adidas GROUP

FINANCIAL RESULTS PRESENTATION

Nine Months 2008 Speech

November 6, 2008

Herbert Hainer, Robin Stalker, Natalie Knight

Natalie Knight, Vice President Investor Relations

Good afternoon everyone and welcome to our financial results presentation for the first nine months of 2008. We've all witnessed new heights of market volatility in recent days and months. But one thing that hasn't changed is the year-to-date operational and financial performance of our Group. Now some of you are likely to say, Reebok still has a long way to go. And it certainly does. Others will want us to be more concrete on our 2009 guidance, but honestly that really wouldn't be prudent in this environment. In our presentation today, we'll outline the operational and financial progress we've made this year and what's ahead of us in the homestretch of 2008.

Before I hand off to Herbert, I would also like to mention that today will be the last time I'll be joining you on these quarterly conference calls in my role as Head of IR. Starting this month, I'm on my way to Portland, Oregon, where I will become the CFO of our adidas operations in North America. For the many of you I know personally, thanks so much for your support over the years. I appreciate it and look forward to taking these perspectives with me to my new role. Thanks also to my super IR team for their support.

Getting back to the matters of the day, though, let me now turn the call over to Herbert to discuss the operational highlights of the year so far…

Herbert Hainer, CEO and Chairman

Thanks Natalie, and good afternoon ladies and gentlemen!

I am happy to tell you today that the adidas Group is on a solid path to reaching our 2008 financial targets – and I believe this is especially good news given the current economic environment.

Both the third quarter and nine month results clearly show that we have maximized the opportunities around this year's major sporting events.

And more importantly, in these tough times, I believe we have the game plan we need to be successful in what is likely to be a very challenging consumer environment for at least the next 12-18 months.

But let's start with Q3, which was a strong quarter for our Group on both the top- and bottom-line – and no segment of the business better exemplifies this than our core brand adidas.

Currency-neutral sales increased 15% in the third quarter, supported by growth in all regions. For the first nine months, revenues were up 16% versus the prior year – this represents our best nine month growth rate in more than 10 years.

And it's not just sales that are growing. The year-to-date gross margin is above 49% and the segment's operating margin is a strong 15.8%.

We made progress on many fronts during the third quarter, but none was more visible than our strong showing at this summer's Beijing Olympics.

A lot of competitors have claimed various victories around this event, but for me the test is simple. Who was the brand that Chinese consumers believe was the most recognizable – before, during and after the Olympics? Market research clearly shows it was adidas. We're Number One in this market for a reason. We know what consumers are looking for and we're delivering it. Take the new store we opened in Beijing prior to the Games – we are now averaging over 200,000 visitors a month. And all of this adds up on the commercial side too, with adidas sales in China up more than 50% year-to-date.

Looking forward, our product offering is one of the strongest we have had in a long time – and we'll need this as consumer spending trends tighten in many of our major markets.

Despite a tough comparison with last year's orders that were up 16%, adidas backlogs grew 4% at the end of September. With the exception of Europe, where backlogs are flat, orders increased in all regions.

All this just goes to show that even without big sporting events, we have all the firepower we need to enhance adidas' leading position around the globe even against a more challenging economic backdrop.

TaylorMade-adidas Golf has also continued to develop strongly, making it THE dominant force in the golf market in 2008.

Currency-neutral sales grew 12% in the third quarter and 11% year-to-date, helping it gain further market share and deliver strong bottom-line profitability improvements.

This performance underlines our leading position as the premium golf company. We expanded our market share in metalwoods to over 30% in the US and over 20% in Europe. We are engaging golfers like no other brand with exciting new innovations such as this quarter's new MyTP Golf Ball program which allows consumers to customize their golf balls. And all of this, while delivering a 30% operating profit improvement!

Moving over to Reebok; which I know will again receive a lot of your attention today. Let me start by saying that we are clearly disappointed with its current performance and acknowledge there is still a long road ahead of us to visibly improve the situation.

In the third quarter, currency-neutral sales declined 1%, despite continued progress in emerging markets. Due to weaker than anticipated performance so far this year, we now expect only stable full-year sales development.

However, the area within Reebok we are most dissatisfied with – is the brand's profitability. Gross and operating margins are down significantly for the quarter and year-to-date. Inventories have been and remain too high in many markets. We have had more products sold through clearance activities and at lower margins than is healthy for the brand. As a result, the Reebok segment generated only a small operating profit in the first nine months of the year.

The Reebok currency-neutral order book is down 13%, driven by declines in all regions except Latin America.

But, ladies and gentlemen, As we've told you for several quarters, we do not believe these backlogs are fully indicative of future sales for the brand. Take this quarter, for example. Backlogs were down 13% at the end of June, and as you saw today, sales only declined 1% for the period.

So, it is clear that we have to drive major improvements in Reebok sales and profitability to make the segment's performance acceptable by our Group standards – and we are committed to doing this.

At the same time, let me remind you that a lot of things ARE moving in the right direction.

We are taking the brand from being many things to many people to being a leading women's fitness and training brand. Our collections are getting better season by season and so does retailer feedback.

On the profitability side, we are getting rid of excess inventories from the marketplace, executing a clear distribution strategy and removing low entry price point products from the shelves.

But, we must make also continue to optimize our structure, to maximize Group-wide capabilities. In addition to other integration initiatives, we have recently combined our adidas and Reebok teams under common leadership in Asia, Europe and Latin America will follow. And we will be leaving no stone unturned when it comes to increasing Reebok's operational efficiency.

In the coming months, we will work hard on these challenges and I believe we will be able to report major progress when we speak again in March.

But ladies and gentlemen, let's not forget: our Group is and remains strong. The strength of adidas and TaylorMade-adidas Golf make it clear that our Group is on the right path to securing a record performance in 2008. Before I turn to our prospects for the immediate future, I will now hand off to Robin to go through the financials with you in more detail.

Robin Stalker, CFO

Thanks Herbert. And good afternoon ladies and gentlemen.

I'm going to keep my comments short today to leave time for your questions, but I would like to take a few minutes to describe how our major financial items developed during the quarter and on a year-to-date basis.

So let's start with the top line, where sales during the third quarter grew 11% on a currency-neutral basis (and 5% in euros to over 3 billion euro). In addition to double-digit growth at both adidas and TaylorMade-adidas Golf, all of our regions continued to deliver strong results with the exception of North America – where sales declined 5%. On a year-to-date basis, currency-neutral sales for the Group grew 11% (or 4% in euros).

Turning now to the other items of the P&L, the Group's third quarter gross margin was 49.0% – that's up 40 basis points from last year and is punctuated by a nearly 50% gross margin at brand adidas. Gross profit increased 6% to 1.5 billion euro. For the nine month period, gross margin grew 170 basis points to 49.4% and gross profit was up 8% to over 4 billion euro.

Moving below the gross profit line, Group royalty and commission income in the third quarter decreased 12% to 23 million euro as a result of the first-time consolidation of Reebok's new joint ventures in Latin America. Previously, income from these markets had been included in the Group's royalties.

Operating expenses as a percentage of sales increased 100 basis points to 34.4% of sales in the third quarter. This reflects the marketing initiatives we put behind our efforts to capitalize on this year's Olympic Games, but – to an even greater extent – our ongoing controlled space investments at both the adidas and Reebok brands. As a result, operating profit increased slightly to 473 million euro. However, operating margin decreased 70 basis points to 15.3%.

For the first nine months of 2008, operating profit grew 8% to 963 million euro and operating margin came in at 11.7% – up 40 basis points versus 2007.

Turning now to the non-operating items of the P&L, net financial expenses increased 36% to 42 million euro during the third quarter of 2008. This largely reflects the investments we have made into our share buyback and negative exchange rate variances. These result from the translation of non-euro denominated balance sheet items at quarter end. As a result, income before taxes declined 2% in the third quarter.

Net income attributable to shareholders for the quarter, however, increased 2% to 302 million euro, helped by a tax rate reduction of 2.4 percentage points.

On a year-to-date basis, net income grew 11%. And for the full year, we now expect the tax rate to be lower than the prior year level of 31.8%.

Before I report on earnings per share, let me update you on our share buyback program – because this had a strong impact on our third quarter result. In late October, we completed our first ever buyback program for a total consideration of 409 million euro. This translates to 10.2 million shares at an average price of 40.21 euro and – more importantly – when combining the dividend we paid in May of this year, this represents a higher return to shareholders than our cumulative dividends of the past 10 years.

As a result, third quarter basic earnings per share grew 6% to 1.54 euro and diluted EPS increased 5% to 1.44 euro. Expect this impact to continue going forward – with or without additional repurchases. On a year-to-date basis, EPS climbed 14% to 2.96 euro.

Let's now move over to the balance sheet, inventories increased 15% on a currency-neutral basis at the end of the third quarter. This reflects our expansion plans in emerging markets as well as the set-up of Reebok's new joint ventures in Latin America.

Accounts receivable grew 9% on a currency-neutral basis. This is below our third quarter sales increase (of 11%) and underlines our continued strong collection efforts and our strict enforcement of trade terms.

As a result, average operating working capital as a percentage of sales came in at 24.5% – a reduction of 120 basis points from 25.7% in the prior year. Let me also mention here that we will continue to be very proactive in our approach to managing all working capital items given the tougher credit environment we're all facing these days.

Now, finally, let me comment briefly on our net borrowings, which amounted to 2.6 billion euro at the end of September – up 18% (or 392 million euro) versus the prior year.

This development reflects significant cash outflows related to this year's share buyback, dividend payment, capex and acquisitions.

As Herbert will highlight in a few moments, we firmly believe that even in tough times it is extremely important to continue making smart investments that will enable us to be even stronger when markets decide they are ready to stabilize. In doing so, we accept that net borrowings at year end will exceed the prior year level, although we expect strong cash generation in the fourth quarter.

Let me emphasize that the adidas Group is in a strong position – we are a profitable company and have access to unutilized financial instruments of around 3.5 billion euro. And we are committed to using our balance sheet sensibly.

I'll now turn back to Herbert to discuss our outlook for the remainder of 2008…

Herbert Hainer, CEO and Chairman

Thanks Robin. Your comments work as a good segway to our full year guidance and some initial comments on our business prospects for 2009.

Without a doubt, markets have changed in the past few months. And it's just a matter of time before the consumer panic and credit crunch we are watching escalate every day around the globe – begins working its way into our industry and our business in a more profound way. We know that comparable sales are down for most retailers and also slowing in our own controlled space. We see many of our customers challenged to take orders, pay for goods and maintain a healthy financial position.

I've spent a lot of time in China over the last twelve months and there the word crisis is made up of two elements: risk and opportunity. And that's what I believe the current market conditions will mean for us.

I want to emphasize that while I do believe the risk profile for our industry has increased significantly compared to where we were even a quarter ago, I also believe there really is a lot of opportunity out there for us as well.

For 2008, we remain very committed to the financial guidance we have already provided the market. We expect sales to grow at high-single-digit rates – and this is despite some tough comparisons in the second half and a more challenging retail environment in all our major markets.

In fact, I even have two pieces of good news to share with you:

- First, based on its strong year-to-date performance, we are increasing guidance for the TaylorMade-adidas Golf segment – where we now expect sales to grow at a high-single-digit rate versus our previous guidance of a mid-single-digit increase.
- And second, for our largest region, Europe, we also expect full year sales to grow at a high-single-digit rate versus our previous guidance of a mid-single-digit rate.

On gross margin, operating profit and net income our guidance is unchanged:

- Gross margin will be at least 48%
- Operating margin will get close to 10%

- And net income will grow by at least 15% – with earnings per share growing even more, thanks to our successful share buyback activities.

As you saw in our release this morning, we are retracting our financial guidance for 2009. The current macroeconomic volatility is more difficult than I have ever seen in my more than 20 years in the sporting goods industry. The implications for our business are unclear and prevent us from giving what I believe would be fact-based formal guidance.

But let me assure you we WILL move forward in 2009. Based on the current order book and retailer feedback, we are optimistic that our Group will achieve sales and earnings growth again in 2009 – but not at the same level that we will have this year.

I do want to emphasize that we are not passively accepting the increasingly negative consumer environment out there. Due to our strong positions in many markets around the world, we can choose where it makes sense to push sales opportunities and also where it doesn't. For us, the real priority is about ensuring the medium-term health and consumer appeal of all our brands.

We will continue to invest in controlled space, infrastructure, marketing and brand initiatives because we believe there is no time like the present to optimize our opportunities for the long-term growth of our Group.

Just look at the last two months.

A few weeks ago, we opened a new multi-brand distribution center near Manchester in England. We also continue to be well on track to bring our Spartanburg facility in the US fully online during the course of 2009.

We also pushed forward with marketing initiatives that will help us further capitalize on core business strengths. One high profile example here is the Russian Football Union, which rose to prominence this year at the European Championships and is now a part of our strong football partnership roster.

We also made two acquisitions, at what I believe are at very fair prices.

- First, is US-based Textronics Inc. This is a small company with a big idea – integrating high-tech heart rate, moisture and blood pressure monitoring technology into performance apparel. This acquisition will help strengthen adidas' leading position in the intelligent product category.
- The second acquisition is Ashworth, probably the world's most authentic golf apparel brand, where we have made a tender offer last month. This unique opportunity rounds off our offering in the

golf apparel market – complimenting adidas Golf's existing strength in synthetic high-tech apparel with the best cotton product on the market. Ashworth's stronger distribution presence at green grass accounts and the potential for future cost synergies as part of the adidas Group, show why the Ashworth acquisition will be a strong future contributor to the success of our golf segment.

These are opportunities we could not have gotten six months ago or even three months ago for that matter. Let me also make clear that we are not shopping the market for acquisitions – but, if the right assets come along we may choose to take advantage of the opportunity.

In short, I believe the adidas Group today is well-positioned in the marketplace, but we are facing mounting challenges. Therefore we must also look within our Group to see where we can be leaner, faster and even more flexible. I have challenged my team to reduce all expenses that do not immediately contribute to our business success, to make sure we are fit for the market conditions we cannot avoid. And I am confident we have what it takes to propel our business to a new level in an environment where many others will fail.

You'll hear more guidance in March, but now I would like to open the floor to your questions of which I'm sure there are many.