from changing the brands across those contracts? For example, if you decide that adidas is stronger in basketball and that you should have the Reebok contracts move to adidas, can you do that?*

**Herbert Hainer**

There is no doubt that, as I have said before, we are looking into all the opportunities that we have, but there are third parties that need to be included in this thinking as well. It is too early to talk about that.

**Margaret Mager**

*Can you give us an idea of what the pro forma balance sheet will look like in terms of debt to equity? What are your thoughts on that front? I know you have given your thoughts down to the EBIT margin line, but could you go below that in terms of financing costs or anything that might help us understand how this combined company will look?*

**Robin Stalker**

Over the past few years, our focus on improving the adidas-Salomon balance sheet has been key, and that is not going to change in the combined group. In making the investment decision and deciding how to finance it, we are very conscious about the effect on our balance sheet, our leveraging and the financing costs. We are going to finance it with a view to maintaining a strong investment grade rating, which means we will need some additional equity; however, we will not decide on the amount of equity until closer to the date of closing. We have significant credit lines and we can finance this on a debt basis.

With the cash flow that we are anticipating from the combined entity, we are sure that we will be able to pay back debt rapidly, so that it may be that our initial guidance over the last few years in terms of the leverage we would like for the group being under 50% may be dampened in the first few years,, but that guidance definitely remains our target for the combined group.

**Margaret Mager**

*Do you expect any push-back from regulators in Europe or the US? What kind of review process have you built into your assumptions in terms of the timing on closing this transaction?*

**Robin Stalker**

We are being advised by experts in this field – anti-trust lawyers – and we have taken a conservative approach to the timing of closing, by saying it will take place in the first half of next year. We definitely need to respect the review that the authorities will wish to carry out, but we do not see any major issues here, and we would expect to close within the first half of next year.

**Emmanuel Raymond - Merrill Lynch, London**

*You mentioned that you did not want to stay above 50% of debt to equity for too long; should we expect a placing in the next few days. Second, in terms of synergies, do you expect to put more pressure on the retailers in terms of achieved wholesale prices?*

**Robin Stalker**

You can definitely not expect anything in the next few days; as I said, we will not make a decision on the amount of equity that we require until closer to the closing date.

**Herbert Hainer**

I believe that the retailers will see with combination as a winning one as well, since we can definitely offer a wider portfolio, more innovative products, and more technology- and music-inspired products, because of the combination of brands. This will definitely deliver refreshment to the market and help retailers as well.

**Emmanuel Raymond**

*Do you expect a counter bid?*

**Robin Stalker**

We have offered a fair price and you have heard Paul mention that his board has voted unanimously to support this bid. He and his wife are also voting in favor of it.

**Michael Schechter - Mentor Partners, New York**

*Is the deal subject to financing?*

**Robin Stalker**

No.

**Michael Schechter**

*Other than the EU and the US, are any other regulatory authorities involved?*

**Robin Stalker**

It is a normal process; we are both global companies and the major authorities are the US and the EU, but there are other jurisdictions as well.

**Jim Duffy - Thomas Weisel Partners, San Francisco**

*How did this deal come about? How did discussions begin?*

**Herbert Hainer**

Paul and I have known each other for several years. We met last year, during the Athens Olympics, where we talked about the business and the opportunities in the market. Following that, we kept in contact by phone and I visited him in the US at the end of the year. We decided to have lunch together and elaborate further on our talks. This is how it evolved, and it continued from there.

**Jim Duffy**

*In terms of the combined entity, what type of leverage does that afford you for the retail channel and with manufacturing and sourcing? Was that a driver that led you down this path?*

**Herbert Hainer**

Overall, this deal is definitely about growth, because we see a lot of opportunities to drive both businesses, since we are so complementary. Nevertheless, it is our duty to take synergies where we can, and there are definitely opportunities on the operational front. We will source much more product together, which will give us many opportunities in the various areas where we believe we can achieve synergies. On the one hand, we are definitely excited about the growth opportunities; on the other, we will do what is necessary to improve our combined cost base.

**Jim Duffy**

*In terms of developing markets such as China, will you continue to invest in a multi-brand strategy, or will it make sense to apply the resources behind a single brand?*

**Herbert Hainer**

We will definitely keep both brands separate: they have their own identity, brand image and, to a certain extent, consumer base. I have often spoken about our approach to China, but Reebok is also doing a lot there.

**Paul Fireman**

adidas certainly has a stronger leadership in China – they have been there for longer than us – but we are both presenting our products through individual stores. It is not like collective stores such as those seen in the US or Europe; these are brand-specific stores under adidas and Reebok separately. Despite the fact that they sometimes located next to each other or across a street, we both have very brand-specific personalities and presentations. I think it behooves us to have both brands. This is such a big market in China, and two brands individually will add to the value. Yao is with Reebok at the moment but there may be a time when he might be helpful for both brands. There is no question that there will be many brands competing, so we will be only two of many and, together, we will each grow value.

**S. T. Telefrigatta - Quattro Global Capital, New York**

*Does the merger agreement permit or require you to divest assets if needed? Is there a pre-set level of divestiture that you have committed to make per the merger agreement if you need to?*

**Robin Stalker**

You will be able to see full details of the merger agreement, which will be released in the next few days. There is nothing of any surprise.

**S. T. Telefrigatta**

*When do you expect to complete the necessary regulatory filings?*

**Robin Stalker**

That process will start immediately; I cannot give you a specific timetable at the moment.

**Melanie Flouquet – JPMorgan, London**

*Where do you think this revenue growth profile is going to come from on your initial assessment? Could you give us any indications of where you believe the adidas brand market share can get to in the US or whether you have upwardly reviewed your expectations of the adidas brand in the US, which were already quite punchy, going for 20% market share in the longer term? The same question applies to Reebok with regard to Europe and Asia: could you update us on what you are targeting within this merger?*

**Herbert Hainer**

There is no doubt that, geographically and from a category perspective, this deal presents a lot of opportunities. I have already mentioned a few when I talked about the licensed business and branded apparel. In the US, we believe strongly in the licensed business, in which we are not yet a major player. But Reebok has licenses with the NBA, the NFL, the NHL and the MLB, and adidas has the MLS, so, together, we cover all the licensed businesses, which will provide many opportunities. Reebok is very professional in bringing production skills to the market, which we have not yet exploited in the US. In terms of Europe, Reebok is very strong in the UK, but not as strong in other countries such as Germany, Italy, Spain or France; however, adidas is the market leader in more or less every other European country, so we can definitely help them improve their distribution share in terms of their operations. I could go on and on with this list.

**Melanie Flouquet**

*In terms of the adidas brand in the US, in the past you were targeting 20% market share in the longer term; does this still make you confident of achieving this or are you now targeting even more?*

**Herbert Hainer**

As you said, this was a long-term market share target, but I can tell you that we are growing our market share and, even in the last six months, we gained market share of 1.5-2%. You saw our sales and backlog figures that we delivered this morning, which are quite positive. With this combination of the two brands, this will definitely help us to enter the market more quickly and give us even greater opportunity to grow.

**Melanie Flouquet**

*Are you sticking with this long-term market share target of 20% or is it too early to say?*

**Herbert Hainer**

We definitely still believe in that target and I have also said that I see the potential for the adidas brand in the US at a level of around 20%. I made a mistake when I gave a timeframe of three years, but when you look at the potential of the brand worldwide and its popularity in the US, I do not see why, on a medium – and long-term basis, we cannot go further in the US.

**Melanie Flouquet**

*Does this deal accelerate your ability to reach this market share or does it expand your ability to grow beyond 20%?*

**Herbert Hainer**

I would be happy to reach the first 20%, but it will definitely help both brands, not just adidas, to grow revenues in the US.

**Paul Fireman**

We are trying to grow, and both brands will. We have an opportunity to get together and focus on different issues, and we may have to spend time going through a cycle that we can accelerate because the learning experience from adidas in one area will be a help to Reebok and, likewise, many things that Reebok has will help adidas. I think it will give us some more acceleration in reaching the targets that have already been set out for both brands.

**Bernd Janssen – UBS, Frankfurt**

*Earlier today, you mentioned how the €125 million of synergies will be split over the three years. Could you comment on that once again?*

**Robin Stalker**

We were talking about a figure of € 125 million, with about 40% coming from sales, marketing and distribution; 40% from administration and IT; and about 20% from operations and sourcing. Herbert has already given you some ideas about sourcing in terms of the volumes we plan to have, together with warehousing synergies. We have SAP programs that, presumably, we will be able to make savings on, given the commonality of brands. In terms of when those synergies are likely to be achieved, we are talking about having the first full run rate only in the third year: about 30% in the first, another 30% in the second, and the full 100% in the third year.

**Bernd Janssen**

*The € 25 million saving from purchasing sounds to me reasonably conservative, given that you have a combined purchasing volume of € 5 billion, which is 0.04% of the purchasing volume that you are targeting as a saving.*

**Robin Stalker**

This assumption however, is only based on anticipated savings in the first three years following the closing.

**Bernd Janssen**

*You highlighted that you are still targeting a strong investment grade; could you be more specific in terms of the exact grading?*

**Robin Stalker**

We do not have a formal rating, so that it is difficult for me to comment on. I am sure that you can make your own estimate as to what a strong investment rating is. We have been improving our financials in our balance sheet in the adidas part of the world over the past few years, which we will continue to do. And this combination gives us an opportunity to grow even further. It is an opportunity that we will take without losing the focus we have had on maintaining the good investment grade ratings for the present group.

**Bernd Janssen**

*My final question is on the integration process. You highlighted that there are some potential hurdles to overcome, namely the anti-trust issue and the agreement from the Reebok AGM. Could you give us an idea when you will start the integration process and what the individual steps could be?*

**Herbert Hainer**

As I said in my speech, there is no time to lose; we will start immediately to strategize about opportunities and put specific plans together. However, you also have to understand that during the period before closing we have to stick to the rules. We are still competitors in the market and therefore this limits us. But nobody can hinder us in starting to think about this right away.

**Bernd Janssen**

*Will the integration process be started by top management as at the operating level it could take quite a while before you can go into further detail?*

**Herbert Hainer**

Yes, that is the correct way to describe it.

**Brian Lombardi – Merrill Lynch & Co.**

*I have a question on the dividend at Reebok. Regarding the merger agreement, which you say will be filed shortly, what sort of dividend parameters are in place there, if any?*

**Robin Stalker**

Reebok management has given guidance about their dividend and we have no reason to believe that this guidance needs to be changed. Definitely, we understand what their guidance is and they are able to comply with their guidance if they choose to do so. There is nothing special other than that in the distribution agreement.

**Joe Yurman - Morgan Stanley, New York**

*I have two questions. There has been an emerging theme in the footwear industry, whether it is Nike with its Starter brand going into Wal-Mart or the recent move by Reebok with Logo Athletic having an exclusive in footwear with Target. Herbert or Paul, can you talk about the appetite to extend distribution into these non-traditional channels with a broader portfolio of brands?*

*My second question is for Robin. In terms of the 20% cost synergies that you see from sourcing, does this manifest itself in a more consolidated OEM network?*

**Herbert Hainer**

Let me start with the first question and then Paul can elaborate on Logo Athletic. We will definitely not downgrade either of the brands, neither Reebok nor adidas, because both have performance aspects, both have their clear target consumer, and this goes through the different distribution channels in America - athletic specialty, sporting goods, department stores, and the volume channels.

**Paul Fireman**

I support what Herbert is saying about neither company downgrading its brand. However, clearly the market has changed and we are aware that Nike and possibly other companies have moved into the lower-end market, the Wal-Mart's, Targets and many extensions that go even into sporting goods. We had already owned the Logo Athletic logo when we bought them as part of when we were moving to the licensed business - they had the infrastructure. It sat on the shelf for a while and then I thought why not bring it back? Clearly, Nike was about to go into this business and I felt why give them a major head start; we had the ability, we could make products. We did that in combination with the National Basketball leagues, so we put out NBA basketball shoes. We had great success at Target in a very limited edition test and we are now moving to an even broader market this fall. They are expanding the program line to include everything from boys, girls, men's and we will eventually be looking at clothing. We have also tried it in other companies such as Zellers in Canada and had excellent results in clothing. Herbert and I have not had a lot of time to talk about this and it may be one of the gems that lie in the package that have yet to be realized, but it will be under Logo Athletic. We are using the skills of Reebok and perhaps, as we go forward, of adidas, but it is not something that will interfere with the positioning of our two brands.

**Robin Stalker**

In terms of sourcing, we have been consolidating suppliers for the adidas brand over the last couple of years and I am sure Reebok has been doing something similar. In fact, many of the footwear suppliers are common in any case. I think you can probably look more at the tier two areas with raw materials where, with the purchasing scale in terms of quantities that the combined group is likely to have, there is probably a great opportunity for us.

**Robert F. Ohmes - Banc of America, New York**

*I have three questions and I apologize if someone has asked them already, but I entered the call late. Can you give us a clear picture of exactly where adidas is in terms of the due diligence of Reebok? Have you seen the books already? Have your people been on site in Canton going through the opportunities of each division or have you not had a chance to do that? Second, in terms of the timing, have you seen something competitively recently that may have caused Reebok and adidas to get together? I would love to hear the answer from both sides and also the perspective on the timing of why this transaction makes sense now whereas perhaps it did not make sense two years ago? Third, how long does Paul expect to stay on as CEO of Reebok following the transaction?*

**Robin Stalker**

I will talk about the due diligence. We have had many advisors helping us on that for some time. We have had lawyers working on it as well. We have conducted a full legal due diligence. Further, we have the advantage that Reebok is a publicly-listed company with full SEC disclosure and we believe we have very good visibility about the opportunities and risks involved in this acquisition.

**Robert F. Ohmes**

*Are there further steps to the due diligence?*

**Robin Stalker**

No, there are no more steps to the due diligence.

**Herbert Hainer**

Regarding the timing and whether this was competitively influenced, no, definitely not at all. You might remember that three or four years ago we said we wanted to improve the balance sheet at adidas-Salomon. One of the key priorities for us was bringing down our debt and then we announced the divestiture of Salomon, as you have seen, a few months ago. From a timing perspective it is definitely perfect, but it was not influenced by any outside competitors or things like that.

**Paul Fireman**

If I may add to the issue of how long I am committed, firstly, this was not a forced issue on Reebok's part. Reebok is very healthy, has a lot of cash in the bank and a great rating with S&P and others and we feel good about our company. However, this opportunity was one that both Herbert and I realized happens once in a lifetime, if ever, and it simply was the right moment.

As to my own commitment, which I have told Herbert of from the beginning, I thought that selling to adidas was a strategic quality thing to do and the right thing for my shareholders. That being said, I have a legacy of the many years I have put in to building this company and I wanted to ensure that it would live forward in the most prosperous way. I have told Herbert and continue to say that I am completely committed to this transition and to this being the best possible result as we look forward. How long I will stay, certainly I have quite a bit of work ahead of me to continue to manage this brand through the closing and, I hope, longer than that. I have great relationships with people in the industry who I want to continue to work with and certainly bring Herbert and others in to develop those same relationships. My commitment is full-blown; I do not have a time limit to it. It is one that we will work on together.

**Herbert Herbert**

Paul has promised me that he would stay as long as necessary and until we have achieved our mission.

**Paul Fireman**

That is correct; that is what we are going to do.

**Natalie Knight**

Thank you, ladies and gentlemen, we appreciate your participation. We will be out in the next few days seeing our investors in several major financial centers. We hope to see many of you, but if that is not possible, please feel free to contact the Investor Relations department and we will be more than happy to answer any outstanding questions you may have.