FINANCIAL RESULTS PRESENTATION

Nine Months 2009 Speech

November 4, 2009

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John-Paul O'Meara, Head of Investor Relations

Welcome everybody to our nine months 2009 financial results conference call. I'm JP O'Meara and I head up the IR activities here at the adidas Group.

Our presenters today are Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO. As you will have seen this morning, the adidas Group has made significant progress during the third quarter in a year where cash is king. Let me now hand over the call to Herbert and Robin who will take you through the key levers of our operational and financial performance so far this year…

Herbert Hainer, CEO

Thanks JP and good afternoon ladies and gentlemen.

This year, our industry has faced unprecedented challenges. However, we tackled the challenges head-on. We have adapted to our surroundings, and our constant drive for operational excellence has meant that we have moved forward considerably in the last quarter.

So let's start with a recap of where we are today.

- Group sales for the first nine months came in at 8 billion euro – down 4% – or a 7% decline in currency-neutral terms.
- Gross margin decreased 430 basis points to 45.1%.
- And diluted earnings per share were € 1.13.

As you can see, our top-line development has not materially changed since the first half. Nevertheless we have produced a significant improvement in profitability as promised. For the third quarter, diluted EPS was down 29% to €1.03, in stark contrast to the 93% decline witnessed in the first six months.

When it comes to balance sheet and cash management, we have even better news. And this is probably the most relevant test of any business model in uncertain and turbulent economic times.

Over the past six months, we have generated almost 740 million euro in net cash from operations. And I can assure you, we're not finished yet for this year. I will come to that in a little while, but first, let me briefly bring you up to speed on our brands' development during the quarter.

Starting at adidas, currency-neutral revenues declined 6% in the third quarter, and 7% year-to-date. We maintained a healthy operating margin of 17.7% in Q3. And inventories at adidas are also in much better shape – now down in all regions except for Latin America.

In terms of top-line, this is a good improvement compared to the 9% decline in Q2. Lower sales declines in Europe and Asia, as well as solid double-digit growth in Latin America drove this development.

From a category perspective, performance running as well as Sport Style were the two highlights of the quarter, both growing at a high-single-digit rate.

As you know, leveraging partnership assets and the visibility we obtain through their successes and popularity is the utmost validation for the credibility of our products. And throughout the summer months adidas athletes and partners have driven home this message.

- In athletics, the adidas brand had a World Track & Field Championships in Berlin to remember, with our athletes capturing 41 medals. This was the first event that highlighted our new long-term partnership with the IAAF.
- In running, adidas was again front and centre at the Berlin Marathon with another spectacular win by Haile Gebrselassie.
- adidas teams were also at peak performance in the summer with the German women's football team, and the Polish men's volleyball team wining their respective European championship titles.
- In tennis, we created a lot of buzz for the mi adidas platform via emerging tennis players Melanie Oudin and Sam Querrey, whose own unique designs of the Barricade V prompted a rush to our mi adidas platform.
- And not to be outdone, our Sport Style division continued to inspire consumers through our various collaboration projects such as Originals by Originals (from David Beckham and James Bond), the second edition of Vespa, and a special collection to celebrate the 25th anniversary of the iconic

record label DefJam, which was made famous by RUN-DMC.

At Reebok, 2009 has seen considerable challenges. Nevertheless, I think bottom-line development in the third quarter clearly shows we are making progress.

Currency-neutral sales declined 12% in the third quarter. Our clean-up efforts in markets such as the US, China and Spain continued to weigh on our results. However, we are seeing some good growth in markets like Germany, Italy and Japan.

The positive news from all of this is that we are starting to see our product mix improve. In fact, the gross margin at Reebok declined the lowest rate of all our segments in Q3. And in addition, the right sizing of our business is also leading to some early savings. As a result, the segment returned to profitability in Q3 following the heavy losses in the first half.

During the third quarter we continued to hit the mark with the consumer in our drive to make fitness fun again. The brand is on a good path to claim ownership in the fast evolving muscle toning category. After the initial success of EasyTone™ in the US in the first half year, EasyTone™ has now become a worldwide phenomenon.

In the third quarter, supermodel Bar Rafaeli launched the revolutionary shoe across Europe to resounding success. And in Japan, the shoe was featured on a popular television show ‘TBS’. The show named EasyTone™ as one of the ‘top five trend products to watch’ in Japan.

In other product categories Reebok is also building new credibility.

- Reebok's Verona KFS II was recognised in the French publication L'Equipe Magazine as the best running shoe for the back-to-school season.
- The fall-winter Aztrec was awarded best value running shoe by the Competitor Publishing Group.
- The Freestyle and PUMP were named to the Footwear News list of the top 25 Classic kicks of all time.
- And finally Reebok also teamed up with superstar MC Fabolous on a new collection during the quarter.

Turning to TaylorMade-adidas Golf, the golf industry continues to be challenged more than most by the economic downturn. Our sales are down 12% in the third quarter. This is mainly due to the weak environment, but also, as a result of the timing of product launches compared to the prior year. For the first nine months, currency-neutral revenues are down only 5%.

Taken in context, this is a solid performance considering the golf market is projected to decline in the mid teens this year. From a profitability standpoint, TaylorMade's result has suffered significantly as we have moved quickly to adjust price points to retail conditions. Also one-time costs for the integration of Ashworth were a drag. However, when it comes to inventories, TaylorMade-adidas Golf is in best shape of all our brands having reduced inventories by over 30% compared to the prior year.

A core tenet of our long-term strategy for golf is to create strong positions across all product categories in which we compete, such as those we enjoy in metalwoods. Therefore, I am very happy that I can share the news that TaylorMade has achieved the status as the No. 1 selling iron brand in the US – a position our major competitor had held for more than a decade. This is a truly groundbreaking accomplishment. The success comes in the wake of the Burner iron's remarkable momentum at retail, where it has stood as the No. 1 iron model for several months.

Much of our market share success at TaylorMade is down to the deep roots we have established with tour professionals all around the globe, as we continue to incorporate their insights into our product creation. The result is, we simply create the best products in the market. And, TaylorMade-adidas Golf athletes were again proving this throughout the quarter with Korean Y. E. Yang claiming an outstanding victory at the US PGA.

So ladies and gentleman, those quick comments should give you a good overview of where we are with our brands and what has gone on in the quarter. I strongly believe the worst is over. The results and success stories I have just outlined are clear evidence of the stability of our business model. I'll be back in a moment to talk about the outlook, but first, over to Robin to go through the rest of the financials

Robin Stalker, CFO

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

So after hearing how the sharp end of our business has performed during the summer months, it is with great pleasure that I can also report to you today on some very exciting developments on our overall financial position. But before I come to these mainly balance sheet topics, let me quickly run you through the P&L.

Starting with the top line, currency-neutral sales declined 7% in the third quarter of 2009. Currency movements continued to contribute positively to Group sales in euro terms, although the effect has moderated compared to the first half year. As a result, Group revenues in euros were down 6% to 2.888 billion euro for the quarter.

Year-to-date, currency-neutral sales for the adidas Group decreased 7%, or 4% in euro terms.

In Europe, revenues were down 7% currency-neutral in Q3. This represents a strong sequential improvement versus the second quarter decline of 12%. The improvement was mainly driven by a better sales development in the adidas segment and continued growth in TaylorMade-adidas Golf. The underlying sales development by country varied considerably in both Western and Eastern Europe. Retail markets in Western Europe remained very tough. In Russia, while sales in Russian rouble continue to be positive for the first nine months, we did see some deceleration in the third quarter. And as in prior quarters, currency effects from the devaluation of the Russian rouble were again a drag on reported revenues, and obviously, profitability.

North American revenues declined 13% currency-neutral in the third quarter. As feared, the important back-to-school season did not provide any positive stimulus to a fragile market. In light of lacklustre consumer demand, retailers continue to focus on keeping inventories as lean and clean as possible. Our focus in America this year has been on maintaining and improving brand equity while limiting the adverse effect of promotional market conditions. Double-digit inventory declines for all our brands underline the discipline and prudence we have taken in this market.

Turning to Asia, Q3 sales declined 8% currency-neutral. Growth in India, South Korea and Australasia was not enough to offset declines in Japan and China. In China, comp store sales are still under pressure as consumer demand has not yet really picked up.

From an overall industry perspective, the market continues to suffer from high levels of inventory. Since we last spoke, we have made good progress in clearing excess inventory at retail, with the added aid of now having put in place an extensive factory outlet network. Additionally, by the end of this year, several hundred unproductive adidas and Reebok franchise stores will be closed. Nonetheless, our adidas store base in China will still increase slightly year-over-year.

Finally, Latin America. Currency-neutral revenue growth in this region once again defied the downturn, climbing 11% on a currency-neutral basis for the quarter. This underlines our success in building brand image and we are on track to taking market leadership in the region. While we feel good about our achievements to date, we, as well as our international competitors, will be faced with increased trade barriers in some of the region's major markets going forward. Brazil and Argentina have recently implemented import duties on footwear from China. Brazil implemented a preliminary antidumping duty of 12.47 US dollars per pair on footwear made in China. Although a sizeable share of our products in these markets are sourced locally, this will have an immediate negative impact on Group gross profit and potentially also on sales growth.

So, after my quick walk through the regions, let's now run through the key items below the top line. Third quarter gross margin decreased 370 basis points to 45.3% (versus 49.0% in 2008), due to declines in all of our brand segments. As we expected, this reflects an improvement compared to the first half year, as the significant impacts from higher sourcing costs began to moderate.

For the nine-month period, gross margin was down 430 basis points at 45.1%. The decline is mainly due to the same three factors you should already be familiar with from our first half results, although the weightings have slightly changed:

- First, we have been working diligently throughout the year to manage down our inventories against the backdrop of a highly promotional market environment. Year-to-date, this necessary clearance has accounted for roughly 40% of the gross margin decline. As our inventory situation has improved markedly, we expect this effect to moderate in the fourth quarter.
- Second, higher sourcing costs continued to weigh on gross margin development, although increases moderated in the third quarter. Year-to-date, these effects account for 30% of the overall margin decline. On a positive note, we expect the pressure to further lessen in the fourth quarter, before input prices start playing a positive role in 2010.
- Finally, a further 30% of the overall decrease in gross margin was due to currency devaluation effects – again largely related to the Russian rouble which has depreciated significantly compared to the prior year period.

While these factors were relevant for all of our brands in the first nine months, their weighting in importance differed.

- At adidas, higher input costs and the Russian rouble were responsible for more than two thirds of the decrease, with higher clearance sales accounting for the remainder.
- In the Reebok segment, around half of the decline was due to higher sourcing costs and the Russian rouble, with the remainder due to clearance activities.
- Finally, at TaylorMade-adidas Golf, two-thirds of the decrease was due to price repositioning as a result of the difficult golf market. The remainder was due to the first-time consolidation of Ashworth, which has a lower gross margin compared to the rest of TaylorMade's business.

Although we are not giving formal guidance today for 2010, I would like to point out some important factors you should be aware of regarding gross margin development. While it is fair you should assume gross margin improvements in 2010, there are two factors that will temper our progress:

- First: While the recent weakness of the US dollar is certainly a plus for the future, our hedging rate in 2010 will be inferior to that of 2009 as we were covering a large portion of our US dollar deficit at the beginning of the year at rates in the 1.20's.
- And second as I have just mentioned, we will definitely see negative impacts on our gross margin as a result of additional trade barriers in Latin America. This could be a double-digit million euro figure.

Moving below the gross profit line, other operating expenses as a percentage of sales increased by 180 basis points year-to-date, but by just 20 basis points in the third quarter to 35.1%. In absolute terms, operating expenses declined 6% in the quarter or 62 million euro to 1.014 billion euro.

This development speaks clearly for the success of our initiatives to drive operational efficiency. Lower marketing expenses in the absence of the Olympic Games as well as savings in operating overheads both contributed almost equally to this development. And this came despite our continued roll-out of controlled space initiatives.

Expenses related to our Group's reorganisation amounted to around 40 million euro in the first nine months. As you may remember, the bulk of the savings we planned are related to headcount reductions due to the various organisational changes that are underway in the Group this year. Through natural attrition and our hiring freeze, we achieved a significant portion of our targeted staff reduction without having to incur any significant cost. For the full year, I now expect costs to achieve our targeted 100 million euro in savings to amount to another 10 to 20 million euro in the fourth quarter.

In addition, I can also already report that we are starting to see some savings benefits in our 2009 financials. We currently estimate that we will now already achieve around 20 million euro in savings this year, around half of which we achieved in the third quarter.

Finally, the integration of Ashworth into the TaylorMade-adidas Golf segment resulted in 6 million euro of expenses in the third quarter, and 17 million euro year-to-date. To complete the integration, which largely involves winding down non-core operations, we will incur charges of another 6 million euro through the last quarter of the year, and 4 million euro in the first quarter of 2010 due to planned retail disposals.

To wrap up my discussion on operating profit, Group royalty and commission income decreased 19% in the quarter and 2% in the first nine months. The negative effect from the replacement of distributor agreements in Latin America more than offset growth in the adidas segment and positive currency effects.

As a result, year-to-date Group operating profit declined 52% to 465 million euro from 963 million euro in the prior year. This translates into an operating margin of 5.9% – down 580 basis points versus the prior year.

Turning now to the non-operating items of the P&L, net financial expenses decreased 28% in the third quarter, which is a significant improvement compared to the first half year.

The strong Q3 result is primarily due to lower net borrowings which I will discuss in a moment. Lower average interest rates on gross borrowings also contributed to this development. Unlike in prior quarters, exchange rate variances from the revaluation of subsidiary balance sheet positions were not a drag on our results in Q3.

For the first nine months of 2009, net financial expenses increased 9%. Higher net financial expenses, coupled with the decline of operating profit, led to a 60% decrease of IBT and a 62% decline of net income attributable to shareholders for the period. The Group's tax rate came in at 34.2% after nine months. For the full year, I expect our tax rate to be at a modestly lower level than the first nine months. The increase compared to the prior year will be a result of a less favourable regional earnings mix.

Finally on the P&L today, year-to-date basic and diluted earnings per share decreased 61% and 59%, respectively, to 1.17 and 1.13 euro – well in line with our earlier guidance of a return to positive earnings per share in the second half of the year.

So, before I turn to the discussion of our balance sheet, let me briefly update you on the redemption of our convertible bond, which we announced in early October.

With the announcement, we exercised our option to call the bond prior to maturity in October 2018. This was possible, because our share price - on a 20 day average - was above the 33.15 euro threshold stipulated in the terms and conditions of the bond. We expect most or all holders to convert their bonds by the end of November 9. Assuming all bonds will be converted, this will result in approximately 15.7 million new shares. Net borrowings will decline by around 400 million euro and shareholders' equity will increase by the same amount, reflecting significant progress on our way towards a financial leverage of below 50%.

Let's now move over to the balance sheet, where we have particularly good news to share with you this quarter.

First of all let me comment on inventories. At the end of Q3, Group inventories declined 8% in currency-neutral terms or 9% in euros to 1.65 billion euro. This development continued the strong progress we had made in prior quarters, supported by aggressive clearance activities as well as significantly lower sourcing volumes. If you exclude the inventory build-up related to the launch of our new World Cup football products in the next couple of months, the decline would have been even stronger.

At Reebok and TaylorMade-adidas Golf, inventories have actually already declined at double-digit rates year-on-year. Inventories at adidas were down in all regions with the exception of Latin America.

Looking forward, I believe that even despite inventory build-up ahead of the World Cup, we will be able to significantly improve on this again in the fourth quarter. This will put us into a strong position to exploit 2010 from a clean inventory base.

We are also keeping a close eye on the other important areas of working capital. Accounts receivable were down 7% on a currency-neutral basis and 9% in euro terms, to almost 1.9 billion euro. This reflects a strong improvement compared to the first half year and means we were able to bring receivable development back in-line with our sales progression. I also remain confident that we are sufficiently protected by the allowances we have taken in the first half of the year.

As a result, average operating working capital came in at 25.6% – an increase of 110 basis points from 24.5% in the prior year, but an improvement of 60 basis points since the second quarter.

These developments had a strong positive impact on our debt situation. In the third quarter, operating working capital management contributed to the generation of another 488 million euro in net cash from operations – despite a 29% drop in operating profit.

As a result of this and disciplined investment activity, borrowings declined year-over-year for the first time since the second quarter of 2008. At the end of September, net borrowings amounted to 2.3 billion euro, a decrease of 12% (or 299 million euro) versus 2.6 billion euro last year. Currency movements had only a slight negative impact on this development. In summary, the Group's financial leverage at the end of the third quarter was 70.2% versus 78.5% in the prior year.

We are confident net borrowings will be even lower at year-end as our fourth quarter is usually a highly cash generative one. Even without the help of the convertible bond redemption, we expect to be able to achieve our goal of net borrowings below the prior year level.

So ladies and gentlemen, even if consumer markets have not been kind to us in 2009, from a balance sheet perspective we will finish the year in our healthiest position since 2005, focusing on cash and tightly managing our costs.

Let me conclude my remarks today with a comment on potential changes to our segmental reporting. Owing to the new IFRS 8 and the organisational changes implemented this year, we are currently in the process of interpreting the various impacts these may have on our financial reporting requirements.

Now, while accounting rules govern the content of our financial reports, let me reassure you that we will continue to disclose our financial information in a transparent and informative way, in our formal reports and supplementary material.

With that, I'd now like to hand you back to Herbert who will give you more detail on our outlook...

Herbert Hainer

At the beginning of the year, I told you that although we have to be mindful on cost in times of crisis, it is imperative not to lose sight of our mission and the principles that have resulted in the success of our brands. These include leading in innovation, leveraging our partnerships, engaging our consumers, and investing for future growth.

I would now like to take a few moments to give you a sneak preview as to how our brands will bring this philosophy to life in the months and quarters ahead. Let's start with adidas.

There is always great anticipation on the eve of a World Cup. Over the years, adidas, like no other, has mastered the art of exploiting the potential of big football events not only as meaningful revenue generators, but also as long-term innovation and brand recognition drivers.

I have no hesitation in reconfirming that 2010 will yet again be a record year for our football business. We will have the most comprehensive representation in South Africa. At least 10 of our teams will compete for honours – far in excess of the 6 teams wearing adidas in Germany in 2006. And there is still potential for this number to grow during the playoffs.

From a product and communication perspective our approach will have the same vigour as always, launching new products and marketing initiatives every month from now until June.

With this kind of speed and intensity, we will stretch our lead in the football category around the globe. We have already started with a bang, introducing the PREDATOR®_X, a new football boot designed with French football legend Zinedine Zidane, that achieves the highest ball power, swerve and control ever found in any PREDATOR®. Throughout November we will bring the national federation jerseys to market. And on December 4, all eyes will be on Cape Town for the high-profile unveiling of the World Cup match ball at the draw for the finals.

Although football will be the overarching theme for adidas in 2010, we will also be busy in our drive to become the most personalised brand in our industry. Our goals in personalisation are not just restricted to being able to mix and match individual style into our products. Speaking to this point, a few weeks ago, we introduced the next generation of miCoach including the miCoach Pacer, miCoach Zone as well as enhancements to our web services.
The real-time coaching provided through this offering works in sync with personalised training plans created by specialist coaches. This makes our system far more reaching that just data

collection and musical entertainment. And you will continue to hear lots from us in the coming year.

Switching to Reebok, now that we are on the move with our key brand priorities, 2010 will be all about harnessing this year's work, and driving higher representation of our key concepts at retail all around the globe. We are starting to feel a real difference when talking to retailers about Reebok's strategic direction, and feedback on our innovation pipeline for 2010 has been very encouraging. Some of our plans for next year include:

- Expanding our product offering in toning beyond walking and women's,
- Leveraging our JUKARI franchise, expanding our efforts in women's fitness and workout,
- And, driving overall brand visibility and identity through a new brand marketing campaign.

This year has marked the emergence of toning as a viable and relevant category. To support our continued push to make this space our own, Reebok is making a real statement right as we speak, with its first major television effort in the US since 2007. Our TV spots all use humour and playfulness to call attention to the great legs and butt toning benefits received from EasyTone™ in three distinct situations. Feel free to take a look at the edgy spots as they become available on www.reebok.com.

We will also expand our toning product offering beyond walking and women's in 2010, as the first brand to define muscle toning as a cross-category concept. This will be supported through a holistic communications approach, including dedicated toning walls at point of sale.

In our drive to live our promise to make fitness fun again, in 2010 we will build on the success of JUKARI Fit to Fly™ with the next iteration of JUKARI which launches in spring. We will already start priming the pump this month as select gym chains from around Europe will get a sneak preview of how the unique blend of Cirque du Soleil's artistry, and Reebok's fitness expertise, has resulted in yet another amazing workout.

And as a final teaser for next year, I would like to introduce Reebok's new marketing campaign showing how the brand redefines sport. Through a fun, bold and provocative feel, I believe this will be a catalyst to bring a very fresh and differentiating Reebok voice to the industry.

Last but not least TaylorMade-adidas Golf, which – as you all know – is all about the product. When I look at our offering today, I only see potential for further market share improvements. In footwear we have launched our newest and most stable golf shoe to date, the TOUR360 4.0. This shoe incorporates adidas Golf's Advanced THiNTech low-profile technology which brings golfers 32% lower to the ground than conventional cleat systems. After three years of research and development, TaylorMade also just recently introduced the Penta TP golf ball, designed to deliver a superior balance of performance in the five key shot categories.

So ladies and gentlemen, let me now translate what all of this means for our outlook. I believe we have an exciting fourth quarter ahead of us. I'm sure football fever will start to grip the consumer in advance of next year's mega event. This should also become visible in our financial results in the form of positive top-line stimulus. But don't forget we will increase marketing to ensure our initiatives get off to a fast start. Therefore, for the fourth quarter, we will not be able to beat last year's record earnings, but we do expect to generate a profit.

Taking this into account, our 2009 full year guidance is now as follows.

- Our Group sales guidance remains unchanged, however we have refined our revenue outlook for TaylorMade-adidas Golf. Sales in this segment are now forecasted to decrease at a low- to mid-single-digit rate, given the extremely challenging environment in the global golf market.
- Gross margin for the Group is expected to decline to a level between 45.0% and 45.5%,
- Operating margin is forecasted to be around 5%,
- And finally, we expect diluted EPS to reach a level between € 1.15 and € 1.30.

As Robin has mentioned, we will also make further progress on inventories as we bring the year to a close. And if we take our projected positive cash flows for Q4, together with the redemption of our convertible bond, we will already achieve our medium-term target of financial leverage of below 50% by year-end.

For 2010, it is still premature to give concrete guidance, particularly when it comes to the top line. Consumers and retailers are still hovering between fear and optimism. Although I am cautiously optimistic, I still see challenges for some key markets such as the US and China which will keep management busy into the first half of next year.

On that front, I also have some very positive news to share with you today. Following the reorganisation of our business in Asia, and the elimination of our regional office, I am delighted to announce that Christophe Bezu has accepted a new challenge within our Group as Managing Director of our business in Greater China reporting directly to me. Many of you have met Christophe over the years, and his results speak for themselves.

In terms of profitability for next year, we definitely expect to show improvement versus 2009. Although we do not have full clarity just yet to give you a formal guidance, what we do know is the following: Relief on input costs and improvements in operating expenses resulting from our cost-saving initiatives are factors that will support enhanced profitability next year. But still there will also be some headwinds like currency effects and import duties that will temper our performance.

Nevertheless, we are well prepared to face any challenges thrown our way. With a firm grip on inventories, a better financial position and a leaner organisation, we turn into the 2010 event year with innovative products, exciting concepts and clear focus on the tasks at hand.