

adidas-Salomon

Reebok Transaction and First Half Year 2005 Financial Results Presentation

August 3, 2005

Conference Call 10:30 a.m. (CET)

Q & A Session

adidas-Salomon participants:

Herbert Hainer, CEO of adidas-Salomon

Robin Stalker, CFO of adidas-Salomon

Natalie Knight, Vice President Investor Relations

Michael Geiger - Crédit Suisse First Boston, London

Ladies and gentlemen, good morning. Congratulations to a quantum leap. I have three questions, if I may. The first one is addressed to Robin. You mentioned the earnings accretive aspect of the transaction. Would you please be so kind and repeat the individual years that you said? Secondly, could you give us a little rationale or small calculation on how you derived this, if possible? Thirdly, you mentioned the financing will be a mix of debt and equity. Can you elaborate a little bit more on the terms, how much debt, how much equity? If you cannot say that precisely at this stage, could you give a ballpark number so that we can better make our own calculations on this transaction? Congratulations on the relatively good numbers for the adidas brand so far.

Robin Stalker

Thank you very much for the warm congratulations. I think all your three questions are really just one question. Clearly, this deal is accretive. I am not going to give you the exact percentage because that will obviously depend a little bit on the debt-equity ratio. You can calculate it, I am sure, and I can reconfirm that in terms of the financing of this deal we have good bank facilities in place. We have strong cash flow expectations for both brands going forward that will enable us to pay down debt in a very short period of time, so that we could take on some debt here. Our focus is, however, to maintain a good investment grade rating, so we will need some equity. We will make the decision as to how much that equity will be closer to the transaction closing, but you should be aware that we already have the authority from shareholders to issue up to 10% additional shares without pre-emptive rights. Therefore, we are going to be conscious of maintaining that good investment grade rating, not having too much dilution and being in a good position to continue to pay down debt. Our guidance for the financial leverage going forward is the same guidance that I have given over the last year or so that clearly we want to have a debt-equity leverage of not more than 50%, and I am sure that after a couple of years after closing we will get there.

Michael Geiger

I had acoustic problems when you stated exactly how the accretive issue kicks in in year one, year two, year three. Could you repeat what you said in your speech?

Robin Stalker

It is very clear that this deal is accretive from the first year. What we then went on to talk about is that there are cost synergies that we would be expecting in addition to that and those synergies come through over the next three years after the integration commences.

Each year will be higher than the previous years, because there will be an introduction phase in these synergies and we expect to have the full run rate of € 125 million in cost synergies alone by the third year. And that is not including about revenue synergies, obviously.

Michael Geiger

When you say accretive, what profit line are you looking at? Is it the current guided line or is it the line from continuing operations? What line are you focusing on when you judge that it will be accretive?

Robin Stalker

Look at the continuing operations for the adidas brand and the Reebok guidance. In fact, if you look at all of them, they are probably accretive.

JP O'Meara - Dresdner Kleinwort Wasserstein, Frankfurt

Good morning, thank you for the very eventful morning that we have had. I have a couple of questions. First of all, it is clear that the deal is going to be accretive and I have seen your longer term operating margin at 11% after year three. For the adidas brand as a stand-alone, would we be looking at significantly above that, forgetting about the Reebok acquisition? Regarding the timing of closing in the first half of next year, is that purely due to the regulatory process probably taking a little bit longer? My final question is on positioning in the US. In the future will we see the adidas brand moving more and more into the premium segments and would Reebok follow more in the mid-price point category and in the mainstream distribution channels?

Robin Stalker

I will answer the first two questions and Herbert will take the third one. We have guidance that we have given about the adidas brand stand-alone. Over the last several years that has been an improving operating margin story. We were expecting to improve another 200 or 300 basis points. That improvement is definitely still coming in the future. Our guidance, however, now is more appropriate, obviously, for the combined group and we are saying just above 11% for operating margins, which means that our expectations for the combined group are at least the same as our initial guidance was for the adidas brand stand-alone.

In terms of the closing period being the first half of 2006, obviously this is subject to anti-trust clearance. We want to be conservative here and make sure that we give the appropriate authorities enough time to review this. We might hope for it to be closing earlier, but we believe that it is good guidance to expect closing some time in the first half of 2006.

Herbert Hainer

With respect to your question regarding the US market, we will definitely not downgrade or upgrade one or the other brand because we firmly believe that both brands have their own unique strengths. For example, Reebok is extremely strong in the American sports business, in the women's business, with the music business they have been very fast at commercializing things; whereas adidas is more focused on the performance side, with football, running, and tennis. Therefore, the two brands are complementary and we will definitely try to extend their strengths by combining the two companies.

Bernd Janssen - UBS, Frankfurt

Congratulations on the exciting transaction. I have a couple of questions, not directly related to numbers. With all the positive things which have been highlighted, I think for good reason, but are there any risks of restructuring and integration? I particularly think about those areas where potentially there is an overlap in categories, for example, in basketball and running. Could you give us an idea how you want to try to differentiate yourself or whether potentially one would give way for the other? Secondly, in terms of positioning with retailers, do you see any chances or risks now that you can obviously create a counter front against the concentration process, which has anyway happened on the retail side, what the benefits could be from now also having concentration on the marketing front?

Herbert Hainer

I do not see any major risks associated with this acquisition. Of course, during the integration process, we will always have to deal with issues on a daily basis, but I do not see any risk with this acquisition. When you talk, for example, about basketball, we have many individual athletes and signature shoes with the two brands. As a result, in the future we will definitely have a more structured schedule with respect to introducing product, so that we can have, month by month and week by week, new product launches coming to the market and new exciting campaigns around these products. Therefore, in my opinion, even if there is some minimal overlap at certain price levels, we have such a broad access to consumers with both brands that we will be able to expand the two brands in these categories.

Looking at our position with the retailers, I definitely believe that they will be pleased with the merger, especially in the US. There is a strong partner with Reebok and there is a strong partner with adidas to bring more meat to the bone. We will definitely help the market to get more excited by bringing in new innovations from the product side, investing more money in the market to drive our brands forward. Thus, I am definitely sure this will be a positive factor for the retailers and the market.

Uwe Weinreich – HypoVereinsbank, Munich

Robin, is there any calculated goodwill coming from the acquisition and, if there is, how much is it?

Robin Stalker

There will be a full purchase price accounting at the time of the closing and you will be able to do the calculation. I think I will leave that comment until we are nearer to closing.

Uwe Weinreich

Bernd has asked this question, but I want to repeat it. Is there any restructuring or any negative impact on the 2006 results coming from the acquisition?

Robin Stalker

There will be some integration costs. The amount of that is still open, depending on the actual integration plan and when we do get closing. We are very confident, however, that the synergies will very quickly outweigh those initial costs. There may be some timing impact on 2006, I cannot give you good guidance on that at the moment but I do not believe it will be significant.

Virginia Genereux - Merrill Lynch, New York

You guys have been busy this year, congratulations. Can I ask about the management of the North American businesses? Paul Fireman is going to remain as CEO. Have you renewed a contract with him or are you contemplating that? Will there be any management changes at Reebok?

Herbert Hainer

No, as I said in my speech, Paul will carry on as the CEO of Reebok. He is every bit as excited as I am about this transaction, because – I guess you know him – he is a quite passionate, competitive guy and we both are looking forward with great excitement to driving the two brands and developing the business together.

Virginia Genereux

I know Erich Stamminger has been running adidas North America as well as the Global Marketing department. Is he going to continue doing that or is there some idea that the adidas North America business might be managed by the Reebok people, in part?

Herbert Hainer

No, as I have said already, we will manage the two brands separately and Erich will stay in the US and will continue the successful work he is doing. As you have seen in our numbers, he is doing an extremely good job. In terms of sales and backlogs, our business is really growing there, so Erich will stay and Paul, as I said, will run the Reebok brand. By the way, Paul is joining us this afternoon and he can also provide some additional comments about that.

Virginia Genereux

I see that you bring a lot to the table internationally and to Reebok, particularly on the apparel side. In North America could you elaborate a little more on how you see this transaction driving stronger revenue growth for both of your brands? I know Reebok has North American expertise, but could you talk a little more about that?

Herbert Hainer

There are many opportunities. Let me start with product innovations. We both have excellent R&D and innovation teams and I can tell you that we are bringing out or developing many more new products than we can launch into the market at the moment. There is certainly an opportunity to share this innovation within the brands and then make a scheduled introduction into the market month by month, more focused and more often than we are doing presently. We definitely can benefit from the strengths of both individual brands. As I have said, Reebok is able to commercialize things very quickly and I believe they definitely can help the adidas brand. On the other hand, adidas is a dedicated sports performance brand, which Reebok is as well, but I am sure we can help them there as well in the US market. And when you look at the portfolio of licenses, Reebok has the NFL, the NBA, the MLB, the NHL and we have the MLS, so we are covering more or less the entire licensed business there. I could go on and on talking about the opportunities which we can develop in the future.

Virginia Genereux

Does this impact your plan to buy back stock to offset some of that convert dilution?

Robin Stalker

Yes, I am afraid it does. Clearly, as a management team we have always been focused on giving value to our shareholders and we believe that doing this transaction clearly brings the most value to shareholders in the future and that is better than doing a share buy back.

Katja Filzek - MainFirst Bank, Frankfurt

Regarding the operating free cash flow of the combined entity, adidas is clearly working at around 8% of revenues, while Reebok is at 3% of revenues. What do you see for the combined group? Will this increase as well, or do you foresee any dilution? Second, there is clearly a lot of distributor business at Reebok; what is your visibility around working capital in this respect? Are the inventories and the trade receivables on Reebok's balance sheet, and do you have control? Lastly you mentioned the licensed business with the NFL and the NHL; what is the duration of those licenses with Reebok and when will they expire?

Robin Stalker

It is definitely our intention to improve the cash flows, going forward, in the combined group. It is, clearly, logical, in terms of the synergies that we are likely to achieve, for instance, in distribution. I made the comment, earlier in the call, that we are very confident about the high cash flows that we are both able to generate, which will be a major factor for us to keep focus on.

In terms of the distributors, Reebok does have distributors, whereas we do not. We are not aware of any issues there. In some areas of the world, there are always timing issues in terms of mismatch in the build-up of certain inventories and cash flows, but we are confident that this is a good cash flow-generating business. In fact, I have had a lot of respect, watching this over the last few years, for the tremendous work that Ken Watchmaker and his team have done in managing their working capital.

Herbert Hainer

Regarding your third question about license contracts, these are all mid- and long-term contracts that run until at least 2010 or longer.

Katja Filzek

Following up on the distributor business, clearly the revenue figures are recognized in Reebok's P&L, but are the inventories and trade receivables also on the balance sheet?

Robin Stalker

They follow normal equity accounting, and this also includes royalty income. If they do not own the inventories run by the distributors, they are definitely not on the balance sheet.

Katja Filzek

Would you mind sharing with us what kind of free cash flow target as a percentage of revenue you might have for the combined company?

Robin Stalker

You have seen the pro forma aggregate of 2004, which was about € 680 million and is prior to any synergies, as I mentioned previously. Going forward, we are clear that this level

must grow, so if you oriented yourself somewhere north of € 700 million, you would have a good starting point.

Jürgen Kolb - CAI Cheuvreux, Frankfurt

Will adidas move into categories where Reebok is already active in terms of new products, such as the hockey business, or will that be kept separate for Reebok? Second, Reebok also has products in the football arena; will it continue as such and will you expand that business, or will it be reserved as an exclusive spot for adidas? Lastly, are you planning to combine the US and European headquarters or will they remain separate, in line with the brands that you mentioned earlier?

Herbert Hainer

We will make use of all opportunities that we have, including football and hockey. In football, I am sure there is much potential which they have not utilized yet, and I am absolutely convinced that we can help them there. Therefore, all opportunities that are on the table need to be looked into, and we will decide how to go forward.

The headquarters for the combined entity will definitely stay in Herzogenaurach, but we also plan on Reebok's headquarters remaining in Canton, Massachusetts. And that our team at adidas America will stay in Portland.

Frida Gjorstrup - JPMorgan, London

In terms of the debt facilities you mentioned, I am not sure whether you will be able to make any disclosures at the moment, but have you given any thought to the currency you will be raising the debt in?

Robin Stalker

We have given thought to this and we will make a final decision on what is best for us closer to the closing of the transaction. We are a Euro-denominated company, but one interesting aspect is that, in this transaction, clearly we are achieving a more natural hedge within the entire organization, which is encouraging for us. However, we have not yet made a final decision on the financing currency, although we are a Euro-based company.

Thomas Nienaber - Lehman Brothers, London

You mentioned the first half of 2006 as being the timing for closing the deal; in terms of a potential dividend from Reebok in February next year, would that adjust the level?

Robin Stalker

They have given some guidance with respect to the dividend and we would expect them to deliver on the guidance that they have already given you. They are a separate company until such time as the deal closes.

Thomas Nienaber

Would you not adjust the \$59 per share figure for any dividend in the meantime?

Robin Stalker

\$59 per share is our offer, made in full knowledge of their dividend policy.

Thomas Nienaber

In terms of the anti-trust issue raised earlier, could you elaborate on where you stand? Have you consulted lawyers and begun to review the issue?

Robin Stalker

Clearly, we have engaged very good anti-trust counsel in the various jurisdictions and are receiving good advice. We are confident that by working with the authorities, who need to look at this and understand the issue, clearance will be granted for the first half of 2006.

Thomas Nienaber

Could you share with us the process around how the deal came about?

Herbert Hainer

Paul Fireman and I met in Greece about a year ago during the Olympic Games. We knew each other already and began talking about the business in terms of strategic outlook, and it evolved from there.

Mark Josefson - Kepler Equities, Frankfurt

I can see the savings potentials that you identify and I accept the example you provided with respect to the better scheduling of launches, which should prove more lucrative for you. However, in terms of growth opportunities outside Asia, I am struggling to reach the numbers implied by the language that you used today. Taking the footwear market in the US, the combined group, together with Nike, would have 60% market share. That is something to go for, but I am not so sure that the growth of Reebok would not be exclusive from adidas. Likewise, with the soccer example, adidas is already, by far, the leader. You are not going to expand that market by giving any expertise to the Reebok team; there is some growth, but I am finding it difficult, outside Asia, to come to the revenue opportunities that you painted today.

Herbert Hainer

In terms of Reebok's product offering in Europe, they are very strong in the UK but not in other countries in Europe. Comparing our revenues and theirs, you can see that there is a lot of potential in all of the other countries. Reebok still has distributors and licensees in many European countries, whereas we have subsidiaries that we fully control. As I said before, I could go on in terms of giving you individual examples of how we can help Reebok to grow their business in Europe, but there are definitely many growth opportunities in Asia for both companies. In China, in particular, we want to grow our business to € 1 billion in 2010. Basketball is a very popular sport there; Reebok has Yao Ming under contract. We already have nearly 2,000 stores and are opening new stores at the rate of between 40 and 50 per month. We know what kind of equipment, service and support is required, which we can definitely leverage. And there are many other examples of ways in which we could help each other.

Michael Flamig, Börsenzeitung

Could you quantify the revenue opportunities? Second, are you demanding a minimum quota of Reebok shares to vote in favor of the transaction? Third, do you expect any objections from anti-trust authorities?

Robin Stalker

I think I answered the third question a few minutes ago. We have to respect the anti-trust procedures that the various authorities need to follow and we will work with them closely on that. We have excellent advisors working with us and we do not foresee any major issues. We may, however, have to wait until the first half of 2006 to obtain that clearance.

We are not going to quantify revenue synergies for the moment. We have identified this as a significant area, but the deal is accretive without any cost synergies, and we have already identified € 125 million of cost synergies, which is a good indication of the value we are attaining and the opportunity we see. In addition, we see substantive revenue synergies, which we will give you further details on as we go through the transaction and integration periods.

In terms of shareholder approval, we have not decided that there should be a minimum. There is, however, a law in Massachusetts that requires us to have the approval of two thirds of Reebok's shareholders, which we expect to achieve. That is also one of the reasons why the transaction cannot close until that has been achieved.

Jann Bettinga - AFX News, Frankfurt

Do you think you will have to divest any parts of your business for anti-trust reasons? What other implications may be involved?

Robin Stalker

As I said in my last answer, we recognize that there are review time implications and the authorities need to make an informed decision. We see no major risk here and are being well advised. We also foresee no requirements to divest.

Rachel Whittaker - Morgan Stanley, London

Could you give us any further detail around the initiatives to increase operating efficiency? I do not understand how you can achieve the savings when it sounds like the businesses are still going to be run quite separately, even in terms of headquarters.

Robin Stalker

€ 125 million is not a considerable amount, given the combined costs of the operations at the moment. We see three major categories where we would expect these synergies. We foresee € 50 million coming from sales and distribution facilities; another € 50 million from shared service opportunities and IT; and approximately € 25 million coming from the sourcing area. In terms of sourcing, you will be aware that we are major users of certain raw materials; if we can gain scale in that area, it will clearly provide good savings for us. And you would appreciate in terms of shared services in an organization of this size. As a result, we believe we have made very conservative estimates of € 125 million.

Rachel Whittaker

Will you be combining the sales force?

Robin Stalker

They will be managed separately and will have a separate 'face' to the customer and the consumer. The sales forces, almost everywhere, will most likely be independent.

Cora Helmholtz - Deutsche Bank, Frankfurt

In previous comments, you have highlighted that you intend to increase your dividend, similar to the share buyback program which has now been put on hold. What is your dividend strategy for the coming years?

Robin Stalker

We have made no changes to what we have already announced in terms of our dividend policy. We believe that our combined business will continue to generate good value for shareholders. We will share that with our shareholders, and our current guidance is that we will have the payout ratio, at 15-25% of net income. This will also hold true for the combined company.

David Wedick - JPMorgan, London

In terms of the accretion comments you made, could you confirm that you said that you see this deal as being earnings accretive, excluding the cost savings that you are building in?

Robin Stalker

It is accretive excluding synergies, and obviously even more accretive including synergies.

David Wedick

Could you confirm the timing? In the press statement, you say that you see this as being earnings accretive in the first full year after closing. Given that this deal will be done in the first half of 2006, do you mean 2006 or 2007?

Robin Stalker

It depends, obviously, on exactly when it happens in the year, but I think you can do the numbers – it is a fairly comfortable calculation.

David Wedick

Would you say that it will most likely be earnings accretive in 2006?

Robin Stalker

I cannot say that without knowing exactly when we close, so I think the guidance we have given is the best that we can give.

Gavin Finlayson - Commerzbank, Frankfurt

In terms of the US market, where you are buying a lot of sales in, it typically has lower margins than Europe, due to the strength of retailers, and so on. After this takes place, are you expecting the return on capital employed and the return on assets to decrease? Do you have to put more capital into your business to maintain the same level of earnings or is there potential, taking into account these cost savings, for return on capital employed to rise from its current high level?

Robin Stalker

I think there is always an opportunity to continually improve our return on equity, and I hope that you have seen, over the last few years, that our focus has been on improving our ratios in this area. This transaction does not change that. We will be financing it sensibly; we will be conscious to achieve as many synergies as soon as we possibly can; and we are

focused on growing this business. That should all point to improving our return on capital employed. At this early stage in this transaction, that is the best guidance that I can give you.

Gavin Finlayson

Would it be overly negative of me to assume a decline in return on capital employed over the next three to four years?

Robin Stalker

I think it would be.

Gavin Finlayson

Receivables and inventories at Reebok rose quite sharply, although I appreciate that they have seen good sales; can you give us any further information on this?

Robin Stalker

You might be looking at figures which show, in the first-time consolidation, the Hockey Company, which has significantly impacted their balance sheet.

Gavin Finlayson

As I understand, royalty payments from revenues are booked directly as royalty payments on the P&L from distributors that the company has, rather than as revenues.

Robin Stalker

That is correct.

Jörg-Philipp Frey - Sal Oppenheim, Frankfurt

In terms of the synergies you want to achieve, how much overlap do you have around distribution? Certain comments look slightly odd to me, such as 'capitalizing on the department store strength of Reebok' – does that mean that you want to take down adidas' distribution in the value chain? How can you avoid diluting the respective image of the brands?

Herbert Hainer

I definitely did not say that we want to downgrade any of the brands, but there are different distribution channels in the US:

- Athletic specialty, such as Foot Locker and Finish Line
- Sporting goods, such as Dick's and TSA
- Department stores
- Specialists
- Volume channels

In all these different channels, our brands, as well as those of Reebok and our competitors, are distributed, with different strengths and consumer bases, providing us with opportunities. For example, as I said before, Reebok has definitely been better and faster at commercializing trends in the US market, from which adidas can learn. On the other hand, I believe that the adidas brand is stronger on the innovation side in terms of technology-driven products, be it in running, football and so on. There we can definitely help Reebok. We can then define the right distribution channels for those products; this is what I referred to.

Philipp Frey

It is more a question of relationships, because I think that both brands have good and established contacts within these distribution channels.

Herbert Hainer

Yes, but we have different strengths in the product categories and in the different distribution channels, which will be complementary for both.

Philipp Frey

In terms of the level of debt you want to take on, would it be fair to assume that roughly two thirds of the transaction value would be financed through debt?

Robin Stalker

I do not want to give any particular percentage guidance here. However, it is absolutely correct to take from my previous comments that we have the facility and the cash flow to be able to finance the majority of this deal through debt rather than equity.

Deborah Aitken – WestLB, London

Does this transaction still give you enough focus on the World Cup 2006? Would you be combining these groups towards the end of the first half in 2006 – is this the best time for this to take place? Second, in terms of the gross margin in the second quarter being flat, is this because of purchasing power pressures coming through in Europe, and what is the outlook going forward?

Herbert Hainer

We will definitely maintain our focus on the World Cup 2006 because, as I have stated several times, this is an ideal platform for the adidas brand. Even our marketing gurus could not have come up with a better idea. Having the World Cup in Germany, supplying the German national team kit, and being the sponsor and the licensee is tremendous for us and we will put every effort into it. We have put together a team of around 100 people who are working exclusively on the World Cup and, when we introduced the first new collections and products, acceptance from retailers was tremendous. We will definitely use the World Cup to our favor and to showcase our brand as the clear leader in football.

In terms of the transaction taking place in the first half of 2006 and whether this is the best timing, we are dependent on the regulators and we have to wait, so it is not up to us to decide what the best timing would be. We will accept whatever timing we end up with.

Robin Stalker

For the gross margin, the trends have been exactly the same as we have told you over the last few quarters. They were not seen in the second quarter, mainly because in the second quarter of 2004 we had positive one-time effects. In terms of improvement in retail margin, product mix and – to a lesser extent – currency, the trends are still there.

Deborah Aitken

Given your extension of sales in the US to 35%, of group sales how would you project your gross margins going forward, taking into account the fact that you will have less of a hedge benefit?

Robin Stalker

We have given guidance on that in terms of the total group being able to achieve gross margins at between 46-48%.

Sascha Berresch - Berenberg Bank, Hamburg

Have you already bought any Reebok shares?

Robin Stalker

We have not purchased any Reebok shares.

Sascha Berresch

Are you not allowed to?

Robin Stalker

We have not purchased any. We have a voting arrangement with Paul and his wife that they will support this deal. They own about 17% of the Reebok company; they are fully in favor of this and will vote for this offer at the shareholders meeting. Their shareholders need to approve this deal in the state of Massachusetts, and a shareholder meeting will be arranged.

Sascha Berresch

Are you prepared to increase your bid for Reebok?

Robin Stalker

We have offered a fair price, and Paul and the entire Reebok board have recommended this deal.

Marco Mondani - Arner Bank, Lugano

If I am not mistaken, in the last few quarters, like-for-like sales at Reebok, excluding acquisitions, currency fluctuations and the backlog, have been roughly flat, which is different from your experience of strong growth. You have given an outlook for mid-single-digit growth going forward for the combined group, which implies that Reebok will begin growing again. Why do you think they have experienced this slow patch and why are you confident that you can restart that growth once Reebok is part of your Group?

Robin Stalker

We are buying a solid performer in this industry. If you compare their performance over the last three or four years, they have grown their sales in the mid- to high-single-digit range annually, and profitability has also improved. In the quarter ending June, they had a sales increase of more than 9% and their revenue is also increasing. The first half saw 10% growth in 2005, so they are very much a growth story. You may be referring to some items that they talked about in their conference call about their 'push and pull model', re-establishing some inventory levels at Foot Locker, but these are all short-term issues.

Marco Mondani

I believe that, the strong first half that you referred to was entirely due to the acquisition they made of the Hockey Company, but perhaps I am not well informed.

Robin Stalker

It definitely had an impact.

Marco Mondani

Excluding that, it would be fair to say that there was very little growth in the first half. Do you have an opinion as to why that is and why they should grow in the future?

Robin Stalker

They had some issues with their branded apparel offering internationally, but they are still definitely a growth business. In terms of their performance over the last few years, they have outperformed their guidance and have improved their profitability continuously. I am sure that their issue with branded apparel in Europe is an obvious area where coming together makes sense, because of our expertise in this area.

Andrew Gowen, Lazard Asset Management

Since you are suspending your own stock buyback program, where are you in terms of stock you have already bought back this fiscal year?

Robin Stalker

We have not bought back anything. You will appreciate that we were in a situation due to our knowledge of the pending acquisition, that under German corporate governance, where we were unable to buy any shares

Andrew Gowen

Although you are not quantifying the exceptional charges you are going to be taking in the future with this transaction, can I presume that, when they do come, they will be all cash?

Robin Stalker

Are you talking here about integration costs?

Andrew Gowen

Yes.

Robin Stalker

Yes – I would assume so.

Andrew Gowen

You mentioned synergies of € 125 million over three years; are they what you expect to fall through to the bottom line, or are those gross and some of which you may reinvest in advertising or promotions, for example?

Robin Stalker

It is not just € 125 million over the first three years; we said we would achieve these synergies on an annualized basis, but it is too early to say exactly what influence this may have on our investment in marketing. However, at the moment, we assume that these are net synergies.

Andrew Gowen

Without wishing to pin you down to a free cash flow figure, could I talk about a few lines in the cash flow statement? Could you outline the structure of the net working capital in terms of the days of inventory and credit debtor days, which are structurally different in the US? What will your net working capital trend over the next three years be like, once this stabilizes? Adding together the Reebok and adidas CAPEX to provide a base figure, would you expect that, over three years, you will achieve any CAPEX synergies?

Robin Stalker

We definitely would; putting these two operations together should give us some CAPEX synergies and we will focus on identifying and gaining them. In terms of the structure of the working capital, with a higher weighting of American business, stock is normally a bit better and the DSOs (days of sales outstanding) are shorter. This is quite positive for us and, as I said in my previous comment, I think Reebok has been very good at managing their working capital. I am sure that we will see a continuation of our focus on this as well, to ensure that we have a good balance sheet, helped by a strong and disciplined management of our working capital.

Natalie Knight

Thank you for participating in our call. Before we close, I would draw your attention to two items:

- First, we are hosting a second conference call today at 3.30pm, Central European Time, where we will be joined by Paul Fireman, CEO of Reebok, for the Q&A session.
- Second, our half-year results report, as always, will be available online at noon, and I would encourage you to look there for more information regarding our results.

Thank you and we look forward to talking with you again soon. Goodbye.