FINANCIAL RESULTS PRESENTATION

First Half 2013 Speech

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John-Paul O'Meara

Good afternoon ladies and gentlemen and welcome to our first half 2013 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.

To allow for ease of comparison, all sales and revenues related growth rates will be discussed on a currency-neutral basis, unless otherwise specified.

So, let's get started and over to you, Herbert.

Herbert Hainer

Thanks JP and good afternoon ladies and gentlemen.

I am very pleased to report that we were able to deliver record earnings per share for the Group of 2 euro 29 cents for the first six months, an increase of 6% compared to a year ago.

The financial highlight of the first half has to be our strong gross margin development, which increased 2.1 percentage points to 50.1%. This result is a clear measure of the success of our Route 2015 strategies to drive quality growth across all of our business activities.

- It shows that we are focusing on the right categories and that our innovations are resonating with the consumer, all of which is supporting considerable improvements in our product and price mix.
- It also shows that we are improving execution across all of our channels of distribution. The strengthening of our operational KPIs in own retail and the strong growth of eCommerce are particular standouts in this respect.
- And finally, this strong gross margin performance shows that our industry-leading inventory management is again proving to be a winner.

For the first half and the second quarter, sales were flat compared to the prior year. In reported terms, sales declined 4% in the second quarter and 3% year-to-date. Considering the material challenges we faced from currency headwinds, the difficult comparisons related to last year's major sporting events and the continued soft trading environment in Europe, this is a solid result, including many highlights which underpin the strength and potential of our business globally.

None more so than the emerging markets, which continue to be a fantastic source of opportunity for our Group. In general, while economic growth rates have also slowed in many of these economies, conditions for our Group have remained very strong, as these nations become more and more consumer driven.

In fact we even saw some modest acceleration in several of these markets in the second quarter, with Latin America at the top of the list. Supported by the 2013 FIFA Confederations Cup, sales growth in the region accelerated to 21% in the second quarter.

We have been investing consistently in our brands in the region over the past few years, raising our game at the point of sale in anticipation of a strong reception to two of the world's biggest sports events, the 2014 FIFA World

Cup and the 2016 Olympic Games. And the results are paying off as our brands connect and resonate perfectly with this consumer base known for its high energy and passion for sports.

Another bright spot for our Group continues to be Greater China, where sales were up 6% in the quarter. Comparable store sales also remain very strong, up 11% in the second quarter and 9% in the first half. The Chinese consumer has clearly voted that adidas is their preferred sports and sports lifestyle brand. And this is leading to significant market share gains as we once again close in on market leadership in the region. In a recent survey by Millward Brown of more than 60,000 consumers in China, adidas ranked the highest of all clothing and footwear brands in the top 20 most powerful international brands.

However, everything in the emerging markets hasn't been perfect in the first half. In European Emerging Markets, we have had some issues to overcome due mainly to softer conditions in Russia/CIS. Firstly, given the rapid pace of overall retail space expansion, with many new malls coming on stream every year, we have seen traffic dynamics deteriorate in some locations. On top of a cooler consumer environment, this has negatively impacted our comp store sales growth performance in the first six months.

On a positive note, however, due to improvements in our operational performance, we have seen a strong margin development in this already highly profitable market.

With trends beginning to stabilise in recent weeks, and given the strong product pipeline for the second half, I expect comp store sales growth to move back towards positive territory by the end of this year. In addition, our entire store network will also begin to benefit from considerable IT and infrastructure investments we have been carrying out in Russia in order to speed up and improve our operations. We will see this coming through more powerfully in 2014. The recently opened 49 thousand square metre distribution centre in Chekhov, close to Moscow, which will ultimately consolidate six warehouses into one location, is a great example of the potential upside we still have operationally in this market.

Staying on the subject of trickier markets, Western Europe has also proven more challenging this year, with sales for the first half down 9%. While there were some bright spots such as France, Poland and the Nordics, sales were down in most other major markets. The UK, Spain and Italy were particularly weak, down strong double-digits.

Let's not forget that this region benefited the most from last year's major sporting events. While it is hard to isolate all of the football-related event sales, products related to the London 2012 Olympic Games definitely had a considerable impact, accounting for approximately three percentage points of the decline.

In terms of the underlying trends, I am confident we will turn the corner in Western Europe in the second half. Already in the second quarter, we have seen some good signs of an inflection point, as for example, our own-retail comparable store sales increased 2%, after being down 4% in the first quarter. Discussions with our wholesale partners have also moved into more constructive territory as excitement builds ahead of the 2014 FIFA World Cup and the strong reception to our latest products in running and Originals as well as at Reebok.

Moving over to North America. Although I would have liked to have seen better growth rates, I am satisfied that our brands continue to move in the right direction. Group sales in North America were up 1% in the first half and down 2% in the second quarter. The latter was mainly due to sales declines at TaylorMade-adidas Golf owing to a more challenging golf market, and I will come to that in more detail in a few minutes.

For adidas, sales were flat in Q2 and up 3% in the first half, as strong growth in running and training was offset by declines in basketball. The latter was mainly due to lapping strong growth in footwear from the prior year. At Reebok, sales in North America in the quarter excluding the NFL impact were up 1%. As we move into the second half of the year, I fully expect trends to improve for both brands, with a strong line-up of new innovations hitting the market in time for the back-to-school and the holiday seasons.

Finally, to complete a look at the global picture, in Other Asian Markets, Group revenues improved considerably from the first quarter decline and were up a healthy 7% in the second quarter. This was a result of strong growth in South Korea, India and Australia.

Earlier this year, I called out the significance of 2013 as a year where we will define what ground-breaking innovation really means.

Looking at our results by brands, there is clear evidence that we are fully on track, which in turn has allowed us to deliver such strong improvements in product and pricing mix.

At adidas, running personifies exactly this, with the category taking on a whole new dynamic spearheaded by our mission to create products that give the highest level of energy return to the runner.

With Boost, which we spoke about extensively last quarter, we know we have something special. Following its highly successful launch and the continued strong performances in our other key running franchises, such as Supernova, Response and ClimaCool, sales in the category are up 14% year-to-date and 16% in the second quarter.

Outdoor is another great example, where several years of award-winning innovation continues to drive our position up the league table of the leading outdoor brands in the world. In the second quarter, sales in the category were up 25%.

And even in football, despite tough prior year comparisons, we were able to build on last year's success with strong growth of 6% in football footwear, as Nitrocharge has already become the newest one million unit adidas franchise.

And finally, for adidas, innovation transcends more than just technical products – it is also the basis for continuously challenging ourselves to create the unexpected for today's highly demanding lifestyle consumer. Here, with adidas Originals, we have the longest and most consistent track record of any brand in our industry. And once again in Q2, sales did not disappoint, increasing 8% driven by strong growth in the emerging markets and high demand for our action sports styles, where sales almost doubled.

In addition, adidas Sport Style sales increased 9% driven by strong growth of 12% at the adidas NEO label.

With NEO, we are really encouraged with the strong fan base we gathering rapidly for the label across the globe.

Moving over to Reebok, we enjoyed a solid return to growth in the second quarter, with sales increasing 11%. This means brand sales are now down only 4% in the first half year. Excluding the NFL impact, sales are up 1% in the first six months.

Even more important, the brand's gross margin again improved considerably, expanding 4.1 percentage points to 39.4% in the first half, which is also the highest first half gross margin that we have achieved since we acquired Reebok in 2006.

Although we still have some considerable work to do to turn all markets around, I am confident Reebok will show currency-neutral sales growth for the full year.

Key to this success is the strong product foundation and close connections we are creating with the fitness consumer, as we gain credibility by building on our existing partnerships, such as with CrossFit, and through new associations with exciting grass roots events like Spartan Race and The Color Run.

Also, through the significant improvements in the brand and product architecture we have implemented over the past 18 months, we are delivering a more consistent brand look and feel to our key target consumers. This is also visible as growth becomes much more diversified, with Fitness Training and Classics growing 13% and 21% respectively in the quarter, and solid growth in both footwear and apparel.

Finally, let's take a look at TaylorMade-adidas Golf, which endured a slightly more challenging second quarter. Here, there are a few things to note. Firstly, the golf market has been considerably weaker this year due to a late start to the season in many countries. As a result, rounds played around the world have declined on average at a double-digit rate.

With golfers starting to play later this has had a knock-on impact on trends at retail. Right now, this is particularly visible in metalwoods where retail sales are down at a high-single-digit rate in the first half. As the dominant market leader in the category with a market share of close to 40%, we are unfortunately not immune from this.

Secondly, considering our growth of 20% last year and 16% the year before, we were expecting that this year would be more about consolidating our position before the next push forward. And that push forward is not too far away. I look forward to coming back to this and some of the other exciting plans we have for the rest of 2013.

But before that, let me hand over to Robin to complete our discussion on the first half.

Robin J. Stalker

Thank you Herbert, and good afternoon ladies and gentlemen. As you have just heard, our Group delivered a solid performance in the first half of 2013. For my comments today, I want to focus on three topics:

a) an update on our key operational KPIs for the Group,
b) a review of the performance in our various channels,
c) and finally, I will wrap up with some further details to help you better understand the various currency impacts affecting our results this year.

So let's start with what is clearly the key financial highlight of the first half – our gross margin development. As you have already heard, our Group gross margin increased 2.1 percentage points to 50.1% in the first six months or by 1.8 percentage points in the second quarter also to 50.1%.

Similar to the first quarter, this development was primarily driven by product and pricing mix, as well as regional and channel mix, which more than offset the negative effects from a less favourable hedging rate. The negative effect amounted to 1.3 percentage points in the second quarter and 70 basis points in the first half. For the second half of the year, I expect the negative impact to be even more pronounced than in the first six months.

Moving over to operating expenses, again we showed good discipline in managing our costs considering further investments into the Group's own-retail activities and infrastructure, where in particular we considerably expanded our store network globally. This resulted in other operating expenses increasing 1% for the quarter and year-to-date. Thereof, sales and marketing working budget expenditure decreased 5% and 1% for the second quarter and the first half, respectively. As a percentage of sales, other operating expenses were up 1.9 percentage points and 1.5 percentage points, respectively. As a percentage of sales, sales and marketing working budget decreased 20 basis points to 13.2% for the second quarter and were up 20 basis points to 12.4% for the first half.

As a result of the modest growth of expenses and the strong gross margin improvement, Group operating profit increased 4% in the first six months to a new record level of 693 million euro. This translates into an operating margin of 9.7%, up 70 basis points compared to a year ago. In the second quarter, operating margin expanded 10 basis points to 7.4%.

Turning now to the non-operating items of the P&L: Net financial expenses decreased 26% in the first half compared to a year ago. This mainly reflects a 33% decrease in interest expense due to lower gross borrowings.

The first half tax rate increased a slight 10 basis points to 27.5%, in line with our guidance of a tax rate increase to a level between 28.0% and 28.5%.

As a result, net income attributable to shareholders for the first six months increased 6% to 480 million euro, which translates into basic and diluted EPS of 2 euro 29 cents.

Second quarter net income attributable to shareholders as well as basic and diluted earnings per share increased 4% to 172 million euro and 82 cents, respectively.

Looking at our balance sheet and cash flow development, we continue to manage our capital diligently. At quarter-end, inventories remained on par with the prior year levels on a currency-neutral basis. As a result, the

Group's operating working capital as a percentage of sales also remained at a very low level of 20.3%.

The combination of our tight control of working capital with our strong operational performance led to another period with significant cash flow generation. This is reflected in the 70% year-over-year decline in net debt from 318 million euro to a level of only 94 million euro. Taking all of our results together, we have seen a strong increase in our equity ratio of 2 percentage points to 47.5%.

By segment, currency-neutral Wholesale revenues decreased 1% in the second quarter and 2% for the first half, as sales growth at adidas Sport Style was more than offset by revenue declines at Reebok and adidas Sport Performance.

Gross margin for the segment was up 2.8 percentage points for the quarter and 2.7 percentage points for the first half, driven by pricing as well as a more favourable product and regional mix.

In the Retail segment, revenues in the second quarter grew 5%. For the first half, sales increased 6% as a result of growth at both adidas and Reebok. Comparable store sales were down 2% for the quarter and 1% for the first half.

As in Q1, the decline in comp store sales is due to the difficult trading environment in Russia/CIS at the beginning of the year given the overall weakness in traffic and consumer sentiment. Beyond Russia/CIS, Retail trading was robust during the second quarter, with all other regions showing comp store sales increases in Q2.

By brand, adidas comp store sales were down 1% for both the quarter and the first six months. Reebok comp store sales decreased 3% and 1% for the quarter and the first half, respectively.

Our eCommerce business continues to do extremely well, with sales increases accelerating to 79% in the second quarter. For the first half, our eCommerce business was up 74%, breaking the 100 million euro level for the first time in a six-month period.

Retail gross margin increased 2.5 percentage points to 65.4% for the second quarter and 1 percentage point to 63.2% in the first six months. The positive effect from a more favourable pricing and product mix as well as less clearance activities were the main contributors to the margin increase.

Our commitment towards the Group's Retail expansion is underpinned looking at the number of store openings during Q2, as we have added 84 stores to our Retail portfolio during the quarter. This also explains the increase in segmental operating expenses as a percentage of sales of 3 percentage points for the quarter and 2.5 percentage points for the first half.

At the end of the second quarter, we operated 2,542 stores. Of the total number of stores, 1,437 were adidas and 356 were Reebok branded. In addition, the adidas Group Retail segment operated 749 factory outlets. During the first six months, we opened 248 new stores and closed 152 stores, while 55 stores were remodelled.

Let me now spend a minute on Other Businesses. Sales decreased 4% in the second quarter, as a result of the difficult trading conditions in the global golf market which resulted in TaylorMade-adidas Golf sales decreasing in many regions such as Western Europe, Other Asian Markets and North America. All other segments grew during the second quarter. For the first six months, revenues of Other Businesses were up 2%, driven by sales increases at TaylorMade-adidas Golf from the first quarter and Rockport.

The segmental quarterly gross margin decreased 1.9 percentage points to 43.4%. For the first six months, gross margin was down 0.5 percentage points to 44.0%, mainly due to lower product margins at TaylorMade-adidas Golf, which more than offset the positive effect from higher product margins at Rockport and Reebok-CCM Hockey.

So wrapping up for today, let me comment on the significant challenge we are facing this year from currency movements and in particular currency translation. As I am sure you are well aware, currencies such as the Japanese yen, Australian dollar, Brazilian real, Argentine peso, British pound and the Russian rouble have all weakened considerably versus the euro in a relatively short period of time. As you can see, in the second quarter alone, this cost us 4 percentage points from our top-line growth. It also implies a considerable double-digit million euro negative impact on our operating profit in the first half. Based on current spot rates, the impact from translation in the second half of the year is likely to show an even further deterioration, and I currently expect that we may see between a five to six percentage point impact on our reported top-line results relative to our achieved currency-neutral sales growth.

While this is a considerable headwind to our reported figures in euros, we should not let this detract too much from the strong underlying operational improvements that we have seen in our business this year.

With that in mind, let me now hand you back to Herbert who will go into more detail on how we are shaping up to accelerate growth as we move through the balance of the year…

Herbert Hainer
Given our solid start to the year, we can therefore reconfirm the majority of our full year targets, with only some minor tweaks to reflect recent developments. Given the lacklustre trading environment in Europe as well as the unfavourable development of several currencies versus the euro, it is fair to say that our absolute goals for the year are more challenging to reach than when initially announced.

As a result, we have widened the range for our currency-neutral full year sales forecast which we now expect to grow at a low- to mid-single-digit rate. In terms of phasing, we expect a stronger Q4 than Q3.

Given the health of our inventories in the market, the continued desirability of our brands and the strong first half improvement, we now expect to achieve a gross margin of 48.5% to 49.0% compared to our initial target range of 48.0% to 48.5%.

Due to the faster pace of new store openings, we also expect operating expenses as a percentage of sales to increase compared to our previous guidance of a modest decline. Nevertheless, due to the strong gross margin development, our operating margin target of approaching 9.0% for the full year remains unchanged. Taking it all together, we continue to forecast net income attributable to shareholders to increase at a rate of between 12% and 16% to a new record level of between 890 million euro and 920 million euro.

This means, that while you should be wary of currency developments as Robin clearly explained, from a strategic and operational perspective, we can look forward to the beginning of a period of increasing momentum for the Group.

Our powerful brand engines, the clear market share wins in the emerging markets, and the excitement building throughout the world ahead of the 2014 FIFA World Cup are all fuelling a slow but steady improvement in market sentiment. And we will be doing everything possible to spur consumer appetite, leading from the front with an accelerated pace of product launches and marketing campaigns.

adidas Running will again be front and centre. By now, I am sure most of you have already heard about our latest major innovation – Springblade. Featuring 16 forward angled blades made out of a high-tech polymer, it is the first running shoe with individually tuned blades engineered to help propel runners forward.

Springblade is truly another game changer in so many respects. Not only does it live up to the promise of explosive energy return, but its futuristic and iconic look is ideally suited for our long-term target to win with the high school kid.

Introduced at retail in the Americas last Thursday, the social buzz ahead of the launch was electric, and so are the early sell-throughs. Springblade has broken all of our eCommerce records and is already among the top-selling shoes with our retail partners. In fact, in the last week, traffic to our adidas.com site in North America has almost doubled.

Therefore, when I look at our capacity plans for Boost and Springblade combined for the next 18 months, I am convinced that this year of running is just the beginning of a long-term upward trend for us in the world's most important footwear category.

In other categories there is also plenty to excite. In basketball, while we had a rather quiet second quarter, momentum is set to return to the category.

Throughout the summer, we have been busy activating the brand around the world with our growing roster of top NBA stars. On the Quick versus Fast tour featuring John Wall, Ricky Rubio, Damian Lillard, Jrue Holiday and Mike Conley, we were busy promoting the Crazyquick and adizero Crazy Light 3 basketball shoes. And D Rose travelled the world exciting fans with the news that he is all in for day one.

In football, the new club season is kicking off, where we welcome many new teams and heroes to the brand such as Flamengo in Brazil and German star Mesut Özil. And if you have not seen it yet, check out the new Speed of Light campaign capturing the footballing genius of Leo Messi like you've never seen before. The film captures and analyses Leo's movement, to reveal the secret of his movement on the pitch as well as the light in motion design of the new adizero F50 Messi boot, which he'll wear for the first part of the season.

Over the coming months, you will be hearing and seeing a lot more on football as we accelerate our activations ahead of the 2014 FIFA World Cup. While we will be telling you more about that in the third quarter, be assured that we have a lot of fantastic innovations in store for 2014.

As one teaser, we recently announced that we will be introducing the adidas micoach smart_ball. The smart_ball has been designed to improve technique, power, spin and accuracy through an automated digital coaching system. After three years of development, we created a ball with in-built sensors that track its movement and feeds the information back to the player through an app on their phone.

At Reebok, the pace of new product introductions has also picked up heading into back-to-school, including the Reebok One Series performance footwear and apparel collections, the ATV 19+ versatile running shoe, and strong updates in Classics, particularly the franchise five and retro basketball.

In particular, our Shaq product has been flying off the shelves, and the campaign we created with Shaq and Tyga is the most viewed ever on Footlocker's YouTube channel, with 6.5 million hits to date. And we will continue to drive momentum in core Classics as we celebrate 30 years of the Reebok Classic Leather, which underpins the great heritage and authenticity of Reebok footwear.

In addition, we will also continue ramping up our connections with the leaders and trend setters in the fitness industry. Part of this strategy is to build long-lasting relationships with the best fitness instructors in the world. A key enabler of this is the ReebokONE platform which is already proving to be a huge draw, already accumulating over 5,200 members.

Following up in the same context, today, I am happy to announce another exciting collaboration for Reebok in this respect. Reebok has entered into a new partnership with the largest provider of group exercise programming in the world, Les Mills. This partnership will be an important component of Reebok's Studio category moving forward, which we kicked off in full this year with the launch of our Yoga and Dance franchises.

Les Mills has a history that dates back to 1968, and today has more than 100,000 instructors world-wide. Their products include programmes such as BodyPump, Sh'Bam, BodyCombat and Grit – some of the most popular group workouts in the world. Reebok will have a lot more to announce in the coming months about the Les Mills partnership. But this is clearly another great example of how partnering with the very best in the fitness industry can ensure we are front and centre where our target consumers are most active.

Also, in terms of showcasing the new Reebok positioning and product range to the consumer, for those of you in Europe, we will open our first Fit Hub in London on September 12, which is a continuation of the global roll-out of the Fit Hub concept – the anchor for all of our future controlled space initiatives for the brand.

Finally to come full circle on the brands, I told you in the first part of my speech that the next push in golf is coming. Well, it already has. At the end of July, we introduced our newest and longest driver ever – SLDR. Featuring more effective and easier-to-use moveable weight technology, it is already the number one driver on tour. In addition, we also will continue to drive market share gains in footwear thanks to extensions of the adizero and adicross platforms. And I expect an acceleration in sales growth from Adams Golf as the first fruits of our combined efforts come to life.

So ladies and gentlemen, to wrap up for today, the message is clear. From an operational and strategic perspective, our Group is in perfect shape.

- At adidas we are growing strongly in our key strategic categories and our pipeline is packed.
- We have successfully brought Reebok back to growth and the path is set and clearly defined to drive sustainable long-term success.
- We are the undisputed leader in golf with an unparalleled track record, and we have everything it takes to drive further growth.
- And we have a strong balance sheet giving us the firepower to invest organically in our operations and the long-term global megatrends of health, fitness and sport.

Although there are still a few speed bumps out there, our game plan is providing winning results. We are focused on the consumer. And we are focused on the quality of our business. In December, I look forward to welcoming you here to Herzogenaurach where we will have our final update session on Route 2015. With that, thank you very much and now Robin and I are happy to take your questions.