FINANCIAL RESULTS PRESENTATION

Half Year 2008 Speech

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Robin Stalker, Natalie Knight

Natalie Knight, Vice President Investor Relations

Good afternoon everyone and welcome to our financial results presentation for the first half of 2008. It's been a busy and extremely successful period for the Group. We had an exceptional performance at the European Championships – the tournament with its all-adidas final could not have gone better. And right now we are days away from the opening of what promises to be the biggest and most spectacular Olympics ever!

Our focus is clear: driving our brands to leadership in their core segments and revitalizing Reebok in the process. Despite increasing economic uncertainty, we continue to see strong momentum for our Group going forward.

With respect to our agenda for today's call, Robin Stalker, Group CFO, will be walking you through the development and outlook of each of our brands and on our financials. Herbert Hainer, our Group CEO, unfortunately cannot be on our call today as he is already making his way to China for the Olympics later this week.

So let me now turn the call over to you, Robin…

Robin Stalker, CFO

Thanks Natalie and good afternoon ladies and gentlemen.

I am very proud to be presenting the Group's excellent results for the second quarter and first half year to you today.

As you've seen in our press release earlier today, brand adidas has clearly been the Group's powerhouse. Across regions and segments, adidas is resonating with consumers as never before. Clearly we outscored everyone at key sporting events so far this year on the back of our creative marketing and brand communication.

TaylorMade-adidas Golf also continued to deliver strong results and gain further share in the golf market.

And at Reebok, steady progress is being made in revitalizing the brand and extending its reach around the globe.

So let's look first at our second quarter results.

- Sales in the quarter came in at 2.5 billion euro. That's an increase of 14% on a currency-neutral basis and was supported by growth rates of more than 20% in Europe, Asia and Latin America. On a euro basis, that translates into sales growth of 5%.

- Regional and product mix improvement helped elevate our gross margin over 270 basis points to reach 50.1% – the highest gross margin in the Group's history.

- Our operating margin grew 40 basis points to 8.2% despite significantly higher marketing expenses related to this summer's major sporting events.

- And finally (basic) earnings per share increased 15% to 59 cents.

Combining this with our strong first quarter performance, year-to-date Group sales grew 12% on a currency-neutral basis, and gross margin advanced 250 basis points to 49.6%. This allowed us to deliver a 110 basis point increase in operating margin to 9.5%. And through continued strict discipline of our non-operating items, we achieved a 25% year-to-date (basic) earnings per share increase.

We have high expectations for our brands for the remainder of the year even in the face of some tougher economic trends. We are confident of achieving the full year targets we set earlier, and in a few minutes I'll give you more detail on why we are raising guidance for two important profitability metrics: gross and operating margin.

But before I discuss the outlook, let me share with you some insight on each of our segments.

At adidas, currency-neutral sales grew 19% in the second quarter and 16% in the first half of the year. We achieved a good balance across all our performance categories. Of course, football was strong, but we also saw double-digit increases in running, basketball and training.

The European Championships were everything we thought they would be – and more. Even those of you in the States and elsewhere, I think got a flavor of the tournament's drama, emotion and excitement.

More adidas players took to the field than any other brand and they rewarded the crowds by leading the scoring charts in the competition.

And we created something more for adidas at the Championships – the marketing and brand positioning was different, fun and edgy – connecting powerfully with consumers. The Spain versus Germany final epitomized just how dominant our adidas brand is in the world of football.

Importantly, we once again translated these victories into commercial success for our Group's core brand. Our football market share in Europe has now reached 40% and our sales in the category this year will reach at least 1.3 billion euro. That means, we've also grown our the brand's most famous category at double-digit rates from our World Cup performance in 2006. And just like 06, you'll see our European Championships success translate into longer-lasting impact in the region over the next 18 months.

Another highlight from the quarter is the progress we continue to make with our controlled space initiatives.

In particular, our own retail business continues to thrive. adidas comparable store sales increased at double-digit rates in the first half of 2008. And in early July, we opened our largest store in the world in Beijing – this is really a one-of-a-kind -- with over 3,000 m^2 filled with new adidas products and experiences. It is a flagship for us -- -- showing our deep commitment to our fastest growing major market in the world.

As we move through to the second half of the year, the excitement around adidas continues to grow. The Olympics are the next big stage for our brand, feedback from retailers on back-to-school shows further strength for our performance business, and new initiatives in all major categories will provide even more push. Order backlogs – while not a perfect indicator – give us even more reason to be confident.

Currency-neutral orders are up 8%, with growth being driven by Asia, where our momentum has increased ahead of the Olympic Games. In North America – despite a tougher retail market – our footwear orders are at their highest level in 11 quarters, driven by improvements in running and other performance categories.

As a result of the strong first half performance and our solid backlog development, we have increased our full year sales guidance for the adidas segment and now expect currency-neutral revenues to grow at a low-double-digit rate.

At Reebok, currency-neutral sales were up 2% in the second quarter marking the first time in five quarters that revenues for the segment have grown. Clearly, these were supported by the first-time consolidation of our new joint ventures in Brazil and Argentina.

While major markets like Germany, Italy and Scandinavia delivered double-digit increases, the sluggish retail environment in North America, the UK and Japan hurt overall sales performance.

Operationally, Reebok is also continuing to make important strides in sharpening its brand positioning and product distribution.

As you know, one of our major focuses with the brand going forward will be women's fitness. This is a category where no brand has more authenticity and heritage than Reebok. And we are going to move aggressively to succeed in this space.

Already in the first half of this year, we strengthened our partnership with the Avon Walks program – extending our activities to now more than 30 countries around the globe.

With more than 300,000 participants this year -- it's clear that this is a tremendous platform to connect with female consumers. And this is already creating new commercial opportunities for Reebok. We will sell over 500,000 pieces of the Reebok Pink Ribbon footwear and apparel collection this year.

Further, in the fall, we will be launching a new women's campaign that brings a high calibre group of personal trainers and many of the brand's international athletes together to focus attention on the brand's top products.

In 2009, we'll roll out a new women's-only product line backed with even more energy and resources to make Reebok's unique strength in this important category more accessible to consumers.

The other big focus area for the Reebok brand moving forward is training. And the brand is pursuing some unique opportunities to capture attention and to define itself more creatively in this all-important category.

In July, we announced a multi-year global partnership with Formula One driving ace Lewis Hamilton. Lewis is a real challenger, a driver who has taken Formula One racing by storm in his first two seasons. And with our new "Athlete Within the Driver" activities, we will focus on his remarkable fitness and relentless training regime. His association with Reebok's Smoothfit technology will make him an important asset for the brand -- and especially the training category -- going forward.

In addition to these two major global focal points, it's important to make sure we make the most of our regional assets. In North America, we recently launched our "Join the Migration" advertising campaign, which features 20 of the NFL's biggest stars – including the SuperBowl MVP Manning brothers. This is the highest number of NFL players ever appearing in a single TV ad. It generated tremendous buzz, with consumers and retailers excited about the campaign and the Speedwick shirt and technology that were featured.

But Reebok still has a way to go.

Orders at the end of June declined 13% on a currency-neutral basis. This is unchanged from the prior quarter. While Asian orders have increased modestly, continued pressure in the UK has led to a decline in European backlogs.

As we mentioned in our last conference call and you could see visibly in this quarter's outperformance of sales versus backlogs – Reebok orders are NOT indicative of our expectations for future sales performance from the segment. Own-retail, at-once sales and several fast-growing Asian markets are not included in these figures. With that in mind, we are reiterating our commitment to achieving a mid-to-high-single-digit currency-neutral sales growth rate in the Reebok segment this year.

Moving over to TaylorMade-adidas Golf, currency-neutral sales grew by 6% in the second quarter – supported by growth in all regions. We had a series of exciting launches including the Z TP wedge and a new generation of Burner fairway woods. And most importantly, we were able to take advantage of tighter consumer markets and grow market share in golf's two biggest categories: metalwoods and balls.

Instead of moving through all the lines of the P&L this quarter, I'd like to focus on the ones that really deserve additional explanation.

So let me start with the Group's operating profit in the second quarter.

Gross margin improved in all three brand segments due to positive changes in our regional and product mix, increased own-retail activities and some currency benefits. However, brand operating margins declined in line with the expectations we shared with you earlier. This was due to higher operating expenses. At adidas this was the result of investing heavily in this year's major sporting events and at TaylorMade we supported a series of new product launches during the period. At Reebok, operating expenses were stable in absolute terms but lower reported sales led to higher opex as a percentage of sales.

Nevertheless, we reported a healthy 40 basis point operating margin improvement during the quarter (to 8.2%) due to an improving operating expense line within our HQ/Consolidation segment. As many of you know, this segment, which includes items that are non-allocable to our brands, can vary significantly from quarter to quarter.

As a result, we were able to grow our operating profit by 10% to 208 million euro for the quarter and 17% year-to-date to 490 million euro. Accordingly, our year-to-date operating margin is 9.5% an increase of 110 basis points over the prior year.

Another important development this quarter has been the strong progress we have made on our share buyback program. During the second quarter we purchased 3.3 million shares for a total of 139 million euro. To date, that brings the total to almost 7.7 million shares for a total consideration of nearly 318 million euro. That's 3.8% of our outstanding stock capital.

It should be no surprise that such an ambitious program is starting to show through on the P&L. Our net financial expenses increased by 10% in Q2, mainly due to the continuation of our share buyback program but also due to a negative exchange rate result.

During the second quarter, net income (attributable to shareholders) grew 12% to 116 million euro supported by our strong operating result and a lower tax rate. And EPS grew 15% to 59 euro cents per share, helped by the lower share count we already have as a result of our share buyback program. And the effects are similar for the six month period. Net income attributable to shareholders increased 23% to 286 million euro while EPS advanced 25% to 1.42 euro.

I'd also like to make clear that we plan to continue our buyback program with a target of repurchasing up to 5% or 420 million euro by November of this year.

Of course, we remain committed to reducing our net borrowings. At the end of June, net debt for the Group was 2.3 billion euro, down 6% (or 135 million euro) versus last year. And given our expectations for cash flow development in the coming quarters, we remain confident that our year-end net borrowings will be no higher than the 2007 level despite the continuation of our share buyback program.

Finally, I want to make a few comments on working capital development – which I think deserves attention in driving financial performance to the bottom line and enhancing shareholder value.

In the second quarter, average working capital as a percentage of sales was reduced by 140 basis points to 24.2%. This is a result of efficient management of both our receivables and trade terms.

Inventories did increase by 16% -- but this is really a reflection of growth in emerging markets – for adidas and Reebok, and includes increases related to Reebok's new joint ventures in Brazil and Argentina. While we expect this trend to continue for the next few quarters, its impact will moderate starting in Q3.

Given all these positive developments from the quarter and on a year-to-date basis, I'm pleased to announce that we are increasing the full year guidance for two important profitability metrics.

Let's start with the top line, where we continue to expect a high-single-digit currency-neutral growth rate for the Group. We see adidas sales coming in higher than originally anticipated. And this despite some tough comparisons in the second half of the year as well as a more challenging retail climate in the US and Europe.

Moving on now to profitability, we are increasing the Group's full year gross margin target and now expect a level of above 48% versus our original guidance of 47.5 to 48%. Some upward pressure on input prices and the lack of event-related high-margin football product later in the year will be mitigated by our improving regional mix and increased own-retail activities.

With higher gross margin expectations, we are now confident that we will also surpass our original guidance of at least 9.5% operating margin, and are therefore increasing our full year guidance to a level approaching 10%.

Net income should grow at a rate of at least 15% and earnings per share will grow even more, thanks to our successful share buyback activities.

So we have had an outstanding first half of 2008 - great performance in almost every area of the Group.

adidas is growing strongly across all categories with unrivalled brand equity. TaylorMade-adidas Golf is growing market share and setting the pace for the industry when it comes to new technologies. Reebok continues to be challenged by tough markets, but is clearly strengthening its brand positioning.

So the Group, ladies and gentlemen, is fit and ready to make the most of the rest of the year and beyond. We've upped our guidance for both gross and operating margin in 2008 – which is even more impressive given today's consumer markets. But that's how strong we think our brands are right now. And how confident we are about the top- and bottom-line potential ahead of us if we continue to execute on our brands' strategies.

In three days, the Olympic Games in Beijing will start. Which sport will be the center of national attention? Which athlete will emerge as a favorite?

These are things we don't know yet – but there are some things we do know. First, the world will be watching in unprecedented numbers. Second, records will be broken and new ones will be set. Asia and China will be showcased more than ever.

We have been planning for this. Our brands and products will be everywhere – helping athletes perform at their highest levels – and the strengths and opportunities we've built in Asia will be a platform for our success to the end of this year and into 2009 and beyond.

So on to Beijing and an exciting Olympic Games – but before that, ladies and gentlemen, let's take your questions.