FINANCIAL RESULTS PRESENTATION

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Good afternoon ladies and gentlemen and welcome to our first half 2010 financial results conference call. I'm JP O'Meara and I head up the IR activities here at the adidas Group.

Our presenters are Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO. Today, they will be covering the Group's first half financial performance, and updating you on our outlook for the remainder of the year. So, let's get started and over to you, Herbert.

Herbert Hainer

Thanks JP and good afternoon ladies and gentlemen.

As you have seen in our announcement this morning, we had a fantastic first half, driven by our unquestionable dominance of the 2010 FIFA World Cup™ and the resurgence of the Reebok brand, particularly in North America.

- We generated record first half sales of 5.6 billion euro, an increase of 7% currency-neutral.
- Our profitability improved substantially, with gross margin up 3.7 percentage points to 48.8%.
- And through operating expense leverage, net income attributable to shareholders jumped to 295 million euro from 13 million euro 12 months ago.

By segment, first half Wholesale revenues increased 6% currency-neutral with a strong pick-up in the second quarter where sales grew 12%. Western Europe and North America were key drivers of this first half development where revenues rose 10% and 15% respectively.

In the Retail segment, the strong momentum from the start of the year also continued, validating a healthier consumer environment and also, the strong appeal of our 2010 products and collections. Sales in the segment increased 17% currency-neutral in Q2, with comparable store sales up an impressive 10%. On a brand basis, second quarter adidas and Reebok comp store sales increased 9% and 16% respectively.

For the half year, Retail segment sales grew 16% currency-neutral and comparable store sales were up 8%. North America and European Emerging Markets grew 14% and 27% in the first half, with Greater China and Latin America performing even stronger with sales increases of 48% and 45%. Comparable store sales in North America, Russia and China all grew at double-digit rates for the period.

At the end of June, the adidas Group Retail segment operated 2,240 stores, a net increase of 28 compared to December 2009. During the first six months, we opened 97 stores, closed 69 and remodelled 17.

At the heart of the performance of the Wholesale and Retail segments are of course the adidas and Reebok brands. So let's take a few minutes to talk about the key highlights of each brand for the quarter.

First adidas. Revenues grew 13% currency-neutral in the second quarter and gross margin expanded 210 basis points to 48.2%. The 2010 FIFA World Cup™ took centre stage and it will surely be remembered as a true celebration of football – as colourful and passionate as its African hosts. And in our industry, it will also be remembered as a clear victory for the adidas brand.

Before the first whistle was blown we knew that this World Cup was going to be a powerful event for our Group, and it turned out even bigger and better than we had expected. On the pitch, our sponsored federations and players were outstanding.

Four adidas teams competed in the quarter-finals, two in the semi-finals, and in the end the three-striped Spanish team deservedly secured their first title as World Champions.

Over 200 players wore adidas boots and the F50 adiZero™ was by far the top scoring boot with a total of 41 out of 145 goals, double that of its nearest rival. adidas Group players swept the individual awards as voted by journalists, with Diego Forlán winning the adidas Golden Ball (best player), Thomas Mueller claiming the adidas Golden Boot (top scorer) and the best young player award, while Reebok's Iker Casillas won the adidas Golden Glove for best goalkeeper.

Off the pitch we also had a powerful performance. According to NM Incite and Sport+Markt, adidas generated the most online buzz and had the strongest visibility of any brand associated with the event.

All of this translated into a meaningful impact on our business. With more than 6.5 million replica jerseys sold, the number of federation jerseys sold has more than doubled compared to 2006. In addition, adidas will sell more footballs than ever before in 2010, with more than 13 million of the over 20 million footballs sold featuring the design of the JABULANI.

In total, football category sales were up over 60% in Q2 and almost 50% for the half year. Therefore, we continue to expect record sales of at least 1.5 billion euro in football for the entire year 2010. This represents an increase of more than 15% compared to 2008, and an increase of 25% compared to the year of the last FIFA World Cup™ in 2006.

Ladies and gentlemen, no matter how you look at it, adidas has once again shown its ability to drive commercial success from large sporting events and there can be no argument about who is, and who continues to be, the undisputed No. 1 football brand.

However, important as it was, our tremendous performance at adidas in the second quarter was not just driven by football, and we scored on several other fronts. Running, Outdoor and Sport Style all grew at double-digit rates in the quarter.

- In running, sales of our lightweight adiZero™ collection were up over 70%. And our SuperNova Adapt took the Runner's World Editor's choice award.
- In Outdoor we continue to gain momentum, with both footwear and apparel sales increasing at a double-digit rate.
- Finally, in Sport Style, we continue to take the lifestyle market by storm. Year-to-date sales are up 19% currency-neutral compared to the prior year, as collections like adiColor, Vespa and Originals by Originals – to name but a few – are keeping adidas right at the heartbeat of today's fashion-conscious young consumer. In addition, during the quarter we appointed Dirk Schoenberger as new creative director for Sport Style, bolstering our already highly talented team.

Now moving over to Reebok where I am pleased to share some very good news. Our achievements in the second quarter underscore my confidence that we have re-energised the brand. Currency-neutral sales are up 16% in Q2 and 9% in the first half. And importantly, gross margin continues to improve significantly, up almost 500 basis points for the first six months, as average ASP's in footwear increased over 20%.

Reebok's momentum in North America has been and will continue to be a key driver of this performance. Revenues in this region accelerated significantly, jumping 30% currency-neutral in the second quarter – compared to 6% in the first quarter.

In the toning category, our market share expanded significantly in the quarter, as a result of product extensions, and as we diligently continue to increase distribution. We generated new excitement in the category, being the first to extend our toning platform from walking into running. We also introduced our muscle activation and strength products to men's for the first time. The sell-through rates of RunTone are a clear proof-point of the promise our category extension strategy has to offer.

To support our toning efforts and also the internationalisation of the category, we introduced our new TV campaign for EasyTone called "Shake it" in many markets during the quarter (including the US, Germany, UK, Russia and Japan). And similar to our experience in America in the fourth quarter of last year,

sell-through rates in all markets went through the roof – with some even exceeding the exceptional rates of the US.

Another positive development during the quarter was the highly successful introduction of ZigTech™, which, as our second pillar in 2010, has also inspired consumers back to the brand. Our compelling and edgy marketing and point-of-sale activation strategy has ensured strong success in both men's and women's and later in my presentation I will share some of the excitement we are bound to generate for ZigTech™ as we move into the holiday season.

In addition to these positive developments, we are also seeing some healthy growth in other parts of our Reebok product offering, in particular women's training and in technical running, where our latest generation Premier and Verona collections have also shown meaningful improvements.

Finally, let me spend a moment on Other Businesses, which comprises the activities of TaylorMade-adidas Golf, Rockport and Reebok-CCM Hockey. Sales declined 1% currency-neutral in the second quarter, but are up 3% year-to-date. Profitability in Other Businesses however improved considerably with gross margin expanding just under 600 basis points for the first half and the second quarter. By segment, in Q2 sales at TaylorMade-adidas Golf and Rockport declined 2% and 3% respectively while sales at Reebok-CCM Hockey increased 6%.

At TaylorMade-adidas Golf, the sales decline in the quarter was mainly due to two factors:

- The timing of this year's product launches which were weighted towards Q1,
- And the non-recurrence of prior year Ashworth sales from a licensing agreement with a competitor that was terminated in 2009 representing a low double-digit million euro figure.

This is again a solid performance in a golf market which is down at a mid- to high-single-digit rate so far this year, and confirms why TaylorMade-adidas Golf is the leader in the golf market. As in the first quarter, the underlying growth of our business during Q2 was mainly driven by irons and balls, which both grew over 30%, as well as advances in footwear and putters. The latter was driven by the introduction of the striking white Corza Ghost putter which elevated our market share to over 10% in June.

So ladies and gentlemen, from these exceptional first half results, I am sure you can take confidence in the momentum adidas and Reebok and all of our brands are enjoying. And we are in a great position to fulfil the mission and goals we set ourselves for 2010. I'll be back in a few minutes to tell you more about that, but right now I'll turn you over to Robin to go through the financials in more detail.

Robin Stalker

Thank you, Herbert, and good afternoon ladies and gentlemen.

As you can clearly see from Herbert's comments we have had considerable operational success in the first half of the year. I am also pleased to report that this success has translated into some very meaningful financial improvements. Let me now give you some additional detail on our half year results, and update you on the trends you should expect in the second half of the year.

So let's begin with a brief recap of our top-line development. Currency-neutral sales increased 11% in the second quarter of 2010. The year-over-year appreciation of various currencies against the euro contributed significantly to sales in reported terms. As a result, Group revenues were up 19% and reached 2.9 billion euro in the quarter. Year-to-date currency-neutral sales for the adidas Group increased 7%, or 11% in euro terms to almost 5.6 billion euro.

From a regional perspective, second quarter currency-neutral sales increased in all regions except Greater China.

In Western Europe, 13% currency-neutral revenue growth was driven by the UK, Germany and Iberia. Strong football sales related to the FIFA World Cup™ played an important role for the entire region during the quarter.

Group sales in European Emerging Markets increased 25% on a currency-neutral basis due to a significant acceleration of trends in Russia.

North America sales for the 3-month period grew 8% on a currency-neutral basis. Reebok was the driving force here, with currency-neutral sales up 30% in the quarter. This performance was driven by strong demand in Wholesale, a development we expect to continue over the coming quarters.

In Greater China, with the exception of a few smaller pockets, we completed our clearance activities at retail during the second quarter. Therefore, as a result of lower sell-ins to customers, revenues in the period were down 18% on a currency-neutral basis. Looking out to the remainder of the year, we expect Greater China to return to growth in the second half.

Currency-neutral revenues in Other Asian Markets increased 11% in the quarter, supported by double-digit growth in Japan, Korea and India. In Japan, sales improved, driven by growth at adidas which was up against an easy prior year comparative and also due to Reebok, where sales increased over 20% partly as a result of the brand's clear domination of the toning market. Although our business in Japan for the Group is looking healthier, the market is still fundamentally trending negative and we remain cautious on developments for the coming quarters.

Finally, in Latin America, sales were up 27% on a currency-neutral basis, with solid increases across all channels, countries and brands.

Moving below the top line, second quarter gross margin increased 400 basis points to 48.9% versus 45.0% in 2009. In the first half of 2010, Group gross margin was up 370 basis points reaching 48.8%.

For the 6-month period, we have identified similar margin drivers compared to the first quarter:

- First, around a third of the increase relates to lower sourcing costs compared to the prior year. For the rest of 2010, we expect this factor to remain positive, albeit at more moderate levels.
- Second, about a quarter of the increase was due to the overproportionate growth of higher-margin own-retail sales. In addition, the appreciation of the Russian Rouble had a visible impact on Retail gross margin given that we generate the vast majority of sales in Russia through own retail.
- And, finally, the remainder of the increase was due to clean inventory levels which meant we had to do less clearance sales compared to the prior year.

Looking at just the second quarter, significantly lower levels of clearance sales were even more important and the primary driver of the gross margin increase, accounting for almost one half of the total improvement.

Moving below the gross profit line, the development of operating expenses reflects the commitment we outlined at the beginning of the year to ensure sustainable long-term growth for our Group.

Other operating expenses grew by more than 200 million euro in the second quarter, with higher sales and marketing working budget expenditures accounting for almost 120 million euro of the overall increase. This reflects our activities at the adidas and Reebok brands to support our World Cup initiatives as well as the toning and ZigTech™ product technology platforms.

Aside from marketing investments, we continued to strictly manage operating overheads during the quarter, helping us leverage our top-line momentum. The further expansion of controlled space, investments into retail talent and systems, as well as negative currency translation effects contributed to higher total operating expenses in the first half of 2010. These increases were partly offset by the non-recurrence of prior year reorganisation expenses and other one-time effects of approximately 90 million euro.

As a result, Group operating expenses as a percentage of sales were stable in the quarter and down 1.6 percentage points to 42.8% of sales in the first half year. We expect a decrease in that metric also for the full year despite the continuation of our marketing offensive which Herbert will update you on in a moment.

To wrap up my discussion on operating profit, other operating income increased both in the quarter and year-to-date, the latter primarily reflecting the two positive one-time effects we recorded in the first quarter, each accounting for a low double-digit million euro figure. Finally, Group royalty and commission income was stable in the quarter and up 3% in the first half year. As a result, first half Group operating profit more than tripled to 454 million euro from 129 million euro in the prior year. This translates into an operating margin of 8.1% – up 560 basis points versus the prior year.

Turning now to the non-operating items of the P&L, financial income and expenses both improved strongly. For the first half, a positive swing in exchange rate variances from negative 31 million euro to positive 10 million euro as well as lower interest expenses due to the strong reduction of gross borrowings contributed to this development.

Taken together with the increase of operating profit, this resulted in income before taxes rising to 419 million euro from 37 million euro in the first half of 2009. The Group's tax rate for the half year came down 37.2 percentage points to 29.5%, mainly due to a more favourable earnings mix.

Therefore, net income attributable to shareholders for the first six months increased to a record 295 million euro from 13 million euro in 2009. On a per share basis, this translates into basic and diluted earnings of 1.41 euro each.

Let's move over to the balance sheet, where our performance has also been quite impressive. At the end of June, Group inventories declined 11% currency-neutral. In euro terms, they remained approximately stable at 2 billion euro. This development is indicative of the significant reduction of production volumes and the clearance initiatives we executed in the second half of 2009. For the second half of this year, you should expect inventory growth rates to return to normalised levels as we annualise these effects.

Accounts receivable increased 3% on a currency-neutral basis or 16% in euro terms to almost 2 billion euro, significantly below our sales increase for the second quarter.

Finally, accounts payable increased 29% currency-neutral or 38% in euro terms to 1.5 billion euro due to higher production volumes and improved trade terms with our suppliers.

In summary, and in light of our strong top-line development during the quarter, this means we were able to further decrease operating working capital as a percentage of sales. The current level of 21.7% is a new record for our Group. Compared to the prior year figure of 26.2%, this reflects a decrease of 4.5 percentage points. While I fully expect to show improvements in this metric for the full year, owing to working capital investments likely to take place in the second half of the year to support our future growth, it is unlikely we will be able to maintain the current exceptional level of this metric.

Obviously, ladies and gentlemen, our success in managing operating working capital positively impacted the total balance sheet picture. Compared to the end of June 2009, net borrowings have declined by more than 1.6 billion euro to 1.1 billion euro. Improvements in Group profitability, the full conversion of our convertible bond and lower levels of investment activity more than offset a negative currency translation effect in an amount of 35 million euro. With a ratio of net borrowings over 12-month rolling EBITDA of 1.0 times at quarter-end, we are comfortably within our target corridor of a ratio below two times. Looking at our equity development, our equity ratio improved almost 11 percentage points compared to the prior year to 44.6%.

Despite the working capital requirements we project, as our business normalises in the second half of the year, we are on track to achieve absolute net borrowings below the prior year level at year-end.

So ladies and gentlemen, there is no doubt that our Group transitions into the important back-to-school and holiday periods in a very strong position. Now back to Herbert who will give you more detail on our operational initiatives and financial outlook for the rest of 2010...

Herbert Hainer

Thank you, Robin. As we look out to the next few months, from an operational standpoint I think we can summarize our key priorities as follows:

- Take appropriate measures to mitigate the gross margin headwinds we face as we turn the year,
- Return China to growth,
- And sustain brand investments to continue exploiting our strong product and concept pipeline.

So let's start with the gross margin headwinds. It has already been well documented that raw material, labour and transportation costs are all going up. And the US dollar appreciation is, generally speaking, not trending in our favour. Although we do not have full visibility yet on what the final impact will be, we are working hard to mitigate these negative impacts. And as no stranger to these types of challenges, we have several mechanisms and instruments at our disposal.

For example, our Global Operations function is constantly working on optimising our product creation, manufacturing and distribution processes to bring our products to market more cost efficiently. On the currency front, although the dollar is significantly stronger compared to the prior year, due to our 12- to 24-month hedging policy, we already have a significant portion of our hedging completed for 2011. Although our average hedging rates are likely to be lower than 2010, they are not as extreme as where the dollar was a few weeks ago.

While these mechanisms provide us some relief, they may not be enough to fully offset the negative impacts. Therefore the final measure we have at our disposal is ultimately our pricing strategy. Here there are operational and economic factors at play. For example, Reebok's gross margin still has good growth potential due to the introduction of higher-margin products such as EasyTone™ and ZigTech™. The bigger question mark at this stage, however, is whether the economic environment will be strong enough to bear broader price increases. Given the recovery in consumer sentiment seen so far this year, as well as cleaner inventory levels at retail, we probably have more flexibility in pricing than we had in 2009. But, I still believe an air of caution is warranted as the global economy is still very fragile.

Turning now to China, which has been a difficult market over the past 18 months. I am happy to report that the steps we have taken during the past few quarters will allow adidas in China to turn the corner, and we will grow in the second half of this year again.

From a branding perspective, there is no doubt that the adidas brand is one of the most sought-after international brands among Chinese consumers. Our own-retail stores which carry our most current product offering are clear evidence of this with comp store sales up at healthy double-digit rates this year.
Now that we have completed an intensive clean up of inventory in China, which we accelerated in Q2, we have seen renewed momentum at our franchisee partners. On an overall better product mix, I am happy to report that many of our wholesale partners have enjoyed comp store sales increases in July.

As we continue to fine-tune our marketing and merchandising approach as well as begin the implementation of a new long-term strategy for space expansion, I am confident we will see sales momentum building in the coming quarters. These measures will also ensure we fully exploit the tremendous potential the Chinese market offers our Group for the long term.

The third priority, and the most important in my view, is sustaining brand investments. In March, I told you that looking around the market I did not see any other company with a product and concept pipeline as compelling, original or technologically advanced as ours.

And as the economy recovers, even if the pace is slow, it is imperative to be fast out of the blocks and to stay ahead. We have successfully done the former, which is reflected in our financial performance so far this year. Now we need to keep going to fulfil the merits of our strategy. Therefore, not only will we continue, we will accelerate our efforts on several fronts in the second half of this year.

Whether it's toning, lightweight technologies or lifestyle, our brands are right on the consumer pulse. And we will continue to prominently tell these stories through various media channels in the important back-to-school and holiday seasons. Let me share some of those with you now, starting with adidas.

Before you ask in the Q&A, as in every major event year – I always get asked what happens next. While major events are an important stimulus, let me remind you that adidas is the broadest and most wide-reaching brand in our industry.

While the World Cup may be over, the new football season is just starting. And unlike many of our competitors, we have kept back additional marketing campaigns and initiatives to keep momentum going in what will be an exciting season.

Here, we will intensify our F50 adiZero™ marketing efforts and we also have strong initiatives planned for the UEFA Champions League and the build-up to next year's 2011 FIFA Women's World Cup™ in Germany, to name but a few.

In other performance categories we also have a lot of new initiatives to excite consumers. This week, miCoach launched the miCoach mobile application for smartphones. This multi-sport application will be supported by a strong TV and online campaign including iconic athletes such as Reggie Bush, Jessica Ennis, Andy Murray, Derrick Rose, Jonny Wilkinson and David Villa.

In training footwear, we are introducing the FLUID TRAINER, which through its soft technology and full-length cushioning system offers the ultimate in full foot flexibility and freedom of motion.

In Outdoor, we will drive momentum with strong new product launches like the Terrex Solo shoe which recently won the OutDoor Industry Award. In addition, we will also start preparations for our long-awaited entry into the US outdoor market, which will commence in 2011 with long-time partner Agron Inc.

And finally, in Basketball, we will continue to build on our lightweight story with the introduction of several models including the adiZero™ Rose for top adidas athlete Derrick Rose in the fourth quarter.

We also expect continued momentum in our Sport Style division, which is up 19% year-to-date. This will be driven by exciting new product launches such as the adidas Originals MEGA collection which incorporates iconic technologies such as "Torsion" and "Softcell" into street style.

To support our growth plan for Reebok, we will be investing significantly more in marketing between now and year-end than we did in the first half. Toning will take centre stage in our activities as we continue to expand our reach in the US and internationally where we will:

- Launch new exciting silhouettes of EasyTone™ with the objective to meet even more consumer taste preferences for both women and men,
- Launch TrainTone for the Women's and Men's training category,
- Introduce the "Shake it 2" TV campaign in key countries,
- And begin the roll-out of EasyTone™ apparel which is slated for the fourth quarter in select countries.

Reebok will also expand its compelling ZigTech™ marketing campaign globally with TV spots featuring key brand ambassadors like Alexander Ovechkin and Lewis Hamilton promoting the product in Europe and Asia later this year.

Another important highlight will be the introduction of the ZigTech™ in basketball where we plan a high-profile campaign centred on this year's number one NBA draft pick John Wall.

With the efforts and resources we are placing behind these two initiatives, we now expect to sell up to eleven million pairs of toning product and over two million pairs of ZigTech™ this year.
In addition to marketing investments, we also have two other operational investment priorities for the remainder of the year. As you know, we are striving to become better at how we run our retail activities. Here we will continue to invest in processes and people as well as remodel existing stores in the second half, mainly in the emerging markets.

And, closely related, we are also now starting to move forward with a holistic eCommerce strategy. In the summer we have established a global leadership team for the Group's eCommerce business and we intend to grow these activities as a complementary pillar of our business model in the future. I will give you more details on this during our Investor Day in November.

So ladies and gentlemen, let me assure you, the energy we create in the market this year through our various investment projects will be an important catalyst in propelling our Group to new heights in for the years to come. Turning to the immediate future, despite these investments and owing to the strong first half performance, we are in a position to increase our bottom-line guidance for the full year by almost 20% or 80 million euro, compared to May.

Looking at the detail, for the full year, I expect sales to increase at a mid-single-digit rate currency-neutral and to exceed the 11 billion euro mark for the first time ever in the Group's history. This performance will be driven by the Wholesale and Retail segments which we expect to grow at a mid-single-digit and low-double-digit rate, respectively.

Gross margin is now forecasted to be near the top end of the range we outlined in May, approaching 47.5%. And due to the strong operational performance in the first half we expect operating margin to be around 7.5%, which compares to our earlier expectations of around 7%.

This translates into earnings per share of € 2.50 to € 2.62, which represents an almost 20% increase compared to the range of € 2.05 to € 2.30 we had expected under our May guidance.

With that, I would like to thank you for your attention and Robin and I will be happy to take your questions.