

**adidas Group  
Investor Lunch Meeting  
New York  
Herbert Hainer, CEO  
Natalie Knight, VP Investor Relations  
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**QUESTION AND ANSWER SESSION**

***John Shanley, Susquehanna International***

***Herbert, are there any limitations or restrictions in terms of buying back the Reebok license rights? And do you anticipate buying any of those license rights back this year? And the second question is, where would you most likely buyback or would you anticipate buying back any this year?***

**Herbert Hainer**

Thanks, John. Obviously, Reebok has contracts with all the distributors or licensees that are doing the Reebok business in individual countries. And I have mentioned them more or less. There are Russia, China, Brazil, Australia, and Switzerland. But as I have also told you, we have started discussions with especially Russia and China already months ago. And I can tell you that the discussions are moving very positively. This is all that I can tell you today. But do believe me that we are on a good way to being successful here. We have also started discussions with the other countries. But these two countries, Russia and China, will definitely have the biggest impact by far with respect to Reebok's distributors and license partners.

***John Shanley***

***Do you have the legal rights to buy back the distribution rights in China and Russia? And are there any negotiated terms in the existing agreements with distributors allowing you to do that?***

**Herbert Hainer**

In most cases, yes. What makes it a little bit more complicated is the fact that these licensees are often either also retail partners or suppliers, as it is the case in China. And therefore we have to look into the whole picture. But as I have told you, I'm more than convinced that this will come to a conclusion relatively fast.

***Elizabeth Armstrong, Alliance Bernstein***

***Could you discuss how you are going to migrate the different brands in terms of “casual” versus “performance” and what that means to the distribution channels that you currently have? And is there any other information that you can give us to fill out how we should think of that?***

**Herbert Hainer**

This is a very good question, because I did not say too much about the distribution channels in my speech. Your question gives me the opportunity to talk about that a little bit as well. It is quite clear that following the positioning statement of the two brands, there also needs to be a clear distribution channel strategy, in addition to a lot of other things like communication, et cetera. When you have a performance-driven brand, your distribution channels have to reflect this performance strategy.

And as I have said before when I talked about the Reebok running shoes, in my opinion, Reebok has done a very good job with the Premier series. They started two years ago in vertical distribution. They went to the running specialists and tried to convince them and their consumers that Reebok can be a functional running brand. Of course this is a longer way, and this does not immediately give them the sales they would get by going into the malls for example. But in the long term, this strategy is definitely the much better way, because it gives Reebok a lot of credibility. So therefore, the more performance driven we are, the more your distribution channels will be sporting goods specialists and the higher department stores.

***Elizabeth Armstrong***

***Can you give us any sense on timing or just anything that we can use to hold our hats onto?***

**Herbert Hainer**

There will not be one specific date on which we will implement the new distribution channel strategy and all products have to be in place, because we will follow the new strategy with every product. So you will see in the future that the more performance products we will bring to market, the more they will be sold in sporting goods stores. And the more lifestyle products we bring in, the more they will go to mall-based customers or to special urban customers. So, the introduction will start already in the second half of this year. Over the course of the next year, in line with Reebok’s positioning, you’ll see a progressive improvement with our product introductions.

**Sam Poser, Mosaic Research**

***You mentioned the Reebok brand is challenging. And how much of a step back are you willing to take, to take steps forward? What's the real timing on that?***

**Herbert Hainer**

It is no secret that, in 2005, Reebok sold more than the market could absorb. Currently, there is an over-distribution and also too much inventory in the market. But we are on our way in 2006 to clearing that. I have also said in one of my last presentations that we will see a mid-single-digit rate of decline for Reebok in 2006. We need to do this as part of our efforts to clean up the inventory at retail. But this also reflects our efforts to better allocate product. In this context, I mainly speak of Reebok Classics, because to a certain extent we have the same challenges here as we had with the adidas Superstar a few years ago. We have to make sure that we don't overdistribute it. Therefore, we are also deliberately cutting some sales in 2006 to build the right distribution and the right demand for the product. But I'm absolutely convinced that in 2007 we will see increasing revenues at the Reebok brand.

**Sam Poser**

***The future of the Reebok brand does not look that stellar to me in the US. And you're only going to be down mid-singles this year. Where is the growth coming from then with the U.S. being as difficult as it is?***

**Herbert Hainer**

I definitely believe that we have a lot of untapped opportunities in Europe and in Asia. We also intend to buy back distributors and support Reebok with our adidas infrastructure in Europe and Asia. But I also do believe that in the U.S., Reebok has a lot of potential to grow, because there are a lot of categories where they have not yet fully leveraged all the strengths they have. The downward trend in backlogs is mainly coming from Reebok's entertainment and music inspired products. The decline is not coming from the performance side. And therefore, while I have said that the biggest opportunities exist in Europe and Asia, I also believe that America offers significant potential as well.

**Margaret Mager, Goldman Sachs**

***Thank you for the additional information on some of the people you've hired to head up important areas at Reebok. Could you talk about how the adidas and Reebok organizations will or will not interact in the U.S. as you approach the market to avoid cannibalization of the two brands? How are you going to ensure that you don't? And how will these two organizations interact with each other?***

**Herbert Hainer**

Following our global strategy, we tried to put all the back-office and administrative functions together and we'll do the same here in the U.S. We'll form a so-called shared service center for both brands. This has already been decided upon and we have already selected the person to run it. This service center will do all the customer service, bill collection, accounting, et cetera, et cetera. But we will keep both brands separate at the front office. Nevertheless, as I have said before, this will need some coordination to avoid that we bring product innovations in the same category to the same market at same time. For example, it has happened two or three years ago that we released the Tracy McGrady shoe (adidas) and the Allen Iverson shoe (Reebok) came out more or less in the same week.

We now have a Steering Committee, with senior managers from both marketing and sales organizations, which will meet regularly to define what kind of innovations from the two R&D departments we will drive, in what categories we will introduce innovations, at what time products will be introduced to the market et cetera. As a result, I believe, we will have a complete 12 month introduction cycle maximizing opportunities for both brands with this approach.

**David Stemerman, Lone Pine Capital**

***Could you talk about competition from Puma in your lifestyle business, increased efforts from adidas in this business and what that implies for Reebok's performance there? Second, in Performance, why do you think Reebok has done less well compared to adidas with innovations? What does that leave for Reebok? And what about the NBA license, which I think was the key performance driver for Reebok in the past? Where does that leave that business? And third for the retailers, why do you think the leading mall-based retailers have stepped back from Reebok orders? And what do you think will bring them back?***

**Herbert Hainer**

Let me start with your first question. There are clear differences between the different lifestyle businesses. Let me start with adidas and Reebok. We call the adidas lifestyle business our Sport Heritage division. It clearly is a product category that is driven by performance-oriented innovations from the past and is now fashion and lifestyle inspired. What does that mean? The Superstar, for example, the Rome and others were on the market twenty or thirty years ago and were the best performance products in their respective categories. Today, they are worn as fashion items by teens. Reebok on the other hand, has clearly based their lifestyle products around new leaders for the young generation such as Jay-Z or Nelly. The music division has built new products that have nothing to do with

the past. And they are less performance-oriented and more lifestyle-inspired. So, there is a clear distinction.

And I do believe that Puma is somewhere in between. Puma has a sports heritage, but has built its business on fashion and low profile soles. Puma is clearly less performance and sport inspired. This is the differentiation between the three. You can now argue which business model is the better one. I believe each has its customer base, as we have seen in the past. Our Sport Heritage division now generates over one billion euro. Reebok is doing well with its fashion-inspired products. And Reebok definitely had a lot of success in the last two or three years with its lifestyle segment.

Let me come to your second question on Sports Performance. We have of course watched our competitors quite intensely over the last five to ten years and know that this is not an area where Reebok was very successful. I say that with all respect, because I do believe it took Paul Fireman many years to build this business. But I also do believe that there was little consistency in the company. When you are convinced about an idea, you need to drive it through.

What do I mean? When I started at adidas 19 years ago, one or two years later, the first pump shoe came to the market. It was a basketball pump shoe worn by Shaq O'Neill. Then, all of a sudden, the pump disappeared and now it's coming back in running. You would never see things like that at adidas. If we are convinced by an idea or innovation, we will relentlessly push to make it successful. To give you an example, we created the Predator soccer boots you see here. We introduced them in 1994 for the World Cup in America. It was a difficult construction and proved much too heavy. It was actually like a rubber boot and many consumers were not willing to really wear it. But we were convinced of the idea, because the technology definitely enables better swerves and ball control. Today, this shoe is the world's best-selling soccer boot. We sell more than one million pairs every year with a retail price between EUR 175 and EUR 200.

On the one hand, one of Reebok's big strengths has been to jump on opportunities as soon as they have become visible. On the other hand, it was also their weakness, because they didn't go through the rough waters and push innovations through when they were convinced of them.

Your third question was on retailers in the mall space. I believe, Reebok has good relationships with mall-based customers like Foot Locker and Finish Line. There is nothing bad in these relationships. Obviously these customers have the power to make you big with the consumer. But even if there is strong consumer

demand, we as suppliers have a responsibility to never overdistribute our product. Otherwise we run the risk that retailers walk away and buy the next brand.

First of all, Reebok has to bring more inspiring products to the mall-based customer. But we also have to control the distribution and the amount of products which we put into the individual distribution channels better than Reebok has done in the past. Otherwise, we will always see peaks and valleys in consumer demand.

***Danny Schwarzwald, Buckingham Capital***

***Could you spend a minute talking about your strategy and your plans on Rockport?***

**Herbert Hainer**

We definitely will not sell Rockport. We don't know the Rockport business well enough yet. But I can tell you that Rockport is very profitable. Once again, as with the rest of Reebok's businesses, it is very focused on the North American market at the moment. I do believe there is a potential to expand in Europe and in Asia.

The plans, which I have seen over the last few weeks from Rockport, are quite aggressive regarding how they can build their business. They could give us an opportunity if, for whatever reason, the fashion trends were changing from sneakers to brown shoes, to have a solid position here as well. So cutting a long story short, we currently have no intention to sell Rockport. Instead, there are growth opportunities at Rockport, which we can exploit.

***Dan Moore, Aquamarine Capital***

***In terms of sponsorships, with adidas focusing on leagues and teams and Reebok focusing on the individual, where do you plan to spend more or ship more incremental dollars in terms of sponsorships? And how do you plan to become more competitive with Nike in terms of individual sponsorships?***

**Herbert Hainer**

It's correct what you say about the two brands. I would add: Reebok is not only focusing on the individual, but also on American-inspired or American-centered sports and lifestyle products. Therefore, we definitely will leave the NFL at Reebok, because it is mainly American driven. Today, as a percentage of net sales, adidas is spending more than Reebok on marketing working budget. To make it simple, the split is around 50/50 between sports marketing and advertising/communication. I do believe that we will increase the marketing spending at the Reebok brand in the future. But we also need to better communicate to the consumer about what the Reebok brand stands for.

According to what we have seen so far, the new brand campaign, I Am What I Am, is working. The market research shows us that this campaign is resonating with the consumer. However, you need a certain extent of communication to bring a message through to the consumer.

adidas has a lot of PR experience, just think of the World Cup 2006 as the best example. I believe PR is a very cost efficient means of communication. With the adidas infrastructure, we can help Reebok to use PR much better to communicate the individual stories of athletes like Thierry Henry in Europe in the future. Soccer is Europe – Thierry Henry is playing in Europe, adidas this is the number one soccer brand in Europe and in the world. We have the infrastructure and why shouldn't we help to communicate Thierry Henry in the future when we are legally allowed to? So, on the one hand we will raise Reebok's marketing working budget as a percentage of net sales a little bit, because it's necessary. On the other hand, I believe we will be able to help them a lot through cost efficient measures like PR.

**Adam Comora, EnTrust Capital**

***Can you talk a little bit about what retail environment you're seeing in some of your larger European markets, and when, how, why things might improve, what kind of signposts we're looking for?***

**Herbert Hainer**

Europe is definitely the most challenging market at the moment. When I look at the major markets – England, Germany and France – I believe we're seeing an upward trend in Germany, certainly helped by the World Cup. I have told you before about the high sales expectations we have for this event. Just Monday morning, we heard from our own-retail store in Berlin that on Saturday they had by far the highest turnover since the opening of the store nine months ago. The German economy is clearly improving, but we will have to see whether the VAT increase in 2007 will impact private consumption in the short-term. But overall, I'm a little bit more optimistic on that than I was 12 months ago.

In England, we are facing a very difficult situation. The two biggest retail players in the English market – JJB and Sports World – are fighting against each other mainly on price, which is definitely not good for the whole industry. We are in intensive talks with both partners as to how we can make sure that they don't destroy the market for everybody; that means for both suppliers and retailers.

And the third major market is France. In France, there is a lack of momentum at the moment. I don't know how long it will take. I believe there will be more optimism again once the initiated reforms have been passed. But unfortunately,

they have some issues in the government as Mr. de Villepin and Mr. Sarkozy are fighting for the next presidency. So, France is a challenging market.

But we also have very promising markets in Europe like Russia. The emerging markets –Turkey, Greece and others - are also doing very well. And I believe it will be the same picture for the next 12 to 24 months.

***Maire Driscoll, Standard & Poor's Equity Research***

***You talked about branded apparel being a \$44 billion opportunity as the market is fragmented. Could you talk about who would be Reebok's competition in that market? Are you going after it in a fashion way like you've done with Stella McCartney or Performance? And if it is a growth opportunity, why are you targeting such a small € 100 million opportunity over the next two years?***

**Herbert Hainer**

The competitors in the branded apparel business are more or less the same as they are in our sporting goods industry. These are the adidas, the Nikes and you also have some fashion brands. You can even say Gap is a competitor, because a t-shirt or a polo shirt does not to 100% relate to a sports company. So, what kind of t-shirt is a t-shirt you buy at GAP? Is it a sports t-shirt or a fashion t-shirt? Therefore, it is very important in my opinion that we bring functionality and technology also to the apparel piece of our business, because I believe this can only be done by the sporting goods industry.

Why only € 100 million? When you enter the functional and technological apparel segment, you first have to build your reputation. And throwing out t-shirts, putting the Reebok logo on them and selling them for, let's say, \$19 would be easy. But this would be very short-term thinking. If we want to build the business for the mid- and long-term, we will have to do it the right way: we will have to be very careful with our distribution and build a functional story around Reebok's proprietary "Play Dry" technology. This will result in 100 million euro of synergies.

***Jim Duffy, Thomas Weisel Partners***

***So, the branded apparel business is a business that Reebok has been in in the past. And they exited it because they were not successful. What gives you the confidence that there's room for another performance apparel brand in this category? Certainly, with adidas, Nike, Under Armour, et cetera?***

**Herbert Hainer**

I think you have given the answer by yourself by citing Under Armour. They came into the market with a performance story, with a technological story that has a

real competitive advantage and is distinct from the competition – that’s exactly what it takes to be successful. But just coming in with another t-shirt, another polo shirt or another track suit, which hasn’t any competitive advantage over the other brands, will not work in the mid- and long-term. So therefore, once again, Reebok’s branded apparel business needs to be built around technology, no doubt about that. This is point number one.

And point number two is our Group’s combined infrastructure: adidas can distribute products around the world in around 150 countries. Simply by the size of our organization and the infrastructure we have, we can add a lot of volume and, of course, a lot of dollars or euros. But we clearly must have other competitive advantages over all the other apparel products that are out in the market.

**Jim Duffy**

***Do you have any thoughts on timing? When might we see traction from the Reebok brand in the apparel business?***

**Herbert Hainer**

As I have said, this will obviously take a little time. We are now putting in the right people, who are starting to work on that. You know that it will take some time until you will be able to see the changes we are making. We also have to find the right distribution channels. So, we are working on two fields: On the one hand, we are try to help Reebok short-term on the product side, where they are not as technical and functionality-driven as we all would like to see them in the mid and long-term. But on the other hand, we are also immediately starting to work on Reebok’s technological apparel story which will be “Play Dry”. Most probably, you will see the first real product push at the end of 2007 or the beginning of 2008.

**Stephen Mandel, Lone Pine Capital**

***Given the World Cup, 2006 should be a terrific year for adidas. In 2007, you might have difficult sales comparisons for the brand due to the World Cup in the prior year. That would lead one to believe that a lot of the 20% improvement in 2007 will be driven by a significant margin expansion at Reebok. Is that indeed the case or is there something I’m missing there?***

**Herbert Hainer**

In general, your observation is correct. But there is one point which I have not mentioned in my presentation: In 2006, we have a negative purchase price allocation effect of € 80 million. Around € 50 million of this is just a one time hit that we won’t have again in 2007. This will improve our results by € 50 million. On the top line, however, we undoubtedly see further growth in Asia. But also in

Europe, even without the World Cup, we do see growth especially from the emerging markets. I think our people do a good job here in the U.S. When you look at last year, we have increased our business by double-digit rates. The NBA definitely gives us a much bigger opportunity. As I have said before, in China alone, we can put our product in more than 2,000 stores immediately. All this makes us pretty confident that we can drive our net income in 2007 by at least 20%.

**Margaret Mager, Goldman Sachs**

***I'm following up on the question about Reebok margins: In 2007, is it just a function of getting more Reebok business in Europe and Asia or is there a margin opportunity for Reebok in the U.S.? And if there is, can you speak about that?***

**Herbert Hainer**

Quite honestly, I don't think that there is a big gross margin opportunity for Reebok in the U.S. in the short-term. This market is by far the most competitive and price-conscious retail market. But I do believe, as I have said, that we'll stay and be successful in trading up the brand with products like, for example, the Answer 10 - a premium running shoe offering higher margin potential. If you only sell shoes close to \$60 the margin will be squeezed. There is no doubt that it is very difficult for anybody to make money on a \$50 or \$60 shoe. This is one part of the strategy. The other one is as I said Europe and Asia. Let's take adidas - we have around 48% gross margin in Europe and 50% in Asia. In America, more or less all the brands make gross margins of between 38 and 40%. So, driving our business in Europe and in Asia will give us a much better gross margin immediately.

**Natalie Knight**

Thank you for your questions. Herbert, do you have any last comments you want to make before we close?

**Herbert Hainer**

We have given you a lot of insights over the last few weeks in London and here today. I definitely can assure you that this acquisition is a very important one for our Group, because it gives us numerous strategic advantages here in the U.S. but also around the world. You can be 100% sure that I will dedicate most of my time to making this acquisition successful. I am more convinced than ever that this acquisition will give our Group tremendous opportunities. When you do an acquisition like this, you don't do it just for the next quarter or two. You do it with a mid- and long-term view. I am absolutely convinced that, mid- and long-term, this move will give us a huge strategic push and significantly help us improve how we work as a Group in the future.

Thank you very much and have a nice afternoon.