adidas GROUP

FINANCIAL RESULTS PRESENTATION

Full Year 2009 Results Speech

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Herbert Hainer, Robin Stalker, John-Paul O'Meara

John-Paul O'Meara

Good afternoon ladies and gentlemen and welcome to our 2009 full year financial results presentation. I'm JP O'Meara and I head up the Investor Relations activities for the adidas Group.

In 2009, the sporting goods industry faced unprecedented challenges. However, as you will have seen in this morning's press release, despite a decline in sales and profitability, the Group generated record levels of cash from operations and significantly improved its financial position. In addition, we also completed a major Group reorganisation, setting a strong foundation for sustainable long-term growth.

During today's presentations, Herbert Hainer, adidas Group CEO, and Robin Stalker, Group CFO, will touch on these topics and, more importantly, will discuss our initiatives and expectations for 2010 – as the Group shapes up to return to growth.

But before we dig deeper into this, and to get things going, here's a video that reflects the Group's energy and presence in the last 12 months.

Herbert Hainer

Thanks JP and good afternoon ladies and gentlemen.

This video is a great reminder of how privileged we are to be part of so much. These moments and stories, that our brands have shaped and our products have helped achieve, fuel our passion, our spirit for innovation, our ambition to be better – in our products, in our business, and in everything we do. And I believe, despite all the ups and downs of 2009, we can look back with pride on our achievements.

Without question, 2009 was the most difficult year since I became CEO. We got off to a weak start as profitability declined substantially, and inventories and net borrowings were simply too high for a year that was marked by an unprecedented financial and economic downturn.

However, we rose to the challenge and moved swiftly to tackle these issues – driven in particular by a high focus on cash generation. Despite a 53% decline in operating profit, we generated a 141% increase in net cash from operating activities for a record 1.2 billion euro. This is an outstanding achievement and a credit to all the hard work and dedication of all our employees all around the world.

Working capital improvements were key to this accomplishment. Inventories on a currency-neutral basis were reduced by an industry-leading 27%, and are now at their lowest levels since 2005. And our net debt level has fallen to 917 million euro, representing a financial leverage of 24.3%.

This means we have already more than achieved our medium-term goal of financial leverage below 50%.

We also used the difficult year to shape and sharpen our organisation for the future. Some measures were reactionary to the crisis, to restrain costs, such as our hiring freeze in all non-retail-related functions and business travel cuts.

Others, however, were more fundamental and already in motion prior to the crisis. Since mid-2008, we have been re-evaluating our Group structure to find new opportunities to make us leaner, more efficient and stronger.

Therefore, in 2009, we decided to move away from a vertically integrated brand structure into a multi-brand functional structure for the adidas and Reebok brands – creating a Global Sales function responsible for the commercial activities and a Global Brands function responsible for the marketing activities of both brands. In addition, the Global Sales organisation was split into Wholesale and Retail, to cater more appropriately to the different needs of these two distinctive business models.

These changes will allow us to better leverage the strengths of our management team, ensuring we continue to deliver best-in-class service to our customers and consumers. And by focusing our retail efforts in a consolidated way, I am convinced we can drive store efficiency, productivity and profitability to new levels in the medium-term.

While all of this change was going on, which in itself presented challenges, we made the most out of the difficult environment – with all of our brands enhancing their market position.

For adidas, in the year we celebrated the 60th anniversary of the brand, a key highlight was achieving 9% currency-neutral revenue growth in our adidas Sport Style division to a new record sales level of 1.7 billion euro. For us, this is clear proof of the desirability of the brand with today's trend-conscious consumers around the globe. In fact, adidas Originals, the centrepiece of the adidas Sport Style division, has today more than 2.4 million fans on Facebook – more than any other sports brand in the world.

Additionally, in the fourth quarter, we again showed our unmatched innovative ability in football as we kick-started our build-up to the 2010 FIFA World Cup ™ in South Africa. Our successful launches included:

- the home federation jerseys which for the first time allow the players to choose between jerseys based on FORMOTION™ and TECHFIT™ technologies,
- the Official Match Ball JABULANI, with the newly developed Grip'n'Groove profile providing exceptionally stable flight and grip under all conditions,
- and the Predator®_X, combining three unique technologies for power, swerve and control.

All of these had an immediate market impact, driving football sales up 27% currency-neutral for the quarter. And it goes without saying that this remarkable jump in sales extended our global market leadership in this important category.

At Reebok, in 2009, the brand continued to execute its strategy, positioning itself as a premium sports and lifestyle brand focused on fitness and training. And after four years of hard work, we can now see the first shoots of success, demonstrating the validity of the strategic priorities we have set for the brand.

We are leading the industry in the emerging toning category, which experts are tipping as the next billion dollar category. Reebok has made a big statement here with the introduction of the EasyTone™ and in 2009 we over-achieved our sales target three-fold. As a result, in the fourth quarter, sales for Reebok grew in North America for the first time since the acquisition, rising 4% currency-neutral. And I have big expectations for toning and Reebok in North America in 2010, which I will tell you more about later.

At TaylorMade, our unrivalled innovation pipeline has again paid off to tremendous success. We extended our market share lead in metalwoods, with our new Flight Control Technology being the talk of golfers everywhere. We also took significant market share from our major competitors in a host of other categories, most notably in irons, where the remarkable new Burner® irons proved to be an instant hit. Their popularity helped TaylorMade reach the market leader position in the category in the United States for the first time in the brand's history.

We also had some positive developments at our smaller brands. At Rockport, we had the successful re-launch of the DresSport® 2 collection, which marries athletic innovation and contemporary style to form one of the most comfortable, stylish and lightweight men's dress shoe collections on the market. In addition, we continued to do a lot behind the scenes to improve operational areas, including lead-time reduction, product range segmentation and productivity, as well as supply chain complexity reduction – which will support our aggressive growth plans for the brand in the coming years.

And at Reebok-CCM Hockey, we maintained a strong visibility at the all-important pro league level, with Reebok's NHL Speedwick commercial winning best advert, and products like the O-Stick and the U+™ Pro Skate becoming an instant success with our professional players and consumers alike. And for those of you who were watching, no other than Canadian hero and Reebok star

Sidney Crosby scored the winning goal in the Olympic hockey final in Vancouver just three days ago.

Taking it all together, in 2009 Group revenues declined 6% currency-neutral or 4% in euros – which I think is a respectable performance considering the environment. And in the fourth quarter, we definitely saw a stabilisation in most of our key markets around the world as currency-neutral sales were flat for the quarter. Below the top-line, profitability improved significantly in the second half of the year. As a result, we achieved full year diluted earnings per share of 1.22 euro, in line with the guidance we gave back in November.

By segment, Wholesale revenues decreased 4% currency-neutral in the fourth quarter as growth in most of our regions was offset by declines in North America and Greater China. By brand division, adidas Sport Performance revenues declined 5% in the quarter, while adidas Sport Style revenues decreased 3% on a currency-neutral basis. Reebok wholesale revenues declined 5% currency-neutral as double-digit increases in Women's Fitness were more than offset by declines in Classics and Men's Training.

In terms of profitability, gross margin in the Wholesale segment improved 1.1 percentage points in the fourth quarter, mainly due to lower clearance sales compared to the prior year and improvements at the adidas brand.

Currency-neutral sales in the Retail segment increased 14% in the fourth quarter, driven by increases in concept store, factory outlet and other retail formats – and by currency-neutral increases in all regions. Comparable store sales improved considerably, with adidas comp store sales down only 2%, while Reebok comp store sales increased 12%, with a particularly strong performance from e-commerce. At the end of December, we operated 2,212 stores, representing a net increase of 328 compared to the prior year.

In terms of profitability, gross margin in the Retail segment declined 0.8 percentage points in the fourth quarter mainly due to currency devaluation effects related to the Russian rouble.

And finally, in Other Businesses, sales grew 2% currency-neutral in the fourth quarter. This was driven by a 6% currency-neutral sales increase at TaylorMade-adidas Golf due to continued momentum in irons, as well as a strong performance in golf balls following the launch of the Penta TP. Sales at Rockport and Reebok-CCM declined 7% and 5% respectively in the quarter. In terms of profitability, gross margin in Q4 increased 3.4 percentage points due to improvements at TaylorMade-adidas Golf and Rockport.

So ladies and gentlemen, as you can see in our Q4 results, there are definitely signs that markets are improving. I believe the challenges we had to overcome in 2009 have made us even stronger as an organisation. And now it's about executing on our strategies to get back into growth mode.

I'll be back in a few minutes to tell you more about our plans. But first, Robin will take you through the financials.

Robin Stalker, CFO

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

Herbert already told you about our key operational highlights during 2009. So let me use the time today to provide you with some more detail on the financials that led to unprecedented cash generation for the adidas Group.

But before I start, let me spend a moment on our new segmental reporting structure, which you have been presented with for the first time today.

This is a consequence of our new organisational set-up implemented last year to increase efficiency and speed within our organisation. As a result, our operating activities are now divided into six segments: Wholesale, Retail, TaylorMade-adidas Golf, Rockport, Reebok-CCM Hockey and Other centrally managed brands. The latter primarily relates to the Y-3 business activities. The results of the adidas and Reebok brands are now combined under Wholesale and Retail. The financial results of the remaining segments are aggregated under Other Businesses.

The change means you will now receive a lot more insight into the success and profitability of our adidas and Reebok retail activities. At the same time, we have made sure you can still follow the individual performance of the adidas and Reebok brands down to the gross margin level. As we do not allocate operating costs by brand anymore, going forward we will only concentrate on channel rather than brand profitability.

In addition, following the elimination of regional headquarters, the Group now distinguishes seventeen markets which are aggregated into six geographies: that's Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.

So with that in mind, let’s get down to the detail, starting with our Group’s top-line development, which has been solid in an environment marked by record-low consumer confidence. 2009 currency-neutral revenues declined 6% or 4% in euros to reach 10.4 billion euro. This was in line with our guidance of a low- to mid-single-digit sales decline.

In the fourth quarter, Group sales momentum improved markedly versus prior quarters. Revenues were stable currency-neutral, but down 5% in euros as we suffered a negative translation impact mainly from the appreciation of the US dollar.

By segment, Wholesale revenues were down 9% for the full year while Retail sales increased 7% on a currency-neutral basis. Expansion in European Emerging Markets played a major role in the latter, with the region now accounting for 32% of Retail segment sales. Total adidas sales declined 5% for the year. Reebok sales declined 7% for the full year. Finally, currency-neutral revenues in Other Businesses declined 4% for the year, with a good performance from TaylorMade-adidas Golf, declining only 2% against a very challenging golf market.

From a regional perspective, full year currency-neutral sales declined in all geographies except Latin America, which increased 19%. In Western Europe, Group revenues were down 5% due to ongoing challenges in most of the region's major markets.

Sales in European Emerging Markets declined 7%, primarily impacted by the devaluation of the Russian rouble. On a rouble basis, sales in Russia were up at a single-digit rate in 2009, with growth accelerating in the fourth quarter.

North America sales for the 12-month period were down 10% due to challenges for both adidas and Reebok, and despite sales growth of 4% for Reebok in the fourth quarter.

Full year sales in Greater China declined 16% as a result of our initiatives to clear excess inventory at retail, as well as the rationalisation of Reebok’s store base. Own retail sales in the region were up at a strong double-digit rate following the expansion of our factory outlet network.

And finally, in Other Asian Markets, Japan weighed negatively on an otherwise strong performance in the region’s emerging markets.

Moving below the top line, the Group’s full year gross margin declined 330 basis points to 45.4% from a record gross margin of

48.7% in 2008. There were three main drivers for the decrease, each accounting for roughly a third of the overall decline:

- higher input costs,
- currency devaluation effects as well as
- higher clearance sales and promotional activity.

Currency effects primarily related to the Russian rouble which devalued significantly against the US dollar, our functional currency in Russia. This hit our sales line with no offsetting effect in cost of goods sold as our sourcing is largely denominated in US dollars.

In the fourth quarter, gross margin declined by just 20 basis points to 46.2% as the pressure from the clearance of excess inventories tapered out. Input costs and the Russian rouble, however, continued to negatively impact gross margin, although both factors became less pronounced towards the very end of the quarter. However, less favourable hedging started to negatively impact gross margin in the quarter, a trend that will continue in 2010.

Moving below the gross profit line, other operating expenses as a percentage of sales increased 170 basis points in 2009, but remained almost unchanged at 4.4 billion euro in absolute terms. Similarly, in the fourth quarter, other operating expenses declined slightly, but increased by 150 basis points as a percentage of sales.

In 2009, higher expenses for controlled space initiatives in emerging markets were the primary cost driver in our operating expense base. However, we managed to reduce wholesale operating costs by 60 million euro mainly due to reorganisation initiatives as well as the implementation of a hiring freeze and other cost saving measures. For the full year, we incurred costs of around 50 million euro in relation to our comprehensive reorganisation programme – thereof 10 million euro in the fourth quarter.

Measures taken to integrate Ashworth into TaylorMade-adidas Golf resulted in expenses of 21 million euro in total. In line with our forecasts, four million euros were booked in the fourth quarter. We have now completed the integration with the exception of some retail disposals that will have a 4 million euro negative impact in the first quarter of 2010.

Finally, we incurred two significant one-time charges in the fourth quarter of 2009. A write-down of Reebok's distribution rights in the Chinese market impacted Group operating expenses in an amount of 19 million euro. And write-downs on various stores had a negative effect of 14 million euro on operating costs in the Retail segment. Additionally, the comparison to the fourth quarter last year is distorted by a positive net effect of 14 million euro from the realisation of negative goodwill in connection with the Ashworth acquisition in late 2008.

Significantly lower sales and marketing working budget expenditures as well as various other cost-saving initiatives helped us limit operating expense increases. The latter primarily related to headcount reductions in our Wholesale operations and central functions. Sales and marketing working budget expenditures declined by around 160 million euro to 12.2% of Group sales from 13.2% in the year before. While a portion of the decline was due to the absence of major sporting events in 2009, we also made one-time cuts in certain categories and regions that we do not expect to be able to repeat this year.

To wrap up my discussion on operating profit, currency-neutral royalty income for the Group declined 7% or 4% in reported terms in 2009. This was mainly attributable to the non-recurrence of Reebok royalties from distribution partners in Latin America as we replaced those partnerships with own subsidiaries in mid-2008.

As a result of these developments, operating margin for the Group declined 5.0 percentage points to 4.9%, in line with the guidance we gave you in November of an operating margin around 5%.

Let’s now move over to the non-operating items of the P&L. Financial expenses decreased 17% in the full year and a strong 48% in the fourth quarter. This was a result of lower interest expenses following the significant reduction of net borrowings particularly in the third and fourth quarters. As in 2008, negative exchange rate variances, which impacted balance sheet items denominated in currencies other than the functional currency, accounted for 25 million euro of overall expenses.

Income before taxes decreased 60% to 358 million euro in 2009, declining by 71% in the fourth quarter. The full year tax rate increased 270 basis points to 31.5%. This development was caused by two factors with opposite directions. While we wrote down deferred tax assets related to our North American business for which realisation was no longer likely, we benefited from the favourable resolution of foreign tax disputes for prior years. The latter was also the reason for our negative tax rate in the fourth quarter.

As a result of all these developments, net income attributable to shareholders declined 62% in 2009 to 245 million euro, with a 64% decrease to 19 million euro in the fourth quarter. This translates into diluted EPS of 1.22 euro for the full year and 9 cents for the quarter, in line with our guidance of a full year EPS between 1.15 euro and 1.30 euro.

Let’s now turn to the balance sheet, where I am sure you will share my enthusiasm for the exceptional progress we made during the year. In 2009 and even more so than previous years, improving the health of our balance sheet was at the forefront of our activities at all management levels.

By year end, strict inventory management resulted in a 27% currency-neutral inventory decline. In euro terms, that is a 26% decrease to almost 1.5 billion euro, the lowest level since we acquired Reebok. A significant reduction of production volumes in the second half of the year as well as highly effective clearance measures at all our brands and in all of our regions drove this decline.

In addition, accounts receivable improved by year-end, decreasing 13% currency-neutral or 12% in euro terms. This again reflects strict discipline in implementing our Group's trade terms. While we continue to keep a close eye on customer credit risk, collection has certainly improved in line with the better macroeconomic environment.

In sum, we managed to decrease operating working capital as a percentage of sales by 20 basis points to 24.3% - a level we had considered very ambitious at the beginning of the year.

The operating working capital improvements I just described contributed significantly to net cash from operating activities of almost 1.2 billion euro – the highest level in the Group's history. Coupled with disciplined investment activity, this led to what I personally regard as the highlight achievement of the year – a reduction of net debt by almost 1.3 billion euro or 58% to 917 million euro at year end. Supported by the full conversion of our convertible bond, this means we have more than achieved our medium-term financial leverage target of below 50% and we have done so earlier than anticipated.

Given that our net borrowings are now below one billion euro, we have decided to update our policies for debt and dividends. First and foremost, the best form of capital management is to deliver continuous strong cash flows from operations. In today's environment which is still very fragile, we feel it prudent to further reduce net borrowings and limit financing risk. However, our new financing policy also takes into account the need to ensure financial flexibility in order to allow us to realise value-generating opportunities whenever they may arise. Therefore, in general, it is our aim to maintain a ratio of net borrowings over EBITDA of less than two times.

However, although we are very much focused on conserving cash for the short term, in light of our confidence in strong future cash flow generation, we have decided to change the Group's dividend policy. We have increased our dividend payout ratio corridor from 15% to 25% to a new target range of 20% to 40% of consolidated net income attributable to shareholders. For 2009, that means we are proposing a dividend of 35 cents per share at our Annual General Meeting compared to 50 cents in the year before. This translates into a payout of 73 million euro and a doubling of the payout ratio to 30% versus 15% in the prior year.

So ladies and gentlemen, that wraps up my review of 2009. In summary, I believe the progress we have made on our financial position gives us a tremendous platform for the future development of our Group. As we get ready for a year full of opportunities for our segments and our brands, we will keep a vigilant eye on underlying market and retail trends as the environment slowly but surely begins to heal.

We will continue to exert strict discipline on all of our key operating metrics, balancing cost versus investment, and actively managing our use of capital to continue driving strong cash flow from operations.

With that, Herbert will now take you through our plans to accelerate growth in 2010.

Herbert Hainer

As you have just heard, we emerge from the challenges of 2009 with a very healthy financial position and can now focus all of our energy on returning our business to growth. And that's exactly what we intend to do in 2010.

When I look around the marketplace today, I do not see any other company with a product pipeline as compelling, original or technologically advanced as ours. And I am convinced there is a major opportunity for all of our brands to capitalise on a rebounding consumer environment and the numerous opportunities we have this year.

Therefore, in 2010, we will start a marketing offensive focusing primarily on three major initiatives to seize market share:

- First, converting the excitement of the FIFA World Cup™ into new record sales for the football category.
- Second, accelerating momentum with the lifestyle consumer with a new global campaign for adidas Originals.
- And, last but not least, with the energy we are creating for Reebok in toning and conditioning, we will follow through with creative marketing concepts as we return the brand to growth in 2010.

So let’s start with football. This summer’s FIFA World Cup™ in South Africa will be something very special for a number of reasons. Twelve of our teams including the host nation will compete in the finals, which, combined with our status as Official Sponsor, Supplier and Licensee, gives us an unmatched presence at the event.

It will have an unprecedented scale of media coverage as the world's largest television event, broadcast to over 190 countries and an estimated aggregated audience of 26.3 billion. It's also the first time the competition will be hosted on the African continent, where football is always a celebration – vibrant, colourful and passionate. And we will take this flair global in 2010.

From a marketing perspective, we will use the "EVERY TEAM NEEDS …" platform to transcend our entire football offering ahead of the 2010 FIFA World Cup™. We have also secured exclusive TV rights in various countries, for example with ESPN in North America, where adidas will be front and centre to millions of viewers throughout the event.

As I mentioned already, we are off to a fast start in football following the successful product launches of the fourth quarter, all of which continue to be in high demand. But we are by no means finished yet. Since January, we have already brought the adiPURE™ and several of the away federation jerseys to market. Today, the German away jersey hits retail, and it will be played-in for the first time tonight in the all-adidas game between Germany and Argentina.

We will continue to launch new inspiring football product every month until the event kicks off in June – a key highlight still to come is the eagerly awaited next installation of the F50 where I can tell you retail demand has been very strong.

Taking these and all our other football initiatives together, I am more than confident that we will generate a new record level of over 1.3 billion euro in sales in the football category in 2010.

To keep momentum going in the adidas Sport Style division, we will launch a new global campaign for adidas Originals in 2010. The message of Celebrate Originality remains consistent, but as a backdrop the campaign takes a close look at the “Street Where Originality Lives”. Once again including musicians, style icons, athletes and even STAR WARS™ characters, this campaign is a clear evolution of the 2008/2009 House Party with a strong focus not only on recognisable celebrities in the crowd, but also on highlighting current Originals products – such as STAR WARS, and various Originals by Originals collections by leading designers such as Jeremy Scott, Kazuki and James Bond.

Our third key priority is Reebok, where we have a very exciting year ahead. And here, we will increase marketing efforts significantly to support the Reebok brand in this crucial stage of its turnaround. As you may have noticed on our revamped Reebok.com website, at the start of the year we launched our new global marketing platform for the brand which uses the motto “Ree” – as Reebok strives to ReeDefine sport and style. For 2010, this will form the backbone of our two key brand priorities for the year:

- continuing to capitalise on the rapid growth of the toning category,
- and to accelerate our efforts in men’s training and conditioning.

Building on the huge success of EasyTone™, in 2010, we will significantly extend our product range, price point and distribution coverage, as well as increase our marketing efforts for the category outside of the United States.

And for those of you here in Germany, you will also see Reebok being partner of this year’s TV series Germany’s Next Top Model, which starts tomorrow.

In 2010, we are also expanding our toning product offering beyond women’s and walking, as the first brand to define muscle toning as a cross-category concept. The offering for women and men will include EasyTone™ for walking and casual wear, TrainTone™ for training exercises and the gym, RunTone™ for running, and JumpTone™, helping to strengthen key leg muscles and thus allowing athletes to improve their vertical leap. Together, our entire toning offering is expected to grow to more than five million pairs in 2010.

The second major initiative we will be supporting for Reebok in 2010 is our first revolutionary product technology aimed at kick starting our efforts to challenge in men’s training - ZigTech™. ZigTech™ is a completely new running and training shoe concept. If EasyTone™ was designed to force muscles to work harder and do more – then ZigTech™ is designed to make muscles more efficient and do less.

In product testing, a host of enthusiastic athletes and consumers confirm that ZigTech™ is not only visually striking, but more importantly it addresses an unmet need of fitness runners and athletes. By maximising energy transfer through its zigzag geometry back to the actual running stride, this shoe allows the wearer to train longer, faster and healthier. This is achieved as the unique energy and cushioning system reduces stress on muscles by up to 20%.

The introduction of ZigTech™ is being supported by the biggest Reebok campaign since prior to the acquisition. And just like in toning, we are following a fun, bold and provocative communication strategy.

Since January, we have been teasing the market with mysterious visuals of the product in print media such as Sports Illustrated. And at the Super Bowl in Miami we had comprehensive coverage in the stadium and on the web. Last week, we celebrated the global launch in Barcelona with key Reebok athletes Lewis Hamilton and Thierry Henry.

But this is only the tip of the iceberg. We will really get going on March 11 with the full US retail introduction where we will support the product prominently across all channels, including TV, digital, and in-store. Watch out for March Madness on CBS and you will see what I am talking about.

But the adidas Group is not only about these three initiatives. Innovation is our most discerning competitive advantage. Just to mention a few:

- adidas' miCoach training system, Supernova™ Glide, TECHFIT™ PowerWEB™,
- Reebok's Training Day apparel or new global alliance with Giorgio Armani
- TaylorMade's r9™ SuperTri and Burner® SuperFast drivers,
- Rockport's TruWALK product architecture
- or Reebok-CCM Hockey's 11K Pump,

We are the most innovative and comprehensive sporting goods company in the world. There is a product energy at all of our brands which I am convinced will support our Group's development strongly this year.

While marketing will be an important pillar in our growth strategy for 2010, so too will be our approach to distribution. A crucial element to achieve commercial success is the understanding that brand presence must be competitive in an environment where consumers make their final decisions based on availability, convenience and depth of product offering.

For our wholesale business, that means we will continue to roll-out customer and range segmentation strategies, as this formula has proven highly successful particularly in saturated markets like the UK. In addition, we will also continue to increase controlled space for our brands with key retail partners. A recent example of this strategy is our new exciting agreement with Champs Sports in the US for official NBA shop-in-shops. This first-of-its-kind NBA retail experience will feature a wide assortment of adidas NBA performance and lifestyle apparel, including on-court products, fashion collections, and exclusive adidas NBA apparel and accessories all year round. The NBA Shop will debut in 69 Champs Sports stores this month and will be in the remaining almost 500 Champs Sports stores nationwide by the start of the new NBA season in October.

For Retail, I believe our dedication to this distribution channel as a separate business segment is a real point of difference – and over the long term offers us tremendous growth and value creation opportunities. Our strategic vision for retail is to become one of the top retailers in the world by delivering healthy, sustainable growth with outstanding return on investment. We have learnt a considerable amount from our experience in retail. However, we are by no means a leading retailer and, as a natural consequence of its size and relevance to our future financial performance, we must put an even greater focus on becoming a better and to a certain extent a more commercially driven retailer.

In the short term this will require additional investment in people and IT infrastructure as we strive to create greater retail competency in areas such as product merchandising, real estate management and store processes. At the same time, we will also continue to selectively open and remodel retail stores to continue growing our retail footprint, with about 150 planned new store openings and around 200 store remodellings in 2010.

So ladies and gentlemen, as you can see, we have a lot of things to keep us busy in 2010. Let me now quickly run through how this will affect our financial performance.

We forecast full year Group sales to increase at a low- to mid-single-digit rate on a currency-neutral basis, with growth in both our Wholesale and Retail segments. While we expect Wholesale sales to increase at a low-single-digit rate on a currency-neutral basis, Retail sales will increase at a high-single-digit rate. This will be driven by the opening of adidas and Reebok stores, primarily in emerging markets. Currency-neutral sales in Other Businesses will increase at a low-single-digit rate with growth at Rockport and Reebok-CCM Hockey whereas TaylorMade-adidas Golf sales are forecasted to remain stable.

We expect gross margin to improve to a level between 46 and 47% with lower sourcing costs and less margin pressure from clearance of excess inventories. However, these positive effects will be partly offset by ongoing price pressures from a highly competitive retail environment, in particular in more mature markets. In addition, hedging rates in 2010 will be less favourable compared to the prior year. Finally, the recent increase of import duties in Latin America will cost us some basis points of gross margin.

As I just outlined, operating expense development will be negatively impacted by renewed investment in marketing and controlled space, securing share of voice and premium distribution. At the same, we will of course remain disciplined in managing our operating cost base, supported by the positive effects from the measures we implemented under our reorganisation programme in 2009. As a result, operating expenses should decline moderately as a percentage of sales, resulting in an operating margin improvement to around 6.5%.

Coupled with lower financial expenses and a moderate decline in our tax rate, this will translate into earnings per share between 1.90 euro and 2.15 euro.

On the balance sheet, we expect another reduction of net borrowings by year end, although the times of absolute lower levels of operating working capital will sooner or later come to a natural end once we have switched back into growth mode. Nonetheless, our most important metric in this respect, operating working capital as a percentage of sales, should show further improvement in 2010.

So to summarise for today, 2009 certainly was a difficult year with unprecedented challenges for our Group. However, it has also been an enormously important year – with many game-changing decisions that will positively influence our business in the years to come. Today, we can safely say that 2010 will be a much better year than the one behind. Our financial position is healthy. Our brand concepts and campaigns are strong. The FIFA World Cup™ will give us an extra stimulus. And the retail industry is finally beginning to show signs of life again, as global trade strengthens and consumer confidence slowly begins to recover.

Therefore, we will make the most out of the tremendous opportunities we have in 2010 to grow stronger, by investing in marketing and key distribution channels. This will ensure that we continue to secure the highest possible return on our key assets – our brands and our products – both in the current year and beyond.