

**adidas Investor Day 2005**  
**October 12, 2005**  
**Q&A-Session - Morning**

**adidas Group Participants:**

Herbert Hainer, CEO and Chairman of the Executive Board  
Erich Stamminger, Executive Board Member responsible for Global Marketing, President and CEO of adidas America  
Mark King, President and CEO of TaylorMade-adidas Golf  
Natalie Knight, Vice President Investor Relations

**Michael Geiger - CSFB**

***The football market share 2004 in Germany was 45%. If I am right you said that in 2006 it will be clearly 50%. What is the market share this year? It must be somewhere in between, but do you have an exact number?***

**Erich Stamminger**

Currently, we have 47%, and we are targeting 50% next year.

**Michael Geiger**

***OK. The second question is on Reebok. How is the focus on the category sharing? How do you really want to split it all up and make sure the advertising spend is allocated to that and not going overboard?***

**Herbert Hainer**

First of all, I believe that we are very complementary. When you look at adidas, we are very strong in football, we are strong in a lot of team sports like handball, volleyball, we are strong in track & field etc. Reebok is very strong in the American sports. We are strong in Europe, they are strong in America. In my opinion, there is a perfect fit between the two companies and of course we will spend money to support both brands. But we are adding another \$ 4 billion in revenue. If we spend 10-12% of sales on marketing, then we will have another 400 to 500 million in marketing dollars to support our brands even more efficiently than we do today. And if we do it wisely, which I hope we do, we can definitely make more out of the deal than just  $1 + 1 = 2$ . If we use these marketing dollars in a smart way for both brands, I see many more opportunities than problems in this area.

**Michael Geiger**

***Will both brands keep all their categories or will there be eventually some focus?***

**Herbert Hainer**

We are still in the integration process, as I have told you during my speech. We have just started and have some of our best people on the integration team. We have established eight key areas of focus and each area is being driven by a top person within the organization. But it's too early to give you a detailed progress report. But I can tell you, if you are looking for – let's say – what I have heard several times, that adidas is so strong in football, will we recommend an exit strategy for Reebok in football? No, why should we? They have a business, there is an opportunity, why shouldn't we go out and get it? Why should we give up this opportunity in this business? It is just the other way round in my opinion. If adidas gives support in technology and in know-how, then we can definitely improve our combined market position in the category.

**Uwe Weinreich - HypoVereinsbank**

**First question for Erich: If you are gaining market share in football, who is losing market share? The second question is, as you said, how do you want to allocate your marketing working budget in the year 2006 and how do you calculate an adequate return? Is it a best guess or how do you get the view which allocation will generate an adequate return? And the third question is on Reebok, do you think you have to reposition the Reebok brand with a higher marketing working budget starting in the year 2007?**

**Erich Stamminger**

In general, we are gaining market share at the expense of all brands. You know our main competitor is obviously a brand in Beaverton and we expect that we will continue to gain when we look at the technologies we are coming up with in 2006 around the World Cup. So that is one point. In terms of marketing working budget: You know that we have the World Cup as a platform in 2006. In 2008, we have the Olympic Games and European Championships in soccer and so on, and we always use such events as a platform for us to support our technologies, our new concepts, our new ideas. In non-event years, we focus on product innovations like adidas\_1. So, in general we just use these platforms for the adidas brand to support the individual concepts. This is why we are investing the highest amount ever around next year's World Cup event.

**Herbert Hainer**

With respect to your third question on Reebok, do I think we have to reposition Reebok? No, I don't think so. Do I think we can sharpen their brand image? Yes, I believe we can. But once again, it is very early, we are working on it, but I believe Reebok has a very good position in a lot of categories.

**Uwe Weinreich**

**But the background of my question was: Do you need a higher marketing working budget in 2007 in your view?**

**Herbert Hainer**

Yes, but if I got your question right, it was: do you have to reposition Reebok and then therefore have to spend a higher marketing working budget? My answer is no, we don't have to reposition Reebok and therefore we don't need to spend a higher marketing working budget.

**Uwe Weinreich**

**OK, thanks.**

**Margaret Mager – Goldman Sachs**

**A couple of questions. First of all, I have a question on the TaylorMade presentation. You spoke about apparel being your biggest surprise in the past couple of years in terms of growth. How much is the apparel of your business, but more importantly, what happened to make that business take off for you and how did adidas help that process. And then I have a couple of follow-ups.**

**Mark King**

I used the word surprise because four or five years ago, when we began to look at the adidas business, we really thought the biggest opportunity would be footwear. And at that point, the businesses were about equal in size for us. Today, apparel represents about two thirds of the

adidas Golf business. And the reason for our success is really simple. Products that golfers had been wearing were basic cotton shirts. And when we introduced ClimaLite and ClimaCool products, we offered a technology that the golf community had not seen, and it has just exploded. Our success is all technology-driven. Plus our styling has gotten a lot better over the last couple of years. So, we really organized around that and made the most of it.

**Margaret Mager**

***Do you have your own design team or how did the styling get better?***

**Mark King**

Definitely. In 1999 or 2000, we moved design to Carlsbad so that it would be in the center of golf and I think it took some courage on behalf of the team here to let design go to Carlsbad, but it has clearly paid off for everyone.

**Margaret Mager**

***OK. My other question is on the integration team. Herbert, if you could please talk a little bit more in depth about the integration team. You mentioned here eight fields of focus. Could you elaborate on what they are and how you will mitigate the risk of integration when the two companies come together, maybe some lessons learned from previous experience integrating businesses, be it TaylorMade or others. And then my other question relates to the merger of Reebok and adidas. In the US, I know you really wanted to get to a 20% market share. Now with the two companies together, you will be there. But I am not sure that that was your original vision. Can you talk about what were some of the things that made it difficult for adidas alone to get to a 20% share and how does that whole idea fit together? Two brands, one brand, 20% share? Thank you.***

**Herbert Hainer**

Let me start with the first question regarding the integration team. The categories and the fields of integration are finance, operations, IT, HR, marketing, and sales in North America, Europe, and Asia. Nobody should be surprised that we will be working on putting the back office functions all together. This will definitely be one of our first steps. As I have said, we have really put some of our best people onto these categories to get a good plan fast, so that when we close the deal, we will be able to start immediately with implementing our plans.

The second question on the US market, you are absolutely right. The 20% target I mentioned was not for multiple brands, I always was talking about adidas. So, why hasn't it happened so far? I think, first of all, I made a mistake when I came out in 2001 and spoke about it immediately without knowing more about the market. I am still absolutely convinced that the adidas brand has the potential to get to 20%. But I put the organization and myself a little bit too far out when I said we had a chance to reach it in three years. I learned that it took more time and in-depth knowledge, but I am absolutely convinced that what we have been doing over the last two years, since Erich is in America, are the right things for continuously building up our market share. And you will continue to see that in the future, when our market shares continue to improve. We have positioned our brand now for what adidas was always known for - being a sports performance brand. And building it on a much broader base than we had done previously. I don't want to criticize our previous North American strategy in hindsight because I was part of the plan as well, but in 2001/2002 and 2003, we were jumping on items and tried to make them stronger. This didn't help us drive the brand image for the adidas brand in total. It gave us success for selected items but not for the brand itself and what adidas stands for. When you see what we have done over the last 18 to 24 months, getting into the MLS which is clearly performance-driven, being in Basketball

with KG, T-Mac, and Tim Duncan, this is really about increasing our commitment to performance sports. This is how we are building our brand and, honestly, I must say what you see in the market at the moment, we are definitely one of the most successful brands in terms of growth in the US. I think this success will continue. Right, Erich?

### **Erich Stamminger**

I can only confirm this.

### **Natalie Knight**

Also Herbert, there was a question about integration lessons learned from TaylorMade and Salomon.

### **Herbert Hainer**

Good point. I think this is a very good question because although we get criticized about the Salomon integration, for our lack of progress with the Salomon brand, there is much less discussion regarding the TaylorMade integration which has been extremely successful, as everybody has heard today and as you can clearly see from the figures. What we have learned from both of these experiences is that it takes a dedicated and comprehensive effort from both companies or brands from the very first day onwards to integrate the two companies. What I am saying is that I believe we left Salomon alone way too long. They did their business and in the first years, because of the dollar-euro currency conversion, it did well, also the profitability came, and we didn't look enough at the details. We had to grow the adidas brand, we had a big field, and we didn't pay attention to the details. A second point, and I again have to blame myself, is that we were much too French-driven in our management at Salomon. We never had an international management there. They are very good people, very dedicated, but they were not an international team with a clear mission to really go out and drive our business around the world. These things, I think, we have done completely different with TaylorMade. I was part of the decision to move the adidas brand in golf to TaylorMade in 1999. It was a tough decision because adidas people felt we were giving away our competence and control over the brand, the stripes, the marks, etc., but finally we did it. We also put people from our headquarters to Carlsbad, so we have a really international team at TaylorMade, we have strengthened their core competencies and therefore improved the outcomes. Therefore, in hindsight, I would say it was a good trial, a trial case for us, and you can be sure we won't make the same mistakes twice.

### ***John Shanley – Susquehanna International Group***

***Herbert, you mentioned in your opening comments about Japan that you are now the leading brand and also have the largest market share there in volume. Is that in both footwear as well as athletic apparel? And can you give us an indication what is the percentage share that you now enjoy in Japan and who you take it from? Asics, Nike or who are you taking the share from? I don't think the Japanese market has really expanded that much.***

### **Herbert Hainer**

When we talk about market share, John, then it is only footwear because we have only limited market share data for apparel, as I have also said in my comments for the overall branded sales. So, when you take the sales for brand adidas in Japan, we will be the biggest brand with the highest branded sales. When I say that, this also means that we have a few licensees in Japan and we have not included the adidas Golf business into adidas Japan. So when you calculate the adidas branded sales in Japan, we are the biggest brand in Japan. Christophe Bézu, our Head of Asia, will provide you with more information on this as part of his presentation this afternoon.

**John Shanley**

***Do you have any idea who you are taking the share from?***

**Herbert Hainer**

Mainly from our main competitor because they were always ahead of us in Japan. They are not performing as well as we are at the moment. Also, as in other regions around the world, smaller brands have difficulties keeping up the pace, because you have to invest money, be it on the advertising side or on the sports marketing side, on retail, and not every company is able to spend this money to really push its business forward.

**John Shanley**

***In the US, you mentioned that you had a good sell-through rate in terms of back-to-school product offerings. Can you give us an indication of where you think your current market share for the adidas brand is in athletic footwear? And what your potential is, over the next year or two in terms of market share growth?***

**Erich Stamminger**

I will talk about this in more detail this afternoon. But it depends on which market research you are using. We look primarily at Sports Scan, and there we have a footwear market share of around 11%, so we are gaining one to two percentage points of market share growth this year. You know that Sports Scan does not include Foot Locker. So, the total market share, in general, for all brands is a little bit lower - one or two percentage points lower in general. Important for us is that we are gaining market share across the board, in virtually all channels, with almost all important retail partners.

**John Shanley**

***That's great. The last question I have is on the final decision on the Head of North America. Are you going to keep Erich in two roles or will you give him one hat to wear in terms of either being the Head of Marketing or the Head of North America sometime in the near future?***

**Herbert Hainer**

It becomes more and more difficult for me to take him away as he is driving so much success for us in North America. But nevertheless, I have always said from the beginning, we needed him to put the business in America onto a new platform. There is nobody in the company who knows the brand and what to do with it better than he does. But he can't keep up this workload forever. We definitely will put a new person in charge of day-to-day operations in America, and this will be rather soon, most probably at the end of the year. But Erich will clearly retain responsibility for the region and his commitment to its ongoing success is high.

**Jürgen Kolb - Cheuvreux**

***I have basically three questions. First on TaylorMade. You mentioned a brand campaign. You mentioned new product launches on metalwoods and irons, you mentioned new golf balls, impressive green grass distribution increases, shall we be concerned about the profitability of TaylorMade next year? Is that an issue? My second question goes to adidas and Stella McCartney. You mentioned that this is a growing business and that you are very happy with sell-through figures. Do you have an indication as to how much in terms of sales and maybe even margins that business itself, Stella McCartney, can reach? And lastly on Reebok-adidas, Herbert you mentioned that one of the first main steps is to work on the back office operations. Any additional topics that you want to get off the list in the first steps, specifically what you are***

***trying to integrate, specifically on the IT side? When do you think you will tackle harmonization of the IT systems of the two companies?***

**Mark King**

Let me answer the TaylorMade question. Actually we think that next year will be one of our most profitable years ever. Our marketing working budget as a percentage of sales won't change, we will just be using our marketing dollars more effectively. One of the things that drive our profitability up is in-line products, so, in a year where we have significant product launches, all of those products are at full wholesale value and our margins are higher. So, we really believe next year will be a strong year for profitability.

**Erich Stamminger**

On Stella McCartney. When we launched Stella McCartney, I said that the high-end women's performance segment was a niche segment with a potential of around € 100 million. I was targeting for 40 – 50% market share in that. Today, I can say we will be there much faster than I expected when we initially launched the Stella line. On margins we can say that this is high price and like in all our other partnership categories, such as Y-3 for example, margins are definitely above average.

**Herbert Hainer**

Ok, Jürgen, on the Reebok question. I mentioned that we are targeting back office rationalization, but this should not mean that this is the only area where we are working. But this is the most obvious and one of the areas where we can make the fastest steps. We are also working with a very dedicated team on the sales and marketing front because, as I always said, I see this acquisition definitely as something where we can gain more on the sales and marketing front because I believe that we can drive the businesses of both brands much further in getting margin and profit. But nevertheless, coming back to the back office and IT, which was your specific question. First of all, we are lucky that Reebok is also working on SAP. They started to implement SAP five years ago, but this obviously does not mean 100% in all countries. They don't have SAP in all countries, so there is some work to do. Nevertheless, there is no doubt that we want to have the same IT system as fast as possible worldwide to align all the information, reporting, etc. This is also coming back to you, Margaret, where we have another learning out of the Salomon acquisition. Today, we still have two different IT systems at Salomon and adidas, and this always made full business integration more complicated.

***Lars Slomka - Deutsche Bank.***

***Just one question for Mark regarding TaylorMade-adidas Golf. With all the launches you have next year, what kind of target market share do you expect for the global golf market? And the second question maybe for Erich. You said that you expect adidas\_1 to dominate the industry in 2010. What is your measure, when do you think you have reached it. What is it? Market share, total sales, ...?***

**Mark King**

We don't really look at the global market share because there is no widely accepted conglomerate market share data. Instead, we look at what our expectations are. Right now our share across all categories would be in the high teens and our goal is to hopefully get it to 20% of the total. We really look at the product categories. We'd like our metalwood business to be 25% of the global market. I think it is just under that today. We have about 12 – 13% of the global iron share, we believe we can get that in the high teens. And the same thing is true in footwear, where we are around 12%, 13% and we'd like to get closer to 20%.

But those aren't specifically next year's goals. However, we still believe we will have growth in each of those categories.

#### **Herbert Hainer**

Maybe I can help here a little bit. One and a half years ago, in a presentation to the press I said that I believe we can make or go over the hurdle of \$ 1 billion with our golf business. And I can tell you that we remain committed to that target.

#### **Erich Stamminger**

On adidas\_1, I was talking about it being the dominating factor in our industry. Of course it is then no longer just one product. We launched the technology and of course the next step will be that we extend it into new additional categories and especially more commercial price points. This is our next goal and of course you will always have mechanical midsole technologies. But as the industry standard, this definitely will be the leading technology, especially when I look at what we have in the pipeline.

#### **Stefan Bauknecht - DWS**

***One question. Tonight France and Spain are aiming to reach the World Cup in Germany. Can you tell me what would it mean for adidas if France and Spain are not be able to reach the soccer World Cup in terms of marketing costs and strategy or shortfall on revenues?***

#### **Erich Stamminger**

First of all, we hope that the two teams will qualify no doubt about this. But when you look at the overall integrated strategy we have in football, you see that it is not dependent on a single team and the jerseys we are selling in that country. Of course we would love to have this additional business, we would love to have the impact, in all markets where we outfit the national team. That is why we are doing it. But on the other side, we are partner of FIFA, we are the sponsor of the World Cup, we are the official licensee of the World Cup, we have the official match ball, we have a lot of players even in teams we are not outfitting completely, so you see it is a completely integrated concept we have. Even if the worst case happens and the two teams do not qualify, we are prepared for that and know how to react and make sure that we reach our goals.

#### **Sebastian Lemonnier - Tocqueville Finance**

***One question on Reebok. Do you fear brand cannibalization with adidas Heritage and Stella McCartney, with Reebok, and how would you like to make the brands different within the lifestyle segment?***

#### **Herbert Hainer**

Once again I don't think it is any kind of cannibalization because a lot more competitors are competing in the same areas. I have said several times that the first ten years of my business career I worked at P&G and we always had competition in house and you can see how well the company has performed. Therefore, I definitely believe that there is a lot of space for two brands in the same categories. Of course we will have to shape it, and this is what I said before, this is what the integration teams are working on: how we position the individual categories for the two brands, how we can help each other and benefit from the integration.

#### **Joe Yurman - Morgan Stanley**

***Two questions. The first is with respect to the Superstar, if you could discuss in retrospect what you think you have learned about the original allocation of that product in the US and assuming***

***that you have an entire allocation, do you think that you have that product as leverage over retailers to take on a broader portfolio of your products? The second question is with respect to non-traditional channels of distribution. Within Reebok there is Logo Athletic and a store like Target, what is the focus of the company to tap into non-traditional distribution?***

**Erich Stamminger**

Firstly, we will continue to keep the Superstar distribution very tight and under control. That is in the best interest of consumers, retailers and in the interest of our brand. Then there are programs like the Superstar 35, the anniversary program I just presented, which shows you that we continue to find ways to make this product family even more attractive and inspiring around the Superstar. Superstar today is no longer just one shoe in three colorways. We have more than 100 executions plus the additional 35 executions I mentioned. So you can compare this a little bit with things like ClimaCool, and Herbert and I mentioned some numbers. What people sometimes don't know is that the Clima business in the meantime is around € 750 million per year. These are families, these are concepts and the same is true for Superstar in the Heritage area. I would say, on leverage in general, of course every retailer and even retailers we don't deliver the product to, are interested in successful programs. That is for sure, and we have very pleasant, very positive talks with retailers about Superstar and about how to move on to present our brand in general.

**Herbert Hainer**

The second question concerning Logo Athletic is a very interesting one. Once again, we are just in the first stage of putting our business together, but this is definitely something which gives us alternatives for the future. We will look into it. This might be an upside potential which we haven't grabbed yet, so we are looking into it and will see how it goes forward, but this definitely gives us alternatives.

***Kirsten Kistermann – Merrill Lynch***

***You spoke a lot about the World Cup and the marketing expenses, the biggest marketing campaign ever which you would like to start next year. So I suppose the range for the marketing expenses will exceed your normal range. Can you tell us a little bit about that?***

**Herbert Hainer**

When we talk about marketing working budget we also talk about operating margin, of course. This is what we have always said. In years where we have big sports events we will spend a little bit more, and in years we don't have sports events we spend a little bit less. But it will not be a huge difference, because we structure our business now in a three- to five-year plan and look into the calendar at what are the events and in the so-called non-event years, which have always a lot of events at least for us internally, let's say 2003, 2005, 2007, we try to bring new innovative products and concepts into the market. As you have seen in 2005 with adidas\_1 and a lot of other things which we are doing. We therefore have tried to level the marketing working budget and not move up and down inconsistently. But yes, we will spend a little bit more in 2006. Your follow-up question might be, and what does that mean for your 11% operating margin? It may go down a little bit in 2006, but not dramatically. And as I have said before, following the Reebok acquisition, we definitely would like to pass the 11% mark again in three years after completion.

***Bernd Janssen - UBS***

***The question now turns into a follow-up question to Erich because I try to get a bit of a better feel for the impact of the soccer World Cup on both the top line and the costs side. You target more than € 1 billion turnover for soccer next year. I assume you are already close to € 950 million or so, so more than a billion shouldn't be too difficult. Could you give us an idea of what***

***you expect a bit more precisely in terms of additional turnover and that may help us to make our calculations on the bottom line.***

**Natalie Knight**

I'll jump in on that one because it is a little too specific for our comments today. I think it has been clear, as we have said in the past, that we obviously are expecting good double-digit growth in the football category next year. But the only number we have given into the market is that we intend to definitely reach and beat that € 1 billion mark.

**Bernd Janssen**

***Could you put any figures to the marketing costs related to the soccer World Cup? Or is it also too specific?***

**Natalie Knight**

I think I'll jump in there again. If you remember with the World Cup in 2002, we also didn't make any specific comments about marketing working budget. At that time we had some special initiatives in place to drive growth in Japan and Korea and so we decided to put some additional money into the event. I think Erich made very clear in his presentation that the World Cup 2006 is going to be our biggest marketing campaign activity ever. This should give you an idea of the type of levels that we are looking at spending.

**Katja Filzek - MainFirst**

***Just briefly on your comment on your technology dominance of adidas by the year 2010. Does that mean that you are a true believer in technology in the industry and does that also mean that you - despite the current weakness of technology products in the US - see the average price points increasing until 2010 within new products? And secondly, coming back to Herbert's comment on the US, it seems that you still see potential for the adidas brand of 20% in the long term. Hence, do we go for kind of 30% target in the long term for the combined Group?***

**Erich Stamminger**

On the price points and technologies, I would say that technology is the only way at the moment, in addition to signature products, to go above the \$ 100. Let's talk for a second about footwear. This is also what our competitors are realizing. We moved a<sup>3</sup> above \$ 100 and we have been successful with it. In the streetwear area with the Superstar 35, we moved above \$ 100, so we are going both ways, the one is technology and the other one is fashion. Stella, for example, has price points of \$ 150 to \$ 200 and you saw the adidas\_1 with \$ 250. These initiatives will all help us and we will help the industry, retail and the whole industry, to move the prices back up above \$ 100. And I am very confident that we are on a very good way to achieving this again in the US as an industry.

**Herbert Hainer**

To the second part of the question, yes, I am absolutely convinced that we have a lot of potential to grow our market share in the US. When you look at what we are doing today, we have a very exciting advertising campaign which really has created a lot of noise in the US, we have a dedicated and very professional team. We are bringing new product innovations into the US market each quarter and I think we have learned our lessons now as well how to work with this market which is a different one than Europe and Asia. Will it reach 20% in the long term? If we come out with 19.6%, I would be happy as well. Let's see how it goes.

**Katja Filzek**

***But you are still eyeing the 30%?***

**Herbert Hainer**

If adidas hits 19.6% (or anything in the 20% range), then we are already above 30% because with Reebok, which is more or less at the same level as we are, maybe a little bit higher, we are definitely going up.

**Sascha Berresch – Berenberg Bank**

***How do you think you will change the profitability of Reebok and what is actually the reason in your point of view that Reebok is relatively underperforming against the other companies in this industry?***

**Herbert Hainer**

I wouldn't say Reebok is underperforming compared with the others. When you look at their sales and profitability growth over the last five years, it was permanently a double-digit growth in profit and also a high-single-digit sales growth. Where they are underperforming is in Europe and in Asia in my opinion, and this is definitely where we can help them. But they have done an extremely good job in the US. They are very strongly locked into the licensed business for the next several years and you know, even when we say licensed business is going up and down, it will always be an integral part of the sporting goods business in the US. In my opinion, they have done a very good job in commercializing trends in the market quickly. I think they are better than we are at jumping on things and commercializing them quickly. This is exactly what we want to do; we want to build on the strength this additional brand offers us and help them where we think they are underdeveloped.

**Sascha Berresch**

***But what are the reasons for the profitability ratios? Is it inefficient cost structure, is it product mix?***

**Herbert Hainer**

It is relatively simple. They are so strong in the US and everybody in the industry has a lower margin in the US – be it adidas, Nike or Reebok. You can get the highest margins in Europe and Asia. And this is why they haven't brought up the profitability to the ratios where we are or where our main competitor is at the moment. And if we are able to drive their business in Europe and in Asia, this would immediately improve their gross and operating margins.

**Gavin Finlayson - Commerzbank**

***My first question is, you spoke about the good performance of back-to-school in the US. Do you have any comments on how Europe is developing in Q3? My second question is, I am a bit uncertain, Erich mentioned something about the Heritage division and the sales growth being very strong. And you mentioned something about 40% a year, but I think you must have been talking about Superstar. If that is the case, could you perhaps tell us what is actually happening in the non-Heritage business, why is it underperforming? I believe for the last 12 months we have been talking about a potential turnaround in technology-driven products. My last question is about the lifecycle of World Cup related products. Do we see a drop off directly after the World Cup and when should we start to see sales coming through?***

**Herbert Hainer**

Let me start with your question on Europe, Q3 and how we are going forward. I don't want to go into specifics because Roland Auschel, our Head of Europe, is present this afternoon and I don't want to take away parts of his presentation. What I can definitely tell you, however, is that looking forward, especially into 2006, we are quite optimistic about the European

business. At the moment it is tough, but I believe we are performing well. Roland will definitely give you more insights this afternoon.

### **Erich Stamminger**

On our Superstar or Heritage business, actually I was talking about the Heritage business in general and I wanted to point out here that this is the segment and the category where we are really performing well. I just used Superstar and the 35 Superstar project as an example. But please keep in mind that when you take the Sport Heritage division, it is by far smaller, around 20% of the adidas business. We are also growing in the performance area in a very significant way, but of course the growth rates are smaller because the basis is much higher.

### **Natalie Knight**

There was a question about World Cup effects and once we see the World Cup end what will that mean to sales?

### **Erich Stamminger**

Yes, that is right. Around the World Cup just take the licensed products, of course we will have additional business in the World Cup year but as I said already, we have contracts with Champions League, with the MLS, and additional teams such as Chelsea in the UK. This is an ongoing process. The good thing is, when you look at our numbers in football over the last several years, you can see that even after a World Cup year or after the European Football Championships football sales have not declined. We were at least stable in the individual segments or even going up. Although we lost the official licensed products after events, we were able to fill this gap with other football products, with other licensed products or with our excellent product ranges, for example in footwear, where we are growing significantly.

### **Margaret Mager – Goldman Sachs**

***Can you talk about how you use the future orders program? How important is this in the US compared to Europe, compared to Asia, and is it something that is beneficial from a management or control perspective and how does it work competitively as well? Is it an impediment, an enhancement from a competitive perspective? I am thinking along the line of rigidity versus flexibility and that as an idea for differentiation between adidas and Nike and how you as the leaders of this company think about that process?***

### **Herbert Hainer**

Obviously, Margaret, the future orders business is playing an important role because the sooner we have the orders the sooner we are able to have high visibility, which eases our ability to manage it. Looking into the future, I think you will see differences in the relevance of backlogs by different components of the business. Not everything will be on a future cycle or on a six-month cycle. We will have parts, especially on the apparel side, where we have to be much faster in the market, where we have to react immediately and this will also mean that we have to think about our distribution and sourcing strategy. This might mean that we bring parts of the sourcing, especially in textiles, out closer to the markets we are in. In footwear, I believe that we will still see longer lead times, because footwear is more complicated to produce with all the raw materials, production processes etc. But nevertheless, here we will also see programs and parts which have to be replenished faster, which will not be on a six-month cycle in the future either. Apparel is more fashion-driven, this will have to be faster in the future. Will the future business completely go away? I don't think so.

**Uwe Weinreich - HypoVereinsbank**

***One last question to Erich. Your success in the soccer segment, is it mostly driven by advertising, i.e. marketing campaigns, is it due to innovation in this segment, i.e. product, or is it price-driven?***

**Erich Stamminger**

It is definitely not price-driven. It is driven by both communication and innovation. On the communication side, you saw one recent commercial here. I would say, and all the experts confirm this, we are industry-leading in our advertising. But it is not just advertising above the line but also below the line: the POS material, the way we present our products and our ranges in store with shop-in-shops and all these things. It is a completely integrated way and the best thing is, we are leading in our products and in our innovations. You will see in 2006, and this is what we get confirmed from retailers across all our regions, that we are definitely leading again in what we are bringing to the market. You will have the chance at lunch time to see a few of these things and you will understand what I mean with that.

**Herbert Hainer**

Let me just add that the most sold performance football boot in the world is the Predator, and the Predator averages at retail at above € 175 at the moment. This clearly shows you what we are looking for - for innovative products, where we can charge a fair price, and not to be a price-driven company.

**Michael Geiger - CSFB**

***One question on material costs and logistics costs. How do you deal with it? Do you add on just to the price tags or is it just a mix, the improving mix which deals with that for you? But there is certainly container shipping rates and material costs, chemical products and so on going up. Maybe you can give us an insight how important it is and how you deal with it.***

**Herbert Hainer**

It is very important for us, of course, because it influences the way we do business. It can influence the margin or the way we construct products. I believe it is a mix of all the different things you have mentioned already. You have a certain flexibility in some products where you have technological leadership and when you are the innovator, but this is only for a small range of products. You cannot just easily put a 3, 5 or whatever percentage increase in material costs on top of the product because you are competing in a very competitive environment. Then you have to start to work on how you manufacture products. When you start with the design and the development of the product, you can already look into how you can conceptualize the product to make it easier to produce and which materials to use because not all material prices are increasing. You also have to look into how many individual parts you put onto the shoe because this influences labor costs and timing. We are working on all different fronts to compensate this as much as possible within our products to be as competitive as we are. If we just added to prices, we would quickly reach a level where the consumer is not ready to buy anymore because our competitors are more aggressive on pricing etc. But, on the other hand, we don't want to lose our margin. As I have told you during my presentation this morning, we definitely see a 46-48% gross margin for the future of our Group. To ensure this, we are working on a lot of fronts to keep our business growing and to keep our margin as healthy as it is.