FINANCIAL RESULTS PRESENTATION

First Half 2012 Speech

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John-Paul O'Meara

Good morning ladies and gentlemen and welcome to our first half 2012 financial results presentation and conference call live from the adidas Olympic Media Lounge in London. I'm JP O'Meara and I head up the Group's IR activities. Our presenters today are Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO. They will be covering our excellent first half performance, and will give you some insights into the various initiatives we have planned to continue our momentum for the remainder of 2012. So, let's get started, but before Herbert "Takes The Stage", let's have a look at some others who are taking the stage these days.

Herbert Hainer

Good morning ladies and gentlemen and thank you for joining us at this marvellous setting overlooking the Olympic Park. We invited you here today not only to share our first half year results, but also to give you a taste of the important role the adidas Group plays in global sports. Our association with major sporting events sets us apart from all the competition. And I will explain exactly how we are leveraging these Olympics and how it is benefiting our Group a little later in my presentation today. But first, let's dive into the results.

Despite all that is going on from a macroeconomic and competitive perspective, our strong business model and excellence in execution have once again delivered a winning performance.

Revenues increased 11% on a currency-neutral basis as we added over 1 billion euro of sales taking us to above 7.3 billion euro for the first six months.

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Even more pleasing is our operating margin improvement of 0.7 percentage points. Given negative pressures of almost 5 percentage points from input costs, this is a significant result, especially in view of the fact that most of our major competitors have seen declines in this important metric in the same period.

These improvements drove a 30% increase in net income attributable to shareholders to a new record level of 455 million euro. And through our highest ever cash flow generation in a second quarter, we have seen a reduction in net borrowings by 63% to 318 million euro compared to 863 million euro a year ago.

These are great results and a great inspiration as we continue to deliver on our promises.

During the period, the global reach and relevance of our brands to our diverse consumer audience was again very evident. We grew in every region of the world, led by strength across our entire spectrum of performance categories, which is fitting in this high-profile sporting event year. In particular, our three key attack markets continued to meet our high expectations, each delivering double-digit growth in the first half and the second quarter.

Looking at Greater China, sales grew 19% currency-neutral in the first half, driven by 22% growth at adidas Sport Performance, as new products like the ClimaCool Seduction running shoe sold in abundance. This is a confirmation that adidas is clearly the brand in the market with the greatest momentum. And you may rest assured that this will continue in the second half, given double-digit growth in order books and our healthy inventory situation relative to competitors.

In North America, Group sales grew 11% on a currency-neutral basis, with the adidas brand up 12% and TaylorMade-adidas Golf increasing 32%. adidas Originals once again was a major highlight for the region as revenues increased over 60% in the first half. But also in basketball we are enjoying fantastic momentum, with footwear sales growing 36% and our market share now in double-digit territory again, above 11%. Therefore, halfway through the year, I am fully confident that we will achieve the targeted hat-trick of years of double-digit growth for the adidas brand in North America.

In Russia/CIS, both adidas and Reebok grew at a double-digit rate in the first half and in the second quarter. In the first half, currency-neutral Group sales were up by an impressive 15%. This is not just a confirmation, but even a strengthening of our dominance in that market.

And finally, it goes without saying that I am again very pleased with our strong performance in Western Europe, with sales up 6% for the half year, and 5% in the quarter. First half growth was driven by an exceptionally strong performance in the UK where sales were up 21% currency-neutral. We also enjoyed mid- to high-single-digit growth in Germany and Spain.

From a brand perspective, the adidas brand continues to be the powerhouse of the industry. Revenues increased 14% currency-neutral, in the first six months, with a strong 11% increase in the second quarter.

Football, the heart of the adidas brand, took centre-stage so far this year. And there is no doubt that we have hit the mark again in 2012, be it through brand visibility, product sales, or simply confirmation of our status as the most innovative brand in the sport. Sales for the first half increased 25% currency-neutral, which prompted us to lift our forecast for the category to a new record of over 1.6 billion euro for the year in June.

Even before the first whistle was blown at the UEFA EURO 2012, we were already champions of Europe, crowned by the all-adidas UEFA Champions League final between Bayern Munich and Chelsea FC.

At the UEFA EURO 2012, we won all battles on and off the field, typified by Spain's master-class victory in the final as they achieved the 'impossible' triple. Even at a time of economic recession in Europe, we sold more jerseys and more footballs at a European Championship than ever before. We sold over one million Germany jerseys and almost one million Spanish jerseys. In addition, the Tango 12 is our most successful ever European Championship tournament football, selling more than 7 million units.

We also sponsored more players than any other brand, which gave us unprecedented visibility for our industry-leading adizero F50 and the recently launched Predator Lethal Zones. And in several consumer and social media tracking surveys, adidas was the most recognised and talked-about sponsor of the event.

But our strong first half growth rate at adidas was not just all about football. The strength of our product pipeline led to robust sales growth rates in all of our other key performance categories – running, basketball and outdoor – lifting total adidas Sport Performance sales up 12%. For example, in running, sales were up 13%, driven by key franchises such as adizero and Clima.

And in basketball we had growth of 18%, with footwear even growing at double that pace. Here, the adizero Crazy Light 2 has been a major success, retailing at a premium price of 140 dollars, which is 10 dollars higher than its predecessor. It generated outstanding sell-through rates of over 30% in its first six weeks.

While for many this may be seen as a performance year, it would be wrong to overlook our continued success with adidas Sport Style. Sales in the first half were up a strong 14%, driven by double-digit growth in adidas Originals and the adidas NEO Label.

I am pleased to report we are making good progress with our NEO test stores in Germany, where traffic has continued to strengthen and we are hitting important milestones in terms of conversion, product and gender mix. Today, we will complete our roll-out of 10 stores for this year by opening our NEO store in Cologne.

Turning to Reebok, sales declined 26% in the quarter and 16% year-to-date. Of course, I am disappointed by these results. Unfortunately this year, we couldn't build on the great momentum we created by bringing unexpected, innovative products like EasyTone, Zig and Flex to the market in 2010 and 2011. Nevertheless, our fitness positioning for Reebok is exactly the right one because it resonates with consumers and customers alike. In fact, retailers have already seen our extended fitness proposition for Reebok which will be visible in the market-place in 2013 and where we will capitalise on many major fitness trends in addition to our already successful CrossFit initiative. Stay tuned to hear more about this at our Investor Day in September. However, what I can already tell you today: I am optimistic that we will create a new dynamic for Reebok in 2013.

Looking at the Reebok results in the first half of this year there are a few one-time factors that you should bear in mind. Firstly, the impact from rectifying the situation regarding our operations in India accounted for a significant portion of the sales decline. A further part of the decline relates to our decision not to renew the NFL licence and the shift of NHL US-related sales to the Reebok-CCM Hockey segment. In addition to this, we continue to face challenges in Latin America, due to difficulties at our joint venture partner and import restrictions in certain countries and also in Western Europe as we clean up our toning inventory.

On the positive side, we continue to enjoy considerable success for the brand in controlled space driven markets such as Russia and South Korea. In North America, the underlying trends are also quite good. Although sales for the quarter are down there as well, this was mainly due to a strategic decision we took in May and June to reduce wholesale shipments of Zig and Flex products, which are still seeing strong demand, to ensure we protect and do not overheat these franchises. Otherwise, our trends in the market remain promising, which is underpinned by continued strength of our own-retail sales. And with the introduction of the ZigLite, the CrossFit Nano 2.0 and our new SmoothFlex running shoe, I expect an improving sales trend in this market as we move into the second half.

Let me now also take the opportunity to update you on the situation in India. As you will have seen since our announcement at the end of April, our local management team has filed criminal charges against former officers of our Reebok subsidiary in India and is currently closely co-operating with the various authorities on the matter. As a precaution, the team also moved the Reebok business to a cash-and-carry model for the interim, to protect the Group from further losses until they have carried out a due diligence on their customer base. To ensure a thorough and independent review, we have also engaged the services of Ernst & Young to support our efforts. The Reebok customer review will be completed in the next few weeks and, as announced in May, there will be a reduction in the Reebok store base in India as we move towards a more profitable business model for the brand in this market.

In general, while the issue is unpleasant, we will achieve our goal and set Reebok up for a fresh start in India in 2013. I can also confirm that we are not expecting a major deviation from the 70 million euro negative impact on 2012

Group operating profit we projected in May. This relates to our loss of business, actions Reebok India is taking to move to a performance-based trade terms policy and other reorganisation activities. About 17 million euro of this is reflected in our year-to-date results.

Finally, for my review of the period, I can't go without commenting on the outstanding performance of TaylorMade-adidas Golf. From an industry perspective, it is shaping up to be one of the most promising years in more than a decade. In the US, rounds played are up 12% for the first six months. And while we are definitely benefiting as golfers return to the course, even more than that, we are capitalising from a full onslaught of product innovation from RocketBallz clubs to Tour360 and Powerband footwear, to which the competition simply has no answer.

This is reflected in our record first half top-line growth of 29% currency-neutral. We grew in all categories, with metalwoods, irons, putters and footwear all recording growth rates above 20%.

We also completed the acquisition of Adams Golf, which has been consolidated effective June 1. And looking at its performance, we have clearly acquired the second starlet of the industry, as sales for Adams products are up 16% in the first six months. Therefore, I can only reiterate that we are the ones to watch in golf.

So, ladies and gentlemen, that completes my comments on the first half. I'll be back in a few moments to share some more details on what's to come in the second half, but first let me hand you over to Robin who will take you through our financials in more detail.

Robin Stalker
Thank you, Herbert. And good morning ladies and gentlemen.

While Herbert has explained all about the excellent growth we generated in the first half, I will now spend some time on showing how we have converted this into meaningful bottom line and cash flow generation. However, first, let me spend a moment to round off the review of our Group's top-line performance by giving you some more specific details on the second quarter.

Currency-neutral sales increased 7%, or 15% in euro terms to over 3.5 billion euro, with every region except Latin America posting sales gains. In Greater China, currency-neutral sales increased 13%, driven by 16% growth at adidas Sport Performance. In North America, Q2 Group sales grew 10% on a currency-neutral basis as a result of sales growth at adidas and TaylorMade-adidas Golf of 15% and 31%, respectively, which offset declines at Reebok.

In European Emerging Markets, Group sales increased 18% currency-neutral as we further strengthened our dominant market position in Russia/CIS, where revenues were up 20% currency-neutral.

In Western Europe, despite the widely commented macroeconomic challenges in many parts of the region, Group sales grew 5%, as Herbert already discussed.

In Other Asian Markets, Group revenue growth was 2% as double-digit growth in Japan and South East Asia was partly offset by the negative consequences related to Reebok India. Excluding these effects, sales growth for the region would have been up double-digit.

Finally, in Latin America adidas Group sales decreased 2% on a currency-neutral basis in the second quarter. High-single-digit sales growth at adidas as well as double-digit growth in Other Businesses was more than offset by declines at Reebok.

Now moving on to profitability, where again our focus on driving quality sales growth paid off. Similar to previous quarters, the Group was faced with enormous challenges from higher input costs. In fact, the total negative impact was around 5 percentage points on Group gross margin for both the half year and the second quarter.

Nevertheless, through our various efforts across channels, brands and operations, we were able to mitigate the majority of the negative pressure and recorded a gross margin decline of only 90 basis points in Q2 and of 80 basis points for the first half.

The key drivers to offset the negative factors both for the second quarter and the first half are similar to those as discussed during our last earnings calls:

- Firstly, and most importantly, price increases and a more favourable product and regional sales mix.
- Secondly, the over-proportionate sales growth in our Retail segment, which carries higher margins.

Our hedging provided some tailwind for the six-month period. However, as indicated during our Q1 earnings release, this tailwind has reversed into a headwind recently, with hedging being a slight negative for the second quarter Group gross margin development.

In terms of the outlook for margins, the impact from input cost pressures will start to ease in the second half of this year, which is mainly due to some relief on the global commodity markets, particularly on the apparel side. Therefore, we maintain our gross margin guidance for 2012 of around 47.5%.

Moving below the gross profit line, we continue to make good progress towards one of our key Route 2015 goals: leveraging our growth and operational scale to drive operating margin improvement.

For the quarter and year-to-date, other operating expenses increased 12%. As a percentage of sales, however, other operating expenses were down 1.0 percentage point and 1.3 percentage points, respectively.

Thereof, sales and marketing working budget expenditures increased 13% and 7% for the second quarter and the first half year, respectively. The latter mainly reflects our marketing investments at the adidas brand to support its exclusive presence at the UEFA EURO in Poland and the Ukraine.

Group operating profit increased 25% in the first six months to a new record level of 665 million euro. This translates into an operating margin of 9.1%, up

70 basis points. In the second quarter, operating margin expanded to 7.3% from 7.1% in the prior year.

Turning now to the non-operating items of the P&L: Net financial expenses decreased 20% in the first half compared to a year ago. This mainly reflects a 32% increase in interest income and a 47% decline in negative exchange rate effects. Lower interest expenses also contributed to this development.

The first half year tax rate decreased a slight 10 basis points to 27.4%, which is due to a more favourable regional earnings mix.

Therefore, net income attributable to shareholders for the first six months increased 30% to 455 million euro, a new first half year record mark for the adidas Group, which translates into basic and diluted EPS of 2.17 euro.

Second quarter net income attributable to shareholders as well as basic and diluted earnings per share increased 18% to 165 million euro and 79 cent respectively. Please let me remind you again that there is no dilutive impact from our 500 million euro convertible bond that we issued in March until the conversion price of 83.46 euro is met.

By segment, currency-neutral Wholesale revenues increased 1% in the second quarter and 6% for the first half year.

Gross margin for the segment was down 1.2 percentage points both for the quarter and the first half year. Price increases, a more favourable product and regional mix as well as less clearance sales helped mitigate the headwinds from rising input costs.

In the Retail segment, comparable store sales growth continued to be a key driver for segmental revenues, contributing 8% of the 16% currency-neutral growth for the quarter. For the first half year, comp store sales expanded 9% currency-neutral, while total segmental sales grew 16% currency-neutral.

By brand, currency-neutral adidas comp store sales increased 8% in Q2 and 9% in the first half, while Reebok comp store sales grew 9% and 8% for the quarter and the year-to-date period, respectively.

Retail gross margin decreased 300 basis points to 62.8% for the second quarter and 150 basis points to 62.2% in the first six months. The devaluation of the Russian rouble versus the US dollar as well as increased promotional activities at Reebok were the main factors contributing to margin declines.

At the end of the second quarter, we operated 2,436 stores, a net increase of 35 stores versus December last year. During the first half year period, we opened 185 new stores and closed 150 stores, while 40 stores were remodelled. In addition, 57 concept stores were reclassified as stores in other retail formats and one concept store was reclassified as a factory outlet.

Coming to the segmental operating margin for Retail, I can again report further evidence of our continued progress towards becoming a world-class retailer. Despite the significant decrease in the Retail gross margin, segmental operating margin for the second quarter increased 0.1 percentage points to 25.4%, and 0.7 percentage points to 21.4% in the first half.

And last, but certainly not least, let me spend a minute on our Other Businesses, a key highlight of our first half performance. Currency-neutral revenues grew an impressive 22% in Q2 and 27% year-to-date as all segments recorded higher sales.

In euro terms, sales for Other Businesses grew 34% during the quarter to 550 million euro and 36% in the first half to almost 1.1 billion euro. The first-time consolidation of Adams Golf in June added 8 million euro of sales.

While the quarterly gross margin improved 40 basis points to 45.3%, it decreased 70 basis points to 44.5% for the six-month period as a result of lower product margins at Rockport and Reebok-CCM Hockey. For the quarter, however, improvements at TaylorMade-adidas Golf helped to more than offset these negatives.

Now ladies and gentlemen, let me come to my final and probably favourite topic of the day – our balance sheet and cash flow development. Given that the global economic outlook has certainly not improved over the course of the year, our conservative approach towards managing risk and rigorous control of our inventories is certainly vindicated. To that end, I am very pleased to report that our inventory growth rate has once again declined compared to the prior quarter, increasing just 8% on a currency-neutral basis. This is in stark contrast to most of our major competitors where inventory growth rates have been higher, in most cases upwards of 20%.

As a result, we were also able to maintain and even further decrease operating working capital as a percentage of sales by 10 basis points to a very strong 20.6%.

Combing this tight control of working capital with our strong operational performance led to significant cash flow generation for the period. This is reflected in the significant 63% year-over-year decline in net debt of 545 million euro to a level of only 318 million euro.

So ladies and gentlemen, on that very positive note, this concludes my comments for today. Now back to Herbert to take you through our initiatives and to give an update on the outlook for the remainder of the year.

Herbert Hainer
Thanks Robin.

Our clear victory in the summer of football, our increased operating margin and our excellent inventory management, as Robin has just described, show we have exactly the right formula to preserve and sustain our positive earnings and cash flow trajectory. So let me tell you how we are going to do that – and it starts right here and now.

At this very moment we are capitalising on our involvement in the London 2012 Olympic Games, an event that echoes the values of our Group: performance, passion, integrity and diversity. There is definitely no other sports brand that has such an authentic and long heritage with the modern Olympics.

After spending several days here in the UK, I can only admire the enthusiasm Great Britain is bringing to these Olympics. And I am proud that adidas, through our support of Team GB and iconic sports athletes, has been able to contribute to the spirit of these Games.

From a commercial perspective, this will be the most successful Games we have ever had, with Olympic licence product sales up 250% compared to Beijing.

However, I believe it is the long-lasting impact on the consumer in the UK and around the world that will bring us the greatest return on investment. With sales up 24% in the UK for brand adidas so far this year, we have already closed the gap to the market leader from 3 percentage points to just 1 percentage point. And this is no wonder with the emotional impact we are having through our Take The Stage campaign, our on-the-ground activations in London and events with ambassadors such as David Beckham. Let's take a look.

On a broader scale, I also have no doubt that this event will inspire a generation worldwide to get into sport, providing further impetus to the global mega-trend towards healthier living. The message of the London Olympics to drive for greater efforts in sustainability is one that we will harness and use to maintain our success as the most trusted and desired sports brand. Over the past week, you will have seen some exciting news on new processes we are currently developing within our innovation team and Global Operations to take manufacturing techniques to the next level, such as Drydye and Primeknit. And let me assure you that this will not be the end of great innovation stories you will be hearing from the Group in the coming months.

In particular, we are planning a new wave of launches under our adidas key performance attribute – Smarter. You might have seen we launched, in association with our long-term partner MLS, the adidas miCoach Elite System in New York. The technology was publicly demonstrated for the first time during the MLS All-Star match between Chelsea FC and the MLS All-Star roster.

This technology is a revolution in team sports as it enables an unrivalled understanding of the physical activity of the team on the pitch. A small data cell fits into a player's base layer. The cell transmits more than 200 data records per second from each player to a central computer, which is then wirelessly available in real-time on a coach's iPad. At the touch of his fingertips, a coach can monitor the workload of an individual player, compare one athlete with another, or view the whole team to gain a complete picture of the squad. Beginning in the 2013 season, all 19 MLS clubs will use the miCoach Elite System making the MLS the first Smart Soccer League globally. And I believe that this will become a "must have" tool for coaches and trainers in many team sports as we evolve the platform in the future.

While there will also be a whole host of other new product launches to drive adidas' sales momentum in the second half, we also have planned some significant marketing initiatives in time for the important back-to-school and holiday seasons. The largest will be the next instalment of our all adidas campaign, this time focusing on Originals. Let's take a look at the spot that was introduced yesterday.

For Reebok, while there will be much more to talk about as we move into 2013, for the back-to-school season, we still have several initiatives in place to continue building the brand's credibility with the fitness consumer, including several store takeovers just like those we did at the beginning of the year.

CrossFit will again play a central role, as we build on the solid momentum of the CrossFit Games held in California in July. In just two years, participation in the games has jumped from 4,000 to 70,000, and there were more than 30,000 spectators this year packed into the Home Depot Center in Los Angeles.

Also, to ensure we are in a position to leverage the move by the brand to cover a more holistic fitness offering, I am excited to announce that we are planning a new store experience with the launch of a pilot Reebok Sport Of Fitness hub including a store and Reebok CrossFit Box on New York's Fifth Avenue, which will have its grand opening on August 16. With this, we are creating the ultimate fitness destination by providing the best coaching and gear in New York. We will cover more on this and other evolutions of Reebok's fitness strategy at our Investor Day in Carlsbad on September 20 and 21. But let me underline once again at this point: our strategy is clear. We will make Reebok THE Fitness empire. And the implementation of this strategy will lead to new momentum at Reebok in 2013.

So to wrap up and bring it all together, we have every confidence that our Group will continue to lead the pack from the front with great innovation, great product stories and great marketing. This is why we can reconfirm our full year guidance today. We are even in a position now to announce that we will finish the year at the upper end of the range on the bottom line we gave you in May. We continue to project full-year sales to grow at a rate approaching 10% on a currency-neutral basis, with minor adjustments to the segments to reflect the Reebok India impact and the strong growth at TaylorMade-adidas Golf. Operating margin is forecasted to increase to a level approaching 8%. Net income attributable to shareholders is expected to increase at a rate of between 15% and 17% to a new record level of between 770 million euro and 785 million euro. And with further balance sheet improvements, this will put us in a prime position to continue our strong business momentum.

So ladies and gentlemen, let me conclude by stating that I am very happy with our excellent first-half performance. Now I am looking forward to enjoying our fantastic presence here at the London 2012 Olympic Games and I am also looking forward to updating you on our further growth plans at our Investor Day in September. With that, I thank you for your attention. Now we are ready to take your questions.