FINANCIAL RESULTS PRESENTATION

Q1 2008 Speech

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Natalie Knight, Vice President Investor Relations

Good afternoon everyone and welcome to our Q1 2008 financial results presentation. The adidas Group is off to a powerful start to the year. Group sales and net income in the quarter were outstanding with strong showings from both adidas and TaylorMade-adidas Golf.

Our presenters this afternoon are Herbert Hainer, adidas Group CEO and Chairman, and Robin Stalker, Group CFO. Herbert will now start with an overview of the development and outlook for each of our brands.

Herbert Hainer, CEO and Chairman
Thanks Natalie and good afternoon ladies and gentlemen.

We couldn't have started 2008 better – with strong momentum at adidas and TaylorMade. These brands rose to new competitive levels in terms of sales and profitability and are fundamentally stronger than they have ever been.

Our work at Reebok continues – but our focus is now clearly on execution and we remain confident that the strategic potential of this brand will soon become more transparent to you externally.

With two major sporting events lined up for this summer, we know that the world's eyes are going to be firmly fixed on our Group and brands.

Our results today are a bright light in what has become a mixed earnings season – both in our sector and beyond – but this is certainly nothing that has been overlooked in the financial community this quarter.

- Group sales came in at 2.6 billion euro – up 3% – which represents 10% growth in currency-neutral terms. This was supported by double-digit increases in every region except North America.

- Our gross margin accelerated over 200 basis points to reach 49.1%.

- Our operating margin reached its highest Q1 level since the Reebok acquisition.

- And net income soared – growing 32% to 169 million euro.

As you all know, we have fine-tuned almost every part of the adidas Group in recent years. The output is clear: consistent top-line growth and profitability improvement in both good markets and challenging ones, in event and non-event years. We know consumers aren't hesitant to spend where they see value, quality and performance.

Let's look now at each brand.

At adidas, the story is simple and clear – our commitment to being the best performance sports brand in the world is paying off.

Currency-neutral sales grew 14% with double-digit gains in the three biggest categories: football, training and running.

Whether it was more creative advertising, more compelling point-of-sale communication or our strong own-retail activities, adidas is exciting consumers like never before. Here are just a few examples:

- The launch of Nascar driver Dale Earnhardt, Jr.'s apparel collection sold out over 40% of the total product offering in one day – rivaling the blockbuster success of our David Beckham launch last year.

- The brand opened 60 new shop-in-shops with JD Sports in the UK, and

- In France, adidas engineered a month-long adidas "makeover" in March of the most prestigious sporting goods retailer in Paris: Citadium.

Our own-retail activities were another strong example of adidas winning when the brand interacts directly with consumers. Currency-neutral sales grew 31%. And two special highlights I'd like to mention here are:

1. The strong sell-throughs of products in the adidas denim collaboration project with Diesel, which are available only in our Originals stores.

2. The rollout of our new Atelier concept to Originals stores in Berlin and New York with new trendy design and loads of interactive activities – the concept has delivered strong sales increases and will be rolled out globally over the next 18 months.

And adidas' winning performance extended to all levels of operating results.

Gross margin reached 49.0% and the operating margin climbed to an all-time first quarter high of 17.1%.

And we're expecting this strong momentum to continue at adidas.

European backlogs grew a healthy 14% – supported by double-digit growth in both footwear and apparel. The European Football Championships had an impact, of course, but it was only 3 percentage points in Europe (and a little more than 1 percentage point for the brand overall) this quarter. It is clear that our cornerstone brand is shaping up for strong performance in Europe.

North American backlogs were down 2% – no surprise given the shaky consumer confidence and tougher retail environment. The re-introduction of the Superstar, however, is clearly helping Sport Style backlogs, which have been under pressure for several quarters. And we continue to expect currency-neutral revenue increases for adidas in North America this year, driven by our own-retail initiatives.

And currency-neutral orders in Asia grew at double-digit rates for the 27th consecutive quarter – this time up a healthy 19%, driven by strong growth in China.

At Reebok, our Q1 results really highlight the current strengths and weaknesses of the brand.

Currency-neutral sales declined 6% – driven by double-digit declines in the US and the UK, which together comprise over 50% of brand revenues. In both of these markets, consumer spending is slowing and the environment is tough.

But sales grew for the rest of the world, where Reebok's positioning is getting stronger. And, we expect this trend to continue for the remainder of the year as you'll see when I talk about backlog development.

Reebok continued to expand its gross margin – reflecting double-digit growth of its high-margin own-retail business and a changing regional mix.

Operating margin and profit declined in the quarter. However, this was in line with our marketing expenditures. We kicked off the year with the brand's major "Your Move" campaign – and so far we have seen good results, namely with sell-through of the brand's Hexride product line.

Now I will run through backlog development by region:

In Europe, backlogs declined 8% in currency-neutral terms – exclusively as a result of continued declines in the UK. However, we are making progress in several markets – from Italy, to Central Europe to the region's emerging markets – where backlogs are up at double-digit rates.

In North America, backlogs are down 22%, driven by continued pressure in footwear. Backlog development was also impacted by a negative swing in apparel, which was largely driven by tough comparisons and the lack of new licensed apparel product launches.

In Asia, backlogs grew – by around 4%, reflecting the challenges in Japan, but this shouldn't hamper us from delivering double-digit growth in Asia for the full year due to the significant revenues throughout the region that are not included in backlogs.

The re-positioning of Reebok is continuing. Now it is all about execution.

At the core is improving point-of-sale impact and distribution. Allied to this is maintaining focus on fit and comfort – all within the brand's tenets of individuality and choice. Reebok's new "Your Move" campaign has resonated with our customers and is already driving sell-through success with a number of products.

Winning comes one stride at a time. And a few we are taking include:

- Starting a major branded apparel cooperation with Dick's Sporting Goods which will bring Reebok shop-in-shops to every Dick's location in the next 12 months.
- Strong sell-throughs of our Freestyle Cities product line at directional accounts such as Shiekh's.
- And reinitiating sales with Footlocker in the fourth quarter and into 2009.

I remain absolutely convinced that we are doing all the right things to make Reebok successful going forward. It may take some time but we'll get there. And I think these initiatives are strong indications that we really are improving the quality of Reebok's core business.

Moving over to TaylorMade-adidas Golf, currency-neutral sales grew by 17% in the first quarter. This is the highest growth rate for the segment in eight quarters, as we continue to extend our leadership position in the premium golf segment with a continuous stream of new products and industry-leading brand communication.

Sales grew at double-digit rates in all major product categories. There are two important product stories that I want to mention here:

1. Our new TaylorMade and Noodle-branded golf balls, which saw such fantastic sell-through that we had to increase capacity mid-quarter.

2. Our innovative new Rossa Spider putter – where we are really breaking the mold by taking our industry-exclusive movable weight technology and bringing it to the putter category.

Turning to profitability, gross margin rose 270 basis points to reach 46.6%. And we delivered a strong 23 million euro operating profit, in a quarter where we traditionally generate very little or even a loss.

So 2008 has begun very strongly for adidas and TaylorMade-adidas Golf. But in terms of this year's biggest sporting events, the starter gun has yet to go off. In just 32 days the European Football Championships will begin. And we have worked hard to ensure another victory for brand adidas. We are the sponsor of the UEFA EURO 2008™ Championship and are equipping five of the most important teams: Germany, France, Spain, Romania and defending champ Greece. In every country, fans young and old are dreaming about victory, about upsets, and about goals.

From an operational and financial perspective, we've come out of the starting blocks strong in 2008. And we know that this year will be better than ever. With new confidence, better brands, and building on all the strengths within our Group. The European Football Championship is one big event where everything comes together – Asia, China, and the Beijing Olympics come next. And I can promise you, our Group is ready to compete.

Now, ladies and gentlemen, I'd like Robin to go through the financials with you in more detail.

Robin Stalker, CFO

Thanks Herbert. And good afternoon ladies and gentlemen.

As Herbert has already outlined our impressive operational achievements in the first quarter, I would now like to provide you with some color on how this strong performance translated through to our major P&L and Balance Sheet items.

I'll put particular emphasis on the drivers of our strong profitability improvement in the quarter and the phasing of our results for the remainder of the year. In addition, I will update you on the progress we are making on our share buyback.

So let me start with top-line development where currency-neutral sales increased 10%. However, negative currency translation effects are clearly significant in this quarter – so as a result, reported revenue grew 3% to 2.6 billion euro.

With the exception of North America, where currency-neutral sales declined 7%, all regions delivered double-digit currency-neutral revenue growth in the quarter. Europe increased 12%, Asia 25% and Latin America 18%. Here again, growth rates in euro terms were lower due to the stronger euro versus most major currencies.

As in previous quarters, emerging markets were a driving force behind this strong top-line development – with Group sales in China and Russia, for example, growing at over 70% and 50% respectively.

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Turning now to the other P&L items: In the first quarter, we were again able to considerably increase the Group's gross margin. It was up by 230 basis points to 49.1% in the quarter (versus 46.8% in 2007), with increases in all of our brand segments. This was driven by changes in both our product and regional mix – which contributed more than half of the increase. Currency benefits, our growing own-retail business and cost synergies resulting from the Reebok integration into the adidas Group, were the other positive drivers. Input cost increases only moderately negated these positives in the quarter.

As a result, Group gross profit for Q1 increased 8% to 1.3 billion euro.

Moving below the gross profit line, operating expenses as a percentage of sales increased 50 basis points to 39.2%. This development was predominantly due to increases within the Reebok segment, where operating expenses as a percentage of sales were up 4.3 percentage points.

This mainly reflects a higher cost base as a percentage of sales due to Reebok's sales decline in the first quarter. In addition, expenses related to the launch of Reebok's global brand campaign "Your Move" and infrastructure expenses to support growth in emerging markets also contributed to this increase. Nevertheless, on an absolute basis, operating expenses declined for the segment.

For brand adidas, operating expenses as a percentage of sales decreased 60 basis points. This reduction was mainly driven by the timing of marketing working budget expenditures, which will be concentrated in the next two quarters around the European Football Championships and the Beijing Olympics.

And, at TaylorMade-adidas Golf, operating expenses as a percentage of sales were reduced by nearly 10 full percentage points. Lower marketing expenses due to this year's product launch schedule, and efficiency gains resulting from the segment's ability to leverage the strong first quarter top-line growth were the main drivers behind this performance. In addition, the segment recorded a 6 million euro book gain from the sale of the Maxfli golf ball brand.

As we outlined at our full year results conference in March, improving profitability at TaylorMade-adidas Golf is one of our top priorities for 2008. We're off to a strong start and while we don't expect this amount of leverage to be maintained in subsequent quarters, we clearly do expect to deliver a strong full year operating margin improvement.

Group royalty and commission income in the quarter decreased 7% to 21 million euro. However, this is strictly related to currency effects. On an underlying basis, royalties increased modestly in both the adidas and Reebok segments.

Together, all these factors led to an operating profit increase of 23% to 282 million euro from 229 million euro in the prior year and a 170 basis point operating margin improvement to 10.8%. This important development, ladies and gentlemen, demonstrates our continued focus and increasing ability to translate our Group's operational developments into bottom-line profitability.

Moving now over to the non-operating items of the P&L, net financial expenses decreased 16% to 32 million euro during the first quarter of 2008. This was a adidas GROUP

direct consequence of the strong progress we are making in reducing net debt – but I'll talk about that in a few minutes.

This development coupled with our strong operating improvement during the quarter led to an IBT increase of 31% to 250 million euro and a 32% increase in our first quarter net income attributable to shareholders (to 169 million euro). Net income development was also supported by a modest improvement in the tax rate versus the prior year.

As a result, basic earnings per share grew 33% to 84 cents and diluted EPS was up 32% to 79 cents. While the leverage effect isn't big yet, both these earnings per share measures increased at a slightly faster rate due to our share buyback program – and this is a trend you can expect to continue, if not moderately accelerate, for the remainder of the year.

Now let me briefly comment on the balance sheet, where we have again delivered impressive performance during the first quarter.

First: operating working capital. In Q1, inventories grew 13% in currency-neutral terms or 3% in euros to 1.6 billion euro. This increase reflects our expectations for growth in the coming quarter particularly as it relates to business expansion in emerging markets, and UEFA EURO 2008™ deliveries which are taking place as we speak.

Accounts receivable were stable on a currency-neutral basis and declined 7% in euro terms, to 1.6 billion euro. Compared to our 10% currency-neutral revenue increase, this development underlines our continued strong collection efforts and our strict enforcement of trade terms. And ALL brands contributed to this improvement.

As a result, average operating working capital came in at 24.7% – a decline of 80 basis points from 25.5% in the prior year.

Now finally let's have a look at our debt situation. At the end of March, net borrowings amounted to 2.1 billion euro, a reduction of 18% (or almost 450 million euro) versus last year. Exchange rates helped this development, accounting for more than one-third of the improvement. But don't forget that the underlying net debt improvement was even better and is masked somewhat by Q1 cash outflows relating to our share buyback.

Financial leverage at the end of the first quarter was 72.9% – which represents a reduction of 13 percentage points compared to the prior year's level. Net borrowings did increase versus 2007 year-end levels, but this merely reflects the normal seasonality of our business. However, given my expectations for cash flow development in the coming quarters, I expect our year-end net borrowings to be no more than the 2007 level – and they may even come in at slightly below it – despite our plans to invest most of this year's free cash flow in our share buyback program.

Speaking of our share buyback program, during the first quarter we repurchased 3.2 million shares corresponding to 1.57% of our stock capital. The average price paid per share was 42.03 euro, for a total consideration of 135 million euro. Since the end of the quarter, we have acquired an additional 2.3 million shares, which has taken our year-to-date progress to 5.5 million shares (2.71% of our stock capital) at an average price of 41.73 euro for a total amount of 230 million euro. This – combined with our proposed dividend of € 0.50 per share, which we intend to pay later this week presuming AGM approval – means we will have almost quadrupled our returns to shareholders in 2008 compared to the prior year.

Let me now spend a couple of minutes on our expectations for the remainder of 2008 because the phasing of our results does require some additional explanation.

Starting with the top line, you know we intend to deliver a high-single-digit currency-neutral growth rate.

adidas will lead the way with a high-single-digit growth rate. Reebok will grow at a mid- to high-single-digit rate. This is higher than our initial guidance for the segment and includes the consolidation of Reebok's new joint venture arrangement in Brazil and Paraguay. TaylorMade-adidas Golf full year currency-neutral revenues will grow at a mid-single-digit rate.

In terms of phasing, we expect Group sales to remain strong ahead of, and throughout, this summer's major sporting events. Growth will moderate in the second half of the year, particularly in the fourth quarter. This is mainly due to tough comparisons we will face following strong sell-ins we enjoyed with our retail partners last year ahead of this year's big events.

For the full year gross margin, we are expecting a level of between 47.5% and 48%. Our gross margin development will be strongest in the first half of the year, reflecting the high profitability of many of our event-related products. In addition, we do expect rising input costs to temper gross margin improvements in the second half of the year.

With respect to the Group's full-year operating margin, we remain confident that we will achieve a level of at least 9.5%. Expect highest profitability in our non-event quarters, which means a lower than full year average margin in both Q2 and Q3.

We expect net income to grow at a rate of at least 15% with phasing similar to the operating profit development I just outlined.

And finally, with respect to the balance sheet, we will continue to focus on improving our capital efficiency with a strong focus on operating working capital management. This, together with another year of strong operational performance, will ensure we continue to maximize cash flow generation, and drive further increases in shareholder value.

Before I finish today, I would also like to point out that currencies will play a much larger role in 2008 when it comes to our bottom line and our balance sheet. We often talk about the Group being a beneficiary of a weak US dollar. However, we are also exposed to other currencies where we generate significant profits. As a result of the deterioration of several other major currencies against the euro such as the Yen, the British Pound – but also the Russian Ruble and the Chinese

Riminbi – we will face significant negative translation impacts on profits generated in these currencies this year.

Like many other challenges we face from today's tough macro-economic environment, it is another headwind. Nevertheless, I believe it is all very manageable.

So, ladies and gentlemen, our Q1 financial results make it clear that the adidas Group is off to an outstanding start in 2008. Both adidas and TaylorMade-adidas Golf are firing on all cylinders, and with a strong focus on executional excellence we will strengthen and revitalize the Reebok brand.

Market conditions are challenging – that's clear. But at the same time there is no scarcity of opportunity for our Group and our brands to continue to improve. Therefore, we are confident 2008 will be another record year for the adidas Group.

Now both Herbert and I will be happy to take your questions.