

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **AME.HE - Q1 2007 Amer Sports Oyj Earnings Conference Call**

Event Date/Time: Apr. 25, 2007 / 8:00AM ET

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## PRESENTATION

**Max Alfthan** - *Amer Sports - SVP Communications*

This event is being broadcasted over the internet and the program is briefly the following. President and CEO, Roger Talerio will present the highlights of the quarter. This is followed by a Q&A session where also CFO Pekka Paalanne will join.

We will start by taking questions from the audience, please use the microphones when asking questions and also state your name and organization. After that, we will take some questions from our international audience.

So at this point I would like to hand over to Roger Talerio.

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**Roger Talerio** - *Amer Sports - President and CEO*

All right. First of all I would like to welcome you all to this session, both people here and via the presentation broadcast. As Max Alfthan already said we are going to proceed the way -- how he explained and I'm going to go through in my normal habit, through the presentation first and then we can come back to the questions and answers.

As you know we have released the information today and to start with, as you've seen, we have had to lower our expectations for the full year. The guidance is different from what we had. In general, it's all due to the Winter Sports business. I will come back with a special section going a little deeper into what Winter Sports -- it's all about today and how it looks like developing and then we go a little bit deeper into the details.

All the other businesses are developing as expected. So generally the situation from that perspective doesn't look too bad. The net sales declined 4% in local currencies and the main reason for this, as I already explained is a situation with weak snow conditions.

Throughout the markets, maybe the point of fact to mention here is that, compared to the earlier expectations we've had, we have said all the time that we've seen all the time that the market has been weak on the winter sports side due to the warm weather. The surprise has been that also the U.S. market was lower than we expected. We actually see from statistics, sell-through statistics, that the U.S. market has actually declined 11% compared to the previous year and this, and we know that the season was very warm in Japan. All markets have been more or less involved in this situation.

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This will mean that re-orders will be lower going into the season. As you have seen Winter Sports business is lower from the first quarter and reorders will be lower going into next season. Again, I will come back to details a little bit later.

The good news is that our inventory on the Winter Sports side is intact. Atomic as always, being very low, only a few thousands of pairs which is really, really low is on the same level as before and Salomon inventory levels is also in a good shape going in. So from that perspective, at least, we have some good news in this situation.

Also the currencies played a more important role than previously and I will come back to currencies, maybe a little later in questions and answers, if you want to know more in detail of that. It's not only Euro/Dollar. It's also the Swiss Franc, the Yen which has played in, etc.

We have recorded very good growth in some categories of-- the highest growing categories we can name are Salomon Apparel and Footwear, Precor and Suunto, as well as, we could also say Mavic and Wilson Racket Sports which look pretty good at the moment.

EBIT declined to minus EUR7.8m for the first quarter and we have initiated additional measures to go faster in terms of improving the winter -- especially the winter sports profitability. And as I said our new guidance for full year is now that, we see the top line declining slightly compared to last year. As you remember our guidance was that top line will remain on last year's level and then the EBIT level is going to, as we see today, be more or less like on last year's level, so there we have a lowering of the guidance.

If we go back to Q1, Net sales EUR381m compared to EUR417m, which is 9% down, 4% in local currencies. EBIT minus EUR7.8m compared to EUR1.6m, and this gives then minus EUR14.6m in EBT compared to minus EUR3m in last year. And we will come back to these figures also, a little bit more in detail.

If we look at Net Sales breakdown per business unit, Salomon's minus 10% in currency, minus 8% in local currencies. Actually if you deduct from last years number Inline Skate business which was roughly EUR11m Q1 last year, we are more or less on the same level.

Wilson, down 2% in local currencies, I would say nothing significant there. There may be some delays in the Team Sports business on the bat side, and the golf is still going down a little bit, maybe partly planned.

Precor is still showing a growth, 9% up. Sales are growing pretty well as we believe that the market is not growing with the same pace, so Precor is recording good continuation of its growth.

Atomic is down in the first quarter, which is the lowest period of our winter sports sales approximately with half. The interesting thing is that if we break out from the Salomon numbers the hard goods part, it's also down about 50%. So it's very equal in Atomic and Salomon in hard goods. And it corresponds very well to the market data. I'll come back to that a little bit more then in the Winter Sports presentation.

Suunto is progressing very well. Continues to have a good run, plus 16% in local currency. So this in total gives us then the minus 4% versus the minus 9% in reported currency.

If we look at the EBIT, as always Winter Sports business is negative in the first two quarters, likewise this year. Salomon is more or less on last year's level. Wilson is EUR19m compared to EUR24m in EBIT, plus of course, in this case. We'll come back to those details a little bit later. And Precor, roughly EUR10m, EUR9.9m compared to EUR12m last year. Atomic minus EUR13m, down also from last year a little bit and Suunto a little bit up from last year, and this gives then the minus EUR7.8m compared to EUR1.6m the previous year.

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Now I think this will be more interesting to go through the business segments, as the numbers you can look at even more in detail when you look into the press release that gives more detailed explanations.

Here, before we go into the Winter Sports market, here I have listed the solutions that we are doing and what are our opportunities and strengths, but I think it's important maybe to use a few minutes here to look at the market as such.

The market is, first of all, very difficult to predict what's going to happen. There is a few important and interesting elements that we have to record. It's, first of all, it's not evened out everywhere. This is something we have very clearly seen. Snow was late, but it came and the end of the season was very good for skiing on high altitudes and in the northern areas. So we have seen a continuation of the season which has been extremely well. Easter has been very good everywhere, well almost everywhere and a lot of people have been up in the mountains. So the mountain stores, first of all, they have not started their pre-bookings yet because they wanted to see how far they can get with this season.

Now I think it's started to be over. Last weekend was really kind of a final for most of the resorts. And they have had a decent season. We can see recordings both in Austria and in some resorts in France, Austria as a whole where tourism in ski resorts is up. So it's evident that somebody has benefited from this situation. Why are people skiing further into the season? Maybe because the started later so they anyway wanted to have their days of skiing as they had planned.

So, on the contrary to this, on the low altitude, in the very low altitude ski resorts in Germany and some other areas, especially cross-country, we have seen very tough times. It's evident when there's not snow on the, let's call it flat lands, or the low altitudes, there's no cross-country skiing. This is something that's always happened. And we remember the two past years have been extremely good, so a lot of enthusiasm and hype around cross-country development. And we know that quite a few dealers, especially in Europe, did a lot of investment in cross-country due to the Nordic fitness trends etc. and now they've got kind of a blow because all those stocks in some parts are completely unsold in their inventory.

So it's a very different situation between alpine and cross-country and it's a very different situation between low altitude and high altitude. It's quite interesting to see that the market generally is down in quite a few areas. I already said in United States it's minus 12 -- minus 11% compared to the previous year, and this is not sales from us, but from sales from the trade into the -- to the consumers.

In Europe we do not have the statistics yet, but we can see that in some markets, like Austria's statistics was announced a few days ago, and there the market was roughly down 20% all-in-all.

So there is two things happening now. We see that in some categories, some areas there is an inventory issue and in some areas it's more a, kind of a delay issue in terms of pre-season bookings. Now which one plays how much is very hard to read. Today approximately, approximately, between let's say 65 and 75% of last year's pre-season bookings, so we are behind. Is it behind, are we behind because of delays, or are we behind because they will buy less bulk. I would say both. What is the mix within these two? That's something we're analyzing momentarily.

So we think we will be behind at the end of the year -- at the end of the pre-season booking period. I will say June, will be lower than last year, this is clear. One reason to that is, apart from the inventory, a lot of our big clients, especially the chains and buying organizations have taken the stance that they believe there will be products available going into the season in September, October, November and December. Now whether this is true or not, that's to be seen. Some of our suppliers I know have cut their production plan and some of them might not have done that. That I can't say because I have not been discussing with our competitors and I couldn't do that anyway. So this will be a very interesting season when it starts.

Now then the question, is it bad weather -- bad winter, normal winter or good winter? We have built all our hypothesis on a normal winter because we don't want to go with the extremes. So assuming that there will be a normal winter, we believe that there will be more pre-seasons orders -- excuse me, in-seasons orders than last year, because last year was a bad year. But

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regardless of that, because of the situation, we think that we will end up the year roughly 15 to 21% lower in sales than past year what concerns the Winter Sports products.

And this is the main reason why we have now full year guided our Group earnings on last years level, I would say lower than we anticipated in the beginning. This is probably quite good analysis of the, let's say the big picture. The problem we have here now is that we will continue to accumulate pre-season bookings until I would guess mid-June. Roughly maybe two weeks, three weeks later than in the normal case. Now we will then know where we stand and we still don't know what the season will look like, so unfortunately we have to go all through Q4 before we know what the end results actually will be.

So I will be able to inform you on our pre-seasons bookings level but I will not be able to give you much more information on the full year. I think we can all see that together then when we get that far.

Now we're not sitting and holding back in this situation. We think that, first of all, a challenging market condition will give us opportunities. This is very clear. First of all, we are leveraging our synergies that we have already started as actions between Atomic and Salomon. We have a unique situation compared to a lot of our competitors here. Most likely we will -- not most likely -- I can say that we are pushing that further. There is more co-operation maybe than we'd planned in the beginning, so we had to take additional measures. This means speeding up some projects that we had planned, which is, I would say, in any respect good news.

This will mean more efficient operations going forward. How much of that impact will be on this year and how much on next year, that's to be seen. There is though a downside which we have to record, because of volumes go down we will have more negative variances. So how does these two play together that's something we have to calculate. I think, and we can already today see that we will have synergy effects already this year, almost as planned. Already EUR5m more or EUR5m less that's to be seen. But there will be synergy effects already this year.

Our strategic position going forward with one-third of the market, and as we can see from the statistics that have come out referring to the Austrian and JFK numbers, we have not lost market share. For example in Austria alone, I can't say about the other markets, but our feeling is that we have not lost market share. Means that we are in a better position than the others because our combined volume gives us more opportunities and we will evidently strive towards cost leadership in this situation.

At the same time we have introduced, going into this year, a lot of new products, both on the Salomon side and the Atomic side in the Winter Sports. So our lines, of top of inventory situation, our lines are healthy. We have good response, we have good references from our main dealers, so we should be in a good position to at least be sure that the top and the middle end of the line will be well booked and well sold. This is good news because that's the area where you make the margin.

The big battle, in my opinion, will be in the mid-low end which, the battle will start at the beginning of, maybe, I don't know, September, October. We do not have close outs ourself. We have to face the close out situation. Let's be honest with that, and what are we going to do there, that's to be seen. I can't disclose everything at this point. But that will be the stuff for the volume part, but at least the mid and the top end we should be okay with our lines.

We have a lot of new award winning products that has been introduced, not to mention the Wing series in the Salomon line, not to mention the Hawks in Atomic ski boots etc. etc. So we are in a good position.

As I said already earlier, we continue to drive the synergies what we had in plan. We're not going away from this situation and we think that we can maybe, it's still not 100% promise, but maybe we can even, kind of, speed up because of the situation. That is certainly something that we look forward to. And it means that when the situation turns, it's not if, it's when the situation turns and winter is back, we should be clearly in a stronger position than ever before.

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And we are not jeopardizing the development of our products. We will continue to introduce, already next winter, because they are in the pipeline, in January, February for the following winter, quite interesting, even revolutionary product in the Winter Sports category.

So we feel this is a temporary hiccup in the market. We have a bad winter. We have exceptional situations this year because of maybe the movement in the markets, and that all markets have been hurt at the same time. And the reference years, the two earlier reference years are, I won't say misleading, but they were very good, so they kind of give us a little bit, let's say a tough platform to start with.

We certainly believe that there will be good winters again and we should be in a stronger position than ever going into those years.

Now if we look then, brand by brand, I don't want to repeat too much of the numbers, but as I mentioned earlier, the Winter Sports equipment market was halved in the first quarter, which is the smallest quarter anyway. And the good news is that the Apparel and the Footwear business is growing very strongly, both on Arc'teryx brands and the Salomon brands. Both are recording very strong growth in all markets. And the Footwear is doing very, very well. We have the orders. We are now shipping in, have been, and are shipping in, the Summer '07 and we have more or less finalized our pre-bookings for the Autumn collection and they are okay. They're doing well. They're continuing to grow.

Mavic, as we have indicated earlier, the Bike business, Component business has been slowing down a little bit. Mavic is still in good shape and boasting a 6% growth in the first quarter. We have managed to adjust our production levels for '07/'08 season and as I said the inventory levels are okay. They are healthy and the mix is good, so everything should point out towards a better year coming -- going forward.

And as I said, both Atomic and Salomon as they are inspiring in terms of the market, we estimate that both will record between 15 and 20% decline in the total sales in hard goods.

All right. Atomic, more or less the same level of decline in sales for the Q1. Here we have taken, as well, measures by lowering cost, reducing the workforce. Here we have even announced, as you know, a reduction of work force compared to the previous year, and it means that we have quite quickly, with good flexibility managed to adjust ourselves to the situation in Austria.

Wilson's first quarter sales decline of 2% came from Golf down 9% and Team Sports down 4%. There is some timing issues here, especially in the Team Sports part which is also related to the cost side. We have taken some marketing costs and some IT. As you probably know, we are implementing SAP in North America momentarily. So they have been periodized a little differently from our previous years and this of course then has an impact on both the EBIT level and the sales level.

Actually Golf, I would say it's slightly good news. Both our DI7 and especially the new balls, it's called 50/50 in the United States, it's sold with another name in Europe, I can't recall what the European name is, but the new 50 compression golf balls, both are selling pretty well through and therefore we seem to have stayed on track with the plan we had in Golf. So no negative news from the Golf at this point. It's first quarter only, okay first quarter but we are gearing in towards a more important season.

We believe that all-in-all, despite maybe these negative numbers here, Wilson is on track to achieve its plan. It keeps growing and the profitability seems to go in the right direction. So I have full confidence that Wilson will be okay towards the end of the year.

It may be worthwhile mentioning the KFactor launch which was done, the new tennis racket. Squash and badminton will follow. They are already in the pipeline, Has been successful. We have had a major product launch in Las Vegas in February and the products are now shipping. And I've just got this morning first statistics from Japan, which is an important tennis market, we're back number one. We lost a little bit that position at the end of last year. We're now back number one during January/February sales and the two most sold rackets during these two months were both K Factor rackets. So that's a good indication that this

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racket that was used by Roger Federer winning the Australian Open, was used by Serena and Venus Williams winning two tournaments here in the early part of the season, is achieving its goals hopefully. The big, big news of this year in tennis rackets.

Precor has recorded sales increase 9%. We believe even if they don't have the statistics that we are clearly above the market growth. Growing very well. It's North America that continues to grow both on the commercial and the consumer segments. Europe is slightly slower, but we think that Europe will come back also in this business.

We introduced, the one on the top there, it's a very new machine called AMT, very new motions that have never been introduced before. It's a very interesting new equipment for the clubs. First tests and first shows have been behind us and very good response. Though, because it's a quite important machine with a price tag clearly above \$5,000 a piece, we want to introduce it slowly so that we can assure from all the quality and all the other aspects. But it's very promising and most likely will give a good boost to Precor sales in the years to come.

We have balanced a little differently the quarterly earnings. As you remember we had good surprise in the quarter one '06 and then we had a few bad surprises at the end because they weren't really balanced in the right way. So the periodization of some of the costs are now more even and this is one of the reasons why we're a little lower here than in the previous years -- or the previous year.

Again, we think that on full year level Precor will show good results both in terms of earnings and top line growth.

Suunto Q1, a strong increase of 16%. 43% growth in wristop computers and it's the t-line, which you see some pictures of here, which continues to do well. We have a decrease of 5% in dive equipment. I wouldn't be too worried. We had a few products lines, notably in the big consol market that were coming towards the end of its age and we will have new, which we have had already, new product introductions. And when they start to ship the Cobra 2 and the Viper 2 for those that -- that says something to those other big things, that when you dive you have a better, oh you actually have a little picture of them down here. So those, when they start to kick in, we think that even the Diving business would continue to be healthy.

Diving instruments and wristop computers which is the core of the business of Suunto is now coming up to 70% level of the total business. This is a number that we've continuously wanted to show to you because it has been gradually increasing from wherever, 30%, now up to 70%. That is the core. That's what we're going to continue to push.

We have quite a lot of interesting new introductions still to come this year and that will partly improve the business, the numbers. We think and hope that Suunto is on a growth path now again and we would foresee a growth pattern that will continue for a few years to come at least.

The biggest launch will be happening in September/October with not that big impact on this year, but we will certainly then impact the next year numbers, which is the new outdoor range.

So all-in-all, guidance as already said, we expect the net sales to slightly decline compared to last year and EBIT is estimated to be on previous year's level.

And as I said, it's mainly due to inventory levels and a tough situation to go through in the Winter Sports market, generated by, not only inventories in the retail but more so with other competitive suppliers, and we will have, let's say a difficult time to read what is from the market and what is from actually from timing. That's something which will be clear as we go along.

We expect the Winter Sports market to be 15% to 20% lower this upcoming winter and all the other business are expected to improve and arrive at least to what may have been forecasted in our internal business plan.

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Expenses, we are tight, but that is our main driver. Be tight with the expenses, take maximum out in profitability. That will then improve profitability and then improve sales where it's possible to find either pockets, or aggressively go after the business in winter sports market when openings are coming up.

This leads us to the section of questions and answers and as Max Alfthan was saying in the beginning -- or saying in the beginning we start with the audience here before we take possible questions from the rest of the world, or from outside this hall. So, please if you have any questions now is the time to raise your hand.

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

[inaudible]. I have a couple of questions. Firstly about the synergies and cost savings that you are supposed to get from Salomon -- from the Salomon integration this year. Did I understand correctly that you're still in line of receiving something like EUR20m for this year, approximately? Did I also understand correctly that your guidance of EUR40m plus for 2008 still holds?

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### Roger Talerio - Amer Sports - President and CEO

Guidance of 40 plus will hold. Will it be EUR20m this year? I'm not 100% sure. We have never guided 20 and 20. We have actually said that it's a little back heavy in terms of synergies. And, as I said, we're sure in our calculations that we will be 10 plus at least, whatever 10 plus means. Below 20 but over 10 for this year. That's how it looks like today.

But the negative we have is what will happen to the volumes at the end of the year. This I can't say today and the volumes unfortunately have an impact on the outcome. Now if we can come to decent volumes then it will most likely be on the better side. If then again the volumes will be down, it has an impact. That's why it's important also that we try to push some volumes. But what is very clear so far we have said to the trade, and we have said to all our people everywhere that we are not looking only for volume. We are looking for profitability. Now going in then to September/October we'll see what we do then.

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### Unidentified Audience Member

Does it mean, or is it in line with how the season at the moment seems to be developing?

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### Roger Talerio - Amer Sports - President and CEO

I say when I say decent I mean normal season, because you can take a normal season because you can take -- unfortunately you have a little bit like this. Take a normal season, however you define a normal season. But an average season, a bad season like we had last year or a very good season that we had two years ago. So we take a kind of in between so it gives us then the possibility to adjust in both directions if it's needed.

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### Unidentified Audience Member

Okay, a second question on your new tennis racquet launch. You recorded 4% sales growth, which is I suppose quite modest following a new product launch.

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**Roger Talermo** - Amer Sports - President and CEO

You have to remember that the launch was made in February, and that the shipment started in the United States January 1st, but only with two models. And the rest of the shipment then started after the launch. So we actually have very, very little of the new product here in these numbers. I think and I hope that we can show improvement in the upcoming quarters.

**Unidentified Audience Member**

Okay, I have one final question if I may about the core guidance for the full year. The previous guidance of -- that we had at the Q4 it was sort of on the cautious side so how would you characterize it?

**Roger Talermo** - Amer Sports - President and CEO

That's a tough question. We have, generally, always tried to be realistic in the way how we guide. In some cases we have even been cautious. Now this is a very much different case. It doesn't mean that we are now on the other side. But as I said earlier it's very hard to read the Winter Sports situation how it will kind of fold towards the end of the year. And we know that this guidance is solely, more or less, depending on the Winter Sports market. So what we have tried to do, we have tried to stick to as neutral stance as possible. That's why we say normal year. We have calculated this week actually when we got the first numbers late Friday evening we have used until today, even late last night, we did simulations from the different numbers from the different markets to try to get some kind of understanding what is changing in the pattern. And the only thing what we can do is we took the pre-season increase in sales over the last years, bad years, good years, and we built an average of them. And I think it's a very right way to do it. It's not lying in one or the other direction and then you're not fooling yourself.

But, as said, we're unfortunately in this situation because the market is quite fragile momentarily because of a lot of reasons. We can be 2m low if the season is not good. We can be 2m high if the season is better and then we can spread it, depending on how far you want to spread it. But this is the situation. Whether we are too prudent or too optimistic it's much more difficult to say compared to what we used to do. But we try to be realistic. I'm sorry I can't give you a better answer. I don't have a better answer.

**Unidentified Audience Member**

Thanks.

**Roger Talermo** - Amer Sports - President and CEO

Welcome.

**Unidentified Audience Member**

[inaudible] Deutsche Bank. What if next season will be as bad as the last season? You've said many times that two bad seasons would be a worse case scenario. And I'm not a prophet in any way, but the signs currently show that there is some sort of global warming. So, what if there would be another bad season?

**Roger Talermo** - Amer Sports - President and CEO

First of all, we're not experts in weather, even if we are depending on it. Secondly, I wouldn't like personally to go in and speculate about the weather as such. We still strongly believe that Winter Sports will be there. We think there will be good winters to

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come and whether then next year will be a warm or cold winter, or snow or no snow winter, that's impossible for us to predict and we don't want to do it.

But to your question, how would it impact our business? I would refer back to what I said earlier. We don't believe it will disappear, the Winter Sports business. We still believe it will be a strong and important business if you want to be in a sporting goods business and have a portfolio. Its relative size of our portfolio will diminish, so it will have a smaller impact from that perspective on our gross total numbers.

On the other hand, the smaller it gets allows me to speculate too a little bit, the smaller it gets the stronger we should in proportion be. I don't think it will be much smaller than what we saw last year, as I said, but if, and maybe it's not worthwhile speculating too much, but if we have a second bad winter I think we just have to go further in terms of synergies and integration of our Winter Sports operations. That's probably the impact of what it should be.

On the other hand, as the likelihood give it 50/50 is that we have a normal winter and then it means that this situation will be normalized pretty quickly. Most likely after next season. So we have one year of correction if we have one bad year. And that one year of correction will not throw us into negatives.

If we then have two years of bad seasons then we have to see how far we have to go. But I think we still have a lot to do and I think that if this would have happened, allow me this much to say, this winter -- past winter would have been one year further down the road, or two years further down the road we would have been completely in a different situation, as we would have managed to make the synergies workable and have more flex in our operations.

We are very aware of that there are winters that come and go. We don't think, and if you look statistically, it has not affected the Winter Sports business very much. So we are much, much less volatile than people actually think. And I think history has shown that there hasn't been two bad winters in a row. Where we had the world championships this year in alpine skiing, in 1952 when the world championships were there last time and the Finnish team was not allowed to participate, especially the Finnish women's team because too little snow, both in the pre-games and the games, because the coach was afraid that they would hurt themselves. This was 50 years ago -- about 50 years ago.

We have had these winters before. I'm sorry I can't answer you much better on this one.

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**Unidentified Audience Member**

Just a question on this. You were saying two consecutive winters, that would be a bad environment.

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**Roger Talermo** - Amer Sports - President and CEO

Yes, it means that we would, but I said it a few years ago and I always said that, we only had Atomic at that time. Now we have much more leverage to work with if there are two bad winters. But it's evident it will then take the market down on a different level.

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**Unidentified Audience Member**

Thank you.

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**Unidentified Audience Member**

[Inaudible]. You've indicated that you've started taking corrective actions on the Atomic cost structure and I gather you probably are taking similar action on Salomon. Can you give a bit of color on what are the actual measures and what kind of magnitude are we talking about?

**Roger Talerio** - Amer Sports - President and CEO

Magnitude is very difficult to say today because we are writing those processes. Some actions have been taken. Some actions are, let's say, on the drawing board. The first thing what we do is we have a scheme on both Atomic and Salomon side working on synergies and working on how we should develop our future business in the Winter Sports. That has all been reported. Remember I said that Atomic takes the lead in gliding products and Salomon takes the lead in the footwear and binding products.

We have looked into development issues together. We have looked into deeper industrialization issues together. We have looked into R&D questions, where we can share. So everywhere where we see a clear overlap that is kind of unnecessary in this situation, we have taken a second look at.

We have also indicated that we have adjusted our production planning. In Atomic it, in real terms, has meant that the number of employees this year compared to the number a year ago seen at the same time is 140 people less. In Salomon you know that -- and we have an in-house production desk. Partly in-house production. In Salomon you know we had a restructuring plan that ended this year. And we are working with Salomon on cost saving measures as we have worked with the other side. And then whatever this then leads to, that's something to be seen.

But we'll work on both sides and look at all the opportunities, not very different from what we had in our plan. Maybe we have now had a chance to kind of increase the speed a little bit more on this side. What is the impact in numbers? Unfortunately, I cannot give you numbers today because I don't have a number today.

**Unidentified Audience Member**

In that context, why is the Group headcount actually up by 80 people from the beginning of the year? Could you give an idea of how is the divisional balance evolving?

**Roger Talerio** - Amer Sports - President and CEO

That is such a tricky question that I don't think I have an answer to that because the way how we report the headcount is -- might be different because we have temps in there and the temps can be different compared to end of the year and today. And then you actually count the temps in terms of hours to add full year numbers. I don't have an answer to that, unfortunately. But the headcount in reality is reduced on a full year basis. I think you have to compare end of the year and end of the year, then we will see this.

**Unidentified Audience Member**

Okay. My final question, if I may, the receivables number is quite high at the end of the quarter at EUR450m, which particularly given the currency impact looks very big. Is there anything specific that we should be aware of?

**Roger Talerio** - Amer Sports - President and CEO

I want Pekka Paalanne, our CFO, to answer this particular question of receivables, EUR450m and why that is seen to be high.

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**Pekka Paalanne** - *Amer Sports - CFO*

No, there is nothing that I would worry and so usually what happens is we collect the money from Winter Sports previous year sales kind of early first quarter of this year now for instance and hope it has higher levels, a lot higher levels than the last year, end of this period. But since the end of the period then the receivables have come to the normal levels. So there's nothing particular to worry or report.

**Roger Talerio** - *Amer Sports - President and CEO*

So the cutoff date was badly planned in that sense. If we had it today, so we should look much more normal. This is what you are saying. Thank you. And then, okay.

**Unidentified Audience Member**

[Inaudible]. Would you mind going on with this magnificent speculation thing about two or three or four bad winters? You obviously can survive a few bad winters, but am I right in assuming that your competitors in the winter sport business perhaps can't. How do you see the competitive landscape in this winter sports if winters truly turn out bad? Are there going to be companies for sale or belly-up or whatever?

**Roger Talerio** - *Amer Sports - President and CEO*

I think this is a very valid strategic question overall. I think we have already indicated with the acquisition of Salomon that we need a stronger base in the winter sports to be able to survive if there are these kinds of winters. Okay. Then a good question, should we then invest somewhere else? Unfortunately I think it's -- or fortunately, whatever you want to say, I think it's very wise to have a strong base in a business you believe in instead of having a weak and then you might be in the same situation that some of our competitors mostly are this year.

So we think that a strong 30% or third of the market is a must if you want to have the flexibility and the muscle to go forward. That's within the Winter Sports business. So we have flex and possibilities to adjust with the years to come if several bad winters are going to be there. One extreme is, of course, that there are 10 different -- 10 bad winters, then we have no Winter Sports business anymore. On the other hand, if you look at the investments going on in the mountains, in the Alps or in the Finnish, no, Swedish, no, the investments in winter sports is not going down. They are going up.

So the industry, not only the suppliers of material like we, but also the tourism and the infrastructure believe strongly that this is an important thing. There is more snow making. There's more artificial snow and the belief is that this industry will flourish, also in the future. And we see from the consumers that they will be there. Now the interesting -- but we have to if we want to speculate, but we have to decide, are consumers going to change their pattern and behavior?

There are two very important things that concern us. One is, is there going to be more rental operators and rental business and is that going to be a more important new channel in our business? Answer right away, today would be, yes. It's going to be more important. There are going to be more rentals. And I think, and this is purely speculation, Austria alone, I think that the rental business has jumped another 10 points of the total Sinter Sports business compared to the previous years, just because of the weather pattern and all this that has happened.

Already we know that in France, half of the business is rental. In Switzerland it's high. Austria is getting higher. Even the locals who live in the mountains, they have started to rent their equipment instead of buying the equipment. Why? Because the rental operators have said, "I'll give you a season pass to rent the ski lift and you can come in every day and change skis and if it's

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powder you take your powder skis and if it's hard snow, you take hard snow skis." So rental is the new phenomena in changing this business pattern.

The second question concerning competitors, I think I wouldn't like to be in anybody else's shoes than ours because we have more strength, from the Winter Sports alone, but also from the other businesses. I'm not saying the other businesses aren't supporting this but it's evident the other businesses will give a backbone. It will trigger, probably, consolidation and probably something else.

I don't know how much you have read news today, but one big, big competitor of ours has changed hands today. K2 has been sold to another American company and created a new, big entity. The same company that bought Pure Fishing earlier this week or last week. So there is consolidation going on much, much faster than we had anticipated in the past. Is it related to this, or is it related to just normal things? I don't want to speculate but I'm pretty sure that the logic we created back in 1996 with this portfolio, it's going to be supported more and more about the other groups and same kind of phenomena will certainly happen.

So I think that those are maybe answers to your questions. And it's evident that the companies who have more weight in the cross country are really in tough times today because cross country has been much, much more hurt than the outside skiing as I already indicated earlier today. I hope I answered your questions. Yes.

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#### Unidentified Audience Member

In Team Sports, you mentioned that baseball was down due to some timing. What about the other categories? How do you see them developing and will Team Sports be the highest growing Wilson division for the full year as it usually has been?

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#### Roger Talermo - Amer Sports - President and CEO

Team sports, correctly as you say, has been very strong over the past years, continues to be very strong. However we see some slowdown in the development of the, let's say, the top-line business in that sense. We believe still today that it's more, let's say, local and maybe something that is not going to continue to be like that.

What we've had this year is that we saw a slowdown in our bat business in the first quarter, which then made us to speed up launch of the next line. I think it's a question of timing questions, nothing else. And we have now a new bat line that we have introduced in softball and we think that that will be a very good boost as we already have orders in hand, which looks quite okay for the rest of the year.

Maybe the other area, as you ask from the other areas, that's where we see a little softer approach but very slightly. Basketball and it's -- the whole industry, especially the United States, we see that the sell through of basketballs has been a little slower than the previous year. Don't forget, that the past year and the year before, we loaded a lot of new basketballs with the NCAA deal that was made and that was also partnered by [inaudible]. But this not only ours, this is -- our understanding is that the market is a little soft there. Apart from that, everything is fine. Nothing really that we would alert from in the whole team sports business.

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#### Unidentified Audience Member

Then the second question regarding Mavic. Do you continue to see a shift in price mix as you saw last year on a negative pattern or has that changed and do you expect improved EBIT on that division?

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**Roger Talerma** - Amer Sports - President and CEO

There's two things happening. Market is shifting slower. I will say there is the shift that you were referring to. We are introducing higher-end products so we are trying to improve our mix compared to the market. I think this is -- what the end-result is, is to be seen but I think it's plus/minus something.

**Unidentified Audience Member**

Okay, then on the winter sales, do you feel that there was still much pipeline filling in the T3 series or is it really sell-through already that you see in the numbers?

**Roger Talerma** - Amer Sports - President and CEO

I would guess -- I'm sorry I have to say it this way, I would guess it's more sell-through than pipeline. The big pipeline was done over the end of last year, early this year. Maybe some still, because we opened a lot of new accounts. Why I say guess is because we should not forget that the T-line, which is endurance sports, heart rate monitoring, completely head-to-head with our Finnish friends up in the north, we were not in that market before. This is a new market for us. We had no market share. So we are also opening running shops, bike shops, etc. So we have a lot of new accounts there. That would be considered, in my opinion, as pipeline fill. But at the same time we know it has sold pretty well.

So the traditional distribution we've had, sport shops, big boxes, etc, seems to have very good sell through of that. So that's why I say both. But what is the mix between these two? I'm not completely aware of this detail. I would guess pipeline fill is less than the sell through of this product.

**Unidentified Audience Member**

Thank you.

**Unidentified Audience Member**

I would like to come back a bit on the consolidation form that you said is going on all the time. And looking at your balance sheet, it's already quite stretched but do you think that in time you could actually think about going back to the equity market to raise more capital to participate in this consolidation and being able to increase your portfolio outside the Winter Sports perhaps.

**Roger Talerma** - Amer Sports - President and CEO

First of all, we have indicated that we are not active in that market today. Our first priority is clearly to improve our balance sheet. We want to have a strong balance sheet again. And that, hopefully, is a possibility for us for this and next year.

As we have indicated in our report, our cash flow is going to be good. We don't see a problem in the cash flow and that is the number one generator of our improvement in the balance sheet. Now I don't want to speculate that we are certainly not doing anything. We have no plans but we will take situations as they come. But our number one priority is for the next two years is to improve our balance sheet.

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**Unidentified Audience Member**

Then I would like to ask about the -- what is your experience on the U.S. consumer behavior in the beginning of the year, because looking at the market economic studies, you get quite a mixed picture what is going on in the U.S. and what is your view on that?

**Roger Talerio** - Amer Sports - President and CEO

I only want to comment it from a sporting goods perspective. That's my job here. As you remember, it was very bullish towards the end of the last year. We saw very, very strong consumer spend in sports equipment in U.S.A. Actually, it was up over 10% the previous year, which was far beyond the normal retail index. We see it dropping now. We see it coming down but it's still on a very good level to what we know.

We don't have the real, latest statistics but we see -- we have seen the turning point. This is why we have indicated that we believe that the U.S. market still is going to be good as we see it from Precor, we see it from everywhere. The U.S. market is a good driver for us. We believe it will continue to be a good driver, maybe not from the exceptional level where it were last year, but it will still be on a good level. Likewise, we see Europe picking up, also. So it's going to be more of a -- from our perspective, more of a balance demand on a worldwide scale than it was last year where the U.S. was very dominant in the growth.

**Unidentified Audience Member**

Then my final question is on outlook on Precor because while it's quite evident that there is a lot of consolidation also on the health club side and I think that what is going on is that you and the other manufacturers of this health equipment try to get a frame agreement so you can deliver, for example Hilton all of their equipment. And how do you see this affecting the pricing and then, of course, also on the margins?

**Roger Talerio** - Amer Sports - President and CEO

Yes, there's three categories, roughly. One is the club market, the big club market, the chains you're referring to. Then there is the market which is like the Police Force, the YMCA's, the hotels, which is a different market from the big club market. And then we have the, what we call the home market, just to mention a few like that. This what you're referring to is, I would say, mainly devoted to the club market which is one of the big areas for us. There is two or three competitors there of importance and this kind of frame deal is really nothing new. We've had these frame deals over the years.

What may be a little bit changing is that in, especially the American market, it used to be they buy best in category. They will say -- they cherry pick the best equipment from the different categories, categories being like bikes, treadmills, ellipticals, etc. We see a little bit going towards the same trend as in Europe where clubs are buying more full packages. But they very rarely only buy from one supplier as the clubs can be huge. They can have 10's or even hundreds of members and affiliate clubs and then a lot of members.

I don't see this as a problem. There's nothing really let's say new or exceptional here. We don't feel that there is that much pressure on prices, which will be above the normal. And we don't have the same pressure, hopefully, from raw materials that we had in the past years. So all in all, from a profitability perspective I would say that the equipment market on the fitness side is in pretty good shape. I wouldn't be too worried about the situation.

Europe has seen a little bit of a consolidation here and you win some deals, you lose some deals, but that's very much up to you. You can walk out when you feel that the deal is becoming too bad for you or the profitability is going too low. We're walking out from quite a few deals when we feel that we don't get the profitability we need to get.

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And especially in Europe, we have been the newcomer in the block because it has been dominated by two companies. We have now come in. We have kind of disturbed a little bit the situation by being a third actor and we have taken a few deals but we have also let a few deals go because we didn't want to play in a very low margin range. Okay.

Maybe we should take a few questions, then, from the webcast. Has the webcast any questions? If so, please, you can submit your questions now. [Inaudible] questions from the Web. If we still have some questions here -- I saw some hands coming up, so we'll continue here from the audience [inaudible].

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**Unidentified Audience Member**

[Inaudible] from Deutsche Bank again. Just to understand the synergies in Salomon and Atomic. You've done the cost restructuring in France and to my understanding that should be roughly half of the synergies and then the rest should be coming from industrialization process, etc. And could you just walk through that so I understand why we wouldn't get the 20m this year and it could be even 10 and then go into 40 the next year. Just so I understand the flow of gross profit.

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**Roger Talerio** - Amer Sports - President and CEO

Your question, 'm just curious here to understand myself if we have ever said that it's half and half. Half from the restructuring and half from the --

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**Unidentified Audience Member**

It's an idea I have.

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**Roger Talerio** - Amer Sports - President and CEO

Yes, okay. Yes, all right. Then I see you better, then, because I'm getting worried, did I promise something that I can't recall. It's evident that the synergy or, let's say, the savings was from the restructuring made in France, they're there minus the inventory adjustment that everybody has to do, because that has to be taken into consideration. Part of those, which were linked to the organization apart from the blue collar, was all done, if I recall correctly, June last year. So we should have full impact this year on those. Okay? Blue collar departures and the downscaling on the French unit in [Goulme], a ski factory, continued to my understanding, all the way till end of last year, so even that shouldn't be there.

Then the rest of the synergies or restructuring was reorganization of the processes and then deciding upon how we are going to manufacture what and where and what technology is to be used. Now that impact will very partly be on this year, as we said all the way from the beginning. And then we said that there will be some impact on '09 and maybe some on, even on '10 because we had some projects, especially in the binding area where both sides have invested quite a lot up front. And we decided at that time that maybe we should allow them to go through a few years before we then start to look at common platforms or common development cycles or whatever.

This whole plan of industrialization, product development has been revised or it's under construction so we are revising that. Can we speed up something? Are there things that we should be doing differently? And don't forget, part of the synergies were coming out from, not only from the numbers of Salomon, as such, but also Salomon numbers made by Atomic, because we decided that Atomic will make the ski side, not in the Atomic factory, but in the factory and likewise for the boots. Now if that volume goes down, the numbers will look a little different. And part of that was already planned for '07.

So I think that from the re-organization part, the numbers should be there. What concerns the numbers for '07 that should have come out or was planned to be achieved from the industrial part, that's now a question mark. On the other hand, we have

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initiated new things which will improve the numbers to offset what we have lost. These whole mathematics are not very clear at the moment for obvious reasons. We will know that when we get probably into June because then we know the production -- final production plan. We know the synergic effect.

I can tell you a very pragmatic situation. We made a deal in Austria with the unions who have to go forward. When we saw what happened in the industry and the snow didn't come, we went back to the drawing board and the negotiation table with the unions and we have drafted a new agreement because both parties, and I have to give them a lot of credit, they came along and said, "This is not good for anybody so let's do this again." And I think it's very important that we continue a very strong dialog with the unions also on this issue because this is like a moving animal and we don't 100% know what the end result is before we get it.

But like I say, June, July, maybe end of June, we have a much, much better scope because then we have the scope of early season sales and pre-season bookings. We probably should have, at that point, let's say, 70% of the situation under control. Now do we have a flex going that much? That's to be seen. And what happens to the 30%, that's the risk part. We are, among others, we aren't disclosing any big figures. We're looking at the line construction both for '06, '07, '08 and '08/'09. What is the carryover situation? How early should we introduce? How late should we introduce? So we really -- I'm not saying we start from scratch, but we have a different business plan today compared to what we had a few months ago.

I'm sorry. Again, I cannot give you numbers on this because they are not available and that would be too much for me to just guess it. As it stands today, we are between EUR15 and EUR20m in synergies for this year, minus the inflatory parts of it. Can we improve that or I'm going to lose some of that? That's to be seen. So we are on track. We're very well on track on what we planned in the beginning. That's why I can still say today the next year will be a, let's say, a normal year in Winter Sports business. We will, with a good, good probability, get the 40-plus million savings that you were discussing. But if you say, "No, next year is for sure a bad winter," then I'd probably have to change my opinion on that. So we can't count on that. And we shouldn't count on that.

Yes, over there.

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#### Unidentified Audience Member

[Inaudible] Schroder again. Just following up on that, if I remember correctly, you had something like 2,200, 2,300 employees at Salomon at the turn of the year. I guess that probably maybe 1,500 would be in the Ski business and now you've got about 700 to 800 people working at Atomic. Why is the labor economics of Salomon so different. or what do all these people at Salomon do?

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#### Roger Talermo - Amer Sports - President and CEO

I hope they all have a good reason to do something, which I know they have. I think the labor situation is related to two things. First, the two companies have different ways of processing business. They have a different philosophy. Atomic has always been very lean and mean. They do projects and processes with very few people and they use quite a lot of external kind of input, whereas Salomon historically want to be much more self-sufficient in this sense. And they do much more research in-house. They do more design in-house and therefore, the processes aren't very different.

We have to also remember that the industrialization with Salomon is done outside or at least their production, whereas in Atomic it's done in-house, mainly, which means that Salomon has people to steer the external, whereas Atomic don't because they are working with their internal things. So I think they are very much process-related from that perspective and that is the main reason why they look very different.

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However, don't forget that Salomon has a much, much broader scope of business than Atomic has. Atomic is winter sports hard goods alone, whereas Salomon is winter sports hard goods, soft goods, outdoor products. As I said, in the numbers we had hiking -- excuse me, inline skates, surf, etc. And of course the focus is now on to see if it -- what is the efficiency level? And they do compare all the time, which is good. They do exchange information in terms of efficiency as I said. Okay, last question.

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**Unidentified Audience Member**

Okay. One more question about the guidance. It has already partly been answered. But what is the main reason why you have sort of revised your guidance for the full year profitability downwards by 10%?

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**Roger Talermo** - Amer Sports - President and CEO

Main reason is the uncertainty in pre-season/full year sales of Winter Sports hardware. That's clearly the main reason for the guidance going downwards and partly, maybe exchange.

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**Pekka Paalanne** - Amer Sports - CFO

You do the very simple math around that and you say that the winter sports sales are going to be down 15 to 20% compared to previous year, so Salomon and Atomic combined. So we are -- what we are saying is that we are going to lose EUR80 to EUR100m compared to previous years. And obviously that has some impact on the profitability as well.

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**Unidentified Audience Member**

[Inaudible -- microphone not accessible]. How has the situation changed during the past few months?

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**Roger Talermo** - Amer Sports - President and CEO

The situation has changed -- the question was, "How has the situation changed in the past two, three months?" I think the situation has changed, first of all, from the perspective that we thought that the pre-season booking levels would be on a higher level on a global scale. We knew that Europe would be pretty soft but we expected, maybe from the United States, a higher number. Our expectations were that U.S. would not be down as much because, simply said, West Coast had very good snow. East Coast was without snow. So we thought that this would balance itself. In reality, as I said, the markets, according to official statistics, were down 11%.

The second question is, which is very complicated to put into the equation, there can be still a phenomenal de-stocking in the industry. It was very interesting to see the Austrian numbers. Until the end of the March this year, so just very recently, the inventories in the Austrian trade in skis were down 10% compared to last year. It was up 2% or 3% in goods and it was up 102% or something like that in cross country. Now this is very different from one market and I don't want to kind of put too many moving parts on this table. This makes it very difficult to understand, are they de-stocking or are they having inventory? And for us, we have to take the more prudent approach in this side because if there is a situation that there is inventory and they are permanently having a lower stock level, because in some cases we know that in some markets you might have one year of products in stock. In Japan it was even more.

Now if it will be on a going-forward basis, it's only six months. It means that somebody has to adjust over a few years. If that's the case and now it looks like that is, momentarily there is more, let's say, power which is probably not the right word, on the demand side. They will say the retailers because there seems to be too much supply. Now -- and this is characteristic is very normal. And this is why we take this stance of having a lower total sales going into this year or end of this year, but said that, we think that the pre-season bookings do not reflect the total picture because there would be more in-season sales. Now with

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a good snow, the whole thing must change very quickly and then we come back to the discussion we had already earlier. You wanted to add --

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**Pekka Paalanne** - *Amer Sports - CFO*

[Inaudible - microphone not accessible] in February when we gave the guide of the full year results and the prediction what is going to happen in winter for this year, so at that time we made a core assumption that business will be down around 10%. So now it has gone down about 16 to 20%, so that is quite a change happening here.

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**Roger Talermo** - *Amer Sports - President and CEO*

That's mathematically clear. All right.

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**Max Alfthan** - *Amer Sports - SVP Communications*

Excuse me. Before we conclude, could we just check once more with our operator that we don't have any -- do we have any questions?

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**Operator**

We have a question from the line of John Michael Monchina]. Please go ahead and announce your company name and location.

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**John Michael Monchina** - *Analyst*

Yes, John Michael Monchina from [inaudible] in Milan. My question is on working capital. If you can explain a little bit how the working capital improvement fits into the Salomon synergies because if I look at the working capital of Salomon standalone, when you acquired that clearly they are worse than Amer overall. That can be very positive for cash flow. And so, for example, if we [inaudible] it can be very positive. So are you going also to improve working capital and if yes, can you give some ideas? Thank you.

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**Roger Talermo** - *Amer Sports - President and CEO*

Thank you for your question. I'll hand it over to our CFO, Mr. Paalanne.

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**Pekka Paalanne** - *Amer Sports - CFO*

So when we acquired Salomon, so we clearly, clearly saw the big opportunities to reduce working capital and so we have set a target to cut EUR50m from Salomon working capital next two years. I mean this year and next. And I think that we are kind of heading towards that direction. And that's kind of probably why we think the cash flow is going to be improved more this year. So this -- there's a big opportunity and we are going to tap this opportunity.

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**Roger Talermo** - *Amer Sports - President and CEO*

I hope it answers your question.

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**John Michael Monchina** -- Analyst

Maybe just one more detail because if I understand correctly, Amer has basically SAP for management console while Salomon didn't have any SAP. So maybe you're going to run Salomon on your SAP network, correct?

**Pekka Paalanne** - Amer Sports - CFO

We are right now rolling out our global SAP and so as we said earlier, so this year the focus is U.S. and Wilson and then actually then only next year we are going to move more towards integrating Salomon into our SAP platform. So overall it's going to take two years before everything is on board in terms of systems.

**Roger Talermo** - Amer Sports - President and CEO

The target is very clearly to be 100% transparent in all our units. It's a question of timing because of the workload we have momentarily, going through the big markets in the United States. Do you have further questions from Milan or is it good like this?

**John Michael Monchina** -- Analyst

Thank you very much.

**Roger Talermo** - Amer Sports - President and CEO

Thank you very much. More questions from the operator?

**Operator**

We have another question from the line of Peter Farin. Please go ahead and announce your company name and location.

**Peter Farin** -- Analyst

Yes, hi. I'm Peter Farin from O'Brien [inaudible] in London. I have two questions, please. Firstly, you mentioned currencies as a minor reason to downgrade guidance. I was wondering if you could give us a more precise sensitivity of Euro/Dollar on the bottom line. I gather that ex-Salomon there was an impact.

And the second question is regarding the sensational effect you're talking about for impacting Atomic and Salomon, so if you could quantify those. Thanks.

**Pekka Paalanne** - Amer Sports - CFO

Okay. So we can see, once again, a positive -- a big impact in the top-line coming from Euro/Dollar conversion. We have said and we have no reason to change our opinion that there was profitability or profit line then we have [inaudible] we are in kind of a situation between Euro and Dollar. So the translation or transaction impact today, they tend to carry over quite ultimately solid. However, now cost is a little bit kind of a timing issue and if I look at Q1 and also on a full year forecast, then there is a small negative impact coming from the -- also into the result coming from the currency. But then we talk about maybe a couple or EUR2m or to EUR3m maximum impact of the bottom line on the full-year level, so still very limited. But yes, some small negative impact.

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**Roger Talerma** - Amer Sports - President and CEO

And the second question was related to the inflatory part which I referred to earlier, concerning or in conjunction with the synergies. It's evident that there is rate increases -- there are rate increases in some of the costs related to those numbers that we referred to. It's a question of a few million, but nothing really remarkable. It's nothing that destroys the plan or nothing that we couldn't incorporate going forward.

**Peter Farin** - - Analyst

Okay, thanks.

**Roger Talerma** - Amer Sports - President and CEO

Thank you. More questions from the operator.

**Operator**

There are no further questions from the audio line.

**Roger Talerma** - Amer Sports - President and CEO

Thank you very much and I will thank you all, both from the audio line and both here present. And if there are any further questions, we can always come back. Thank you very much.

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