

# SUSTAINABILITY

**Being a sustainable business is about striking the balance between shareholder expectations and the needs and concerns of our employees and consumers, the workers in our supply chain and the environment. We believe that acting as a responsible business will contribute to lasting economic success.**

## OUR APPROACH

Our commitment to sustainable practices rests on the company's mission: To be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience and in a sustainable way. This mission is supported by the adidas sustainability roadmap toward 2020 and beyond, which is a direct outcome of our business strategy 'Creating the New'. We believe that, through sport, we have the power to change lives. But sport needs a space to exist. These spaces are increasingly endangered due to man-made issues, including human rights violations, pollution, growing energy consumption and waste. Our holistic approach to sustainability responds to the challenges that endanger the spaces of sport and simultaneously our planet and people. Building on existing programs, it tackles these subjects that are most material to our business and our stakeholders, and translates our overall sustainability efforts into tangible goals for 2020 that have a direct impact on the world of sport we operate in. [ADIDAS-GROUP.COM/SUSTAINABILITY](https://www.adidas-group.com/sustainability)

## MATERIAL TOPICS

We seek to ensure that we address the topics that are most salient to our business, our key stakeholders as well as the challenges ahead. To identify these topics we openly engage with our stakeholders and involve their views and opinions in

decisions that shape our day-to-day-operations. 2017 saw a refreshment of this materiality exercise. Building on the insights gained from past assessments we categorized potential relevant topics in a first step. We then validated these topics through in-depth discussions with experts across all relevant functions. In doing so, our focus centered on the importance a topic has for our business performance and stakeholders but also considered the impact adidas has on these topics. As a result we were able to confirm our strategic ambitions and embedded goals that we aim to reach by 2020.

[SEE NON-FINANCIAL STATEMENT, P. 100](#)

## STAKEHOLDER DIALOGUE AND TRANSPARENCY

Engaging openly with stakeholders and establishing ways to increase transparency and disclosure has long been central to our approach. Our stakeholders are those people or organizations who affect or are affected by our operations, including our employees, consumers, suppliers and their workers, customers, investors, media, governments and NGOs. The adidas 'Stakeholder Relations Guideline' specifies key principles for the development of stakeholder relations and details the different forms of stakeholder engagement. Through active participation in, for example, the Better Cotton Initiative (BCI), the Sustainable Apparel Coalition (SAC), the Leather Working Group (LWG) and the Apparel and Footwear International RSL Management (AFIRM) Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organizations such as the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC), the Fair Labor Association (FLA) and the German government-led Partnership on Sustainable Textiles ('Textilbündnis'). In addition, we build awareness, capacity and knowledge of laws and rights among factory management and workers by partnering with leading

providers such as the EHS+ Centre in China and the International Labour Organization's (ILO) Better Work program.

[ADIDAS-GROUP.COM/S/PARTNERSHIPS](https://www.adidas-group.com/s/partnerships)

We believe transparent communication to our stakeholders is critical. For that reason we regularly disclose important sustainability updates from our work throughout the year on our corporate channels including our corporate website. A key element is the publication of our global supplier factory lists, showing factories we source from. The lists were first disclosed in 2007 and are updated twice a year. In addition, we publish lists of the factories that manufacture products for major sports events such as the FIFA World Cup or Olympic Games, and disclose the names of factories of suppliers who process materials for our primary suppliers or subcontractors, where the majority of *wet processes* [SEE GLOSSARY](#) are carried out. [ADIDAS-GROUP.COM/S/SUPPLY-CHAIN-STRUCTURE](https://www.adidas-group.com/s/supply-chain-structure)

## GOVERNANCE STRUCTURE

A cross-functional governance structure ensures timely and direct execution of these programs that drive achievement of our voluntarily set goals for 2020. A Sponsor Board composed of functional heads from Social and Environmental Affairs (SEA), Global Operations (GOPS), Global Brands, Human Resources, Global Workplaces, Retail Concept, Sales, Finance and Communication oversees the progress made toward our goals in bi-monthly meetings and gives direction for further development of the sustainability roadmap. The Sponsor Board works in close alignment with the strategic working group that is tasked with the monitoring of ongoing relevant developments within the company and the reporting of progress to the Sponsor Board. Ultimately, the program owners ensure operational execution of the programs. Important updates and requests for decision making are shared with the Executive Board and designated sustainability champions on a regular basis.

## EXTERNAL RECOGNITION

▣ We have continuously received positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for our sustainability initiatives. In 2017, adidas AG was again represented in a variety of high-profile sustainability indices and subject to corporate sustainability assessments. ▣ [SEE OUR SHARE, P. 57](#)

For example, for the 18th consecutive time, adidas AG was selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. As one of the top-scoring companies in our industry 'Textiles, Apparel & Luxury Goods', we earned the Gold Class distinction for excellent corporate sustainability performance for the second year in a row and were rated industry best in the criteria Human Rights, Supply Chain Management, Impact Measurement and Valuation, Materiality, Environmental Policy and Management Systems, Risk and Crisis Management, Brand Management, Corporate Citizenship and Philanthropy, and Customer Relationship Management. As a result of our response to assessments conducted by the Carbon Disclosure Project (CDP), adidas was awarded with a B score in the Climate Change submission and with an A-score in the Water submission in 2017. Furthermore, adidas received recognition in the annual CITI (Corporate Information Transparency Index) 4.0 evaluation for the environmental performance of our supply chain in China for the fourth year in a row. In 2017, we ranked first in the leather industry, and fifth out of more than 200 global brands. adidas further ranked second in its industry in the Corporate Human Rights Benchmark evaluation and, for an unprecedented third time, received accreditation for its social supply chain program by the FLA. To provide information for the third accreditation, nine years of social compliance work was evaluated. Our program was first accredited by the FLA in 2005, then reaccredited in 2008. ▣ [ADIDAS-GROUP.COM/S/RECOGNITION](#)

## OUR PROGRESS

For years, adidas has regularly reported about its sustainability performance by measuring and disclosing the progress made toward our targets.

### PRODUCT SAFETY

▣ Product safety is an imperative. As a company we have to manage the risk of selling defective products that may result in injury to consumers or impair our image. To mitigate this risk, we have company-wide product safety policies in place that ensure we consistently apply physical and chemical product safety and conformity standards. Since pioneering the Restricted Substances Policy ('A-01' Policy) in 1998, we continue to develop policies which ban or restrict chemicals in our products. ▣ [ADIDAS-GROUP.COM/S/PRODUCT-SAFETY](#)

The A-01 Policy for product materials covers the strictest applicable local requirements and includes best-practice standards as recommended by consumer organizations. It prohibits, for example, the use of chemicals considered harmful or toxic, the sourcing or processing of raw materials from any endangered or threatened species and the use of leathers, hides or skins from animals that have been inhumanely treated, whether these animals are wild or farmed. The policy is updated at least once a year based on findings in our ongoing dialogue with scientific organizations and is mandatory for all business partners who have to confirm receipt and acknowledgement of the latest policy update each year in a written format.

Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected. To ensure successful application of the policy, we promote internal business understanding,

offer global support by developing guidelines and systems, and monitor and influence standards and regulations through external observation and interaction. Senior Management from SEA and GOPS reviews and signs off policy updates and is informed about proper execution and monitoring.

We publish our A-01 Policy annually on our corporate website and communicate it to all relevant stakeholders internally and externally. The efficiency of our product safety approach is evaluated by the absence of any product recalls as well as by benchmarking standards and executional procedures against the guidance as developed by the AFIRM Group.

### Progress toward targets

In 2017, we published an updated version of our A-01 Policy on our corporate website. In addition, we created a dedicated 'Product safety and compliance' workspace on our global intranet a-LIVE that serves as a platform for all employees involved in product creation by providing them with the information required to ensure we conceptualize, develop, produce and distribute products that are in compliance with national and international regulations and best-practice standards as well as in accordance with the laws of intellectual property. The workspace offers policies, manuals and standards, as well as contact details for internal global support and best-practice sharing guidelines and training material.

We have further strengthened our collaborative approach with industry peers within the AFIRM Group. We continued to mature our programs on a global scale with enhanced supplier training tools and outreach, and contributed to a consolidated AFIRM Restricted Substances List that harmonizes a Restricted Substances Lists across the industry. We further participated in several public stakeholder consultation processes initiated by the European Commission (ECHA), and also several US state legislative initiatives to inform governmental entities on implications and opportunities of drafted legislation.

In 2017, we recorded quality issues for one accessory product (model adidas Hockey Pro Glove) with around 3,000 produced items, out of 321 million units of hardware produced during the years of manufacture. One product item identified during a spot check by Dutch authorities at a point of sale was found to be not compliant with the REACH regulation of the European Union. This subsequently led to immediate action from our end. All products that were delivered to markets were recalled by asking consumers who purchased this article to return it to the store where it was bought. We have not been notified about any consumer complaints related to this product quality deficit. ▬

**ENVIRONMENTAL IMPACTS**

▮ adidas is proactively addressing the impacts of climate change through a number of initiatives in its own operations, its supply chain and through various partnerships. As an example, the company joined the ‘UN Climate Neutral Now’ initiative in 2015 to promote a wider understanding of the need and the opportunities for society to become climate neutral as well as to showcase that many organizations are already taking concrete action in this direction. As such, adidas is committed to action steps as a champion of the initiative such as the continued estimation and reduction of its emissions. ▬

**ORGANIZATIONAL FOOTPRINT**

▮ In 2016, for the first time, we conducted a fact-based pilot analysis to assess our organizational environmental footprint. The aim was to better understand where our main environmental impacts occur along our value chain, and to translate them into monetary terms. Using the baseline of 2015, we focused on five main environmental impacts: Greenhouse Gas (GHG) emissions, water consumption, land use as well as air and water pollution. Results show that only 4% of our impact relates to our core operations (operations related to all of our administration offices, distribution centers and own production sites globally, as well

as own retail stores globally). The biggest impact however occurs in the upstream supply chain in factories beyond the Tier 1 suppliers we have a direct relationship with. ▮ SEE DIAGRAM 31 ▬

**OWN SITES**

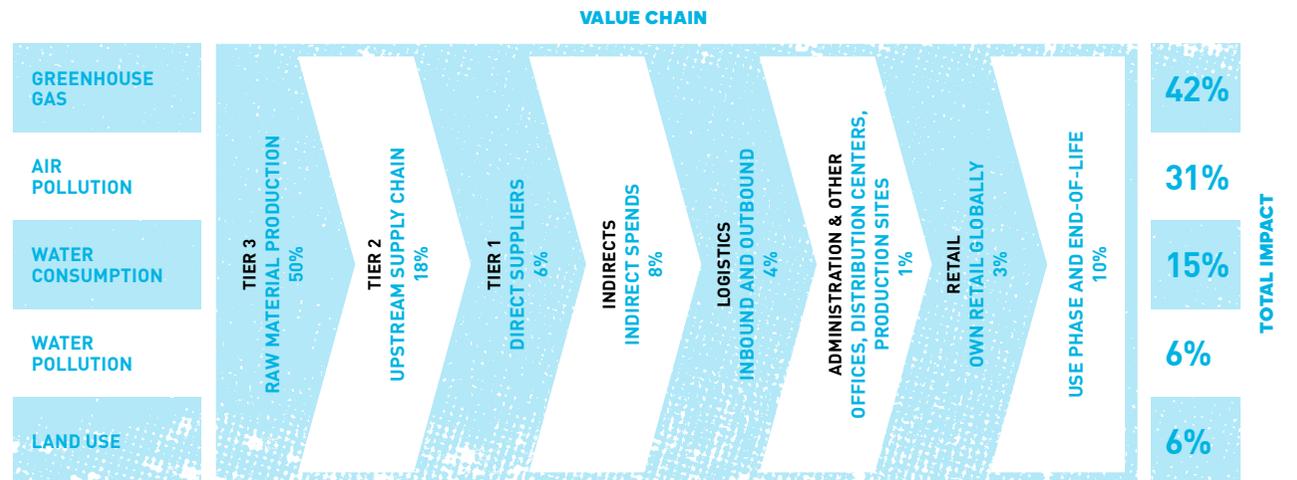
▮ Since 2008, our ‘Green Company’ program strives to achieve ambitious savings in water, waste and energy at adidas own sites globally. Including administrative offices, production facilities and distribution centers, the program covers more than 85% of our global employee base (excluding own retail). In 2015, we presented a new set of targets to be achieved by 2020, including targets for carbon reduction that were calculated considering a science-based methodology and context-based targets for water reduction.

▸ [ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH](http://ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH)

Progress is tracked annually through an environmental data reporting system that allows for follow-up toward the set targets and is disclosed in detail in our annual Green Company Report that will be available as of April 2018 on our corporate website. ▸ [ADIDAS-GROUP.COM/S/GREEN-COMPANY-REPORTS](http://ADIDAS-GROUP.COM/S/GREEN-COMPANY-REPORTS)

In 2016, we established an Integrated Management System (IMS) which combines three existing management systems: ISO 50001 (Energy), ISO 14001 (Environment) and OHSAS 18001 (Health and Safety). IMS is helping us to drive further business integration and impact relevant decisions for our operations globally. A dedicated IMS policy helps to promote wider understanding and ensures application among all adidas entities affected. In addition, our global intranet a-LIVE supports best-practice sharing among all adidas employees globally.

Organizational footprint<sup>1</sup>



<sup>1</sup> Greenhouse gas: carbon dioxide, methane and nitrous oxide. Air pollution: sulphur oxides, nitrogen oxides, particulate matter, toxic organic substances. Water consumption: i.a. surface water, ground water. Water pollution: i.a. nitrogen and phosphorus, toxic organic substances, heavy metals. Land use: arable land, pastures and grassland, industrial land use, unsustainable forest area.



### Progress toward targets

By the end of 2017, our own sites globally managed a 29% reduction in carbon net emissions (baseline 2015) and a 27% reduction in water consumption per employee (baseline 2008).

Targets 2020	2017	2016
3% absolute annual reduction in CO <sub>2</sub> Scope 1 and Scope 2 <sup>1</sup> net emissions (baseline 2015)	29%	11%
35% reduction in water consumption per employee (baseline 2008)	27%	23%

<sup>1</sup> Scope 1: Emissions that arise directly from sources that are owned or controlled by adidas entities, such as fuels used in our boilers, Scope 2: emissions generated by purchased electricity consumed by adidas entities.

Three of our facilities received LEED  SEE GLOSSARY Gold certification. After the office in Santiago, Chile, received certification in 2016, the new office in Buenos Aires, Argentina was the second office in South America to be awarded with this certification. The India headquarters in Gurugram became our first LEED Gold certification in Asia and the relocated headquarters in Dubai also became LEED Gold certified. In addition, adidas received its first-ever LEED certification for own retail. The store in Madrid was accredited for its interior design and construction.

In line with our ambition to reduce the environmental footprint of our consumer events by 2020, we developed our first 'Sustainable Events' guidelines which will serve as orientation for our markets globally to run events more sustainably and inspire best-practice sharing opportunities. The guidelines are available to our internal teams through a-LIVE and to external agencies, with the aim of, for example, increasing energy awareness and minimizing the use of single-use plastic at our own events.

2017 also experienced renewed and visible support for our ambition to further reduce our environmental footprint from the adidas Executive Board, who challenged all adidas facilities worldwide to remove single-use plastic items that are disposable and generally used only once before they are thrown away, such as plastic bags, water bottles and cutlery. The changes will avoid more than 40 tonnes of single-use plastic per year. The announcement that was made on a-LIVE was the most successful post to date, showing the high commitment and engagement of both our Senior Management and employees worldwide toward responsible business practices. 

### SUPPLY CHAIN

 As almost all of our production is outsourced, a significant part of our environmental impact occurs, at different intensities, throughout the supply chain. Therefore, for us, sourcing is not only about ensuring high product quality and timely delivery, it also means working with our suppliers to ensure the highest environmental standards and supporting them to reduce their overall water consumption and waste volume as well as improve their carbon footprint. Using the environmental performance of our own sites as best-practice examples, we provide a set of specific policies and guidelines to our suppliers: Mandatory for all business partners, the 'Workplace Standards' (the supply chain code of conduct) as well as supportive guidelines such as our 'Environmental Guidelines' and 'Guide to Best Environmental Practice' are updated regularly and build the basis for our engagement with suppliers. In addition, we have initiated a system of multi-level and cross-functional training sessions with our global supplier network and provide regular training. Guidance and training materials are reviewed by SEA Senior Management prior to release. [ADIDAS-GROUP.COM/S/SUPPLY-CHAIN-APPROACH](https://www.adidas-group.com/s/supply-chain-approach)

One of the ways we try to minimize our suppliers' environmental impacts at their manufacturing plants is by helping them establish sound environmental management systems. The majority of our footwear sourcing volume, 95% (2016: 96%), is produced in factories which are certified in accordance with the International Environmental Standards ISO 14001 and/or the Workplace Health and Safety Management Standards OHSAS 18001. The remaining part of our footwear sourcing volume is produced in factories that have other management systems in place. All footwear factories in our monitoring scope are regularly assessed against our standards on environment and workplace health and safety, receiving evaluation by means of our environmental compliance E-KPI rating.

### Environmental compliance (E-KPI)

E-KPI is our tool designed to measure and improve environmental performance of our strategic Tier 1 suppliers by setting them 20% intensity reduction targets to be achieved by 2020 in the areas of energy, water and waste (baseline 2014). Using a benchmarking approach, E-KPI allows for a high level of transparency into suppliers' actual consumption intensity, supporting us to define suppliers' specified areas for improvement and training needs that match their respective situation. We follow a similar approach for our apparel material Tier 2 suppliers, with the aim of them achieving a 35% water reduction by the end of 2020 (baseline 2014)<sup>1</sup>.

### Progress toward targets

Compared to the 2016 results, our suppliers enrolled in our environmental program made good progress<sup>2</sup>. 48% of strategic suppliers are on track to achieve their energy reduction target for 2020, which represents an increase of 11 percentage points compared to the results from the previous measurement. More than half of these suppliers (55%) are on track to

<sup>1</sup> Apparel material suppliers are specialists in printing and dyeing operations. Based on results from previous years and a change in our tracking methodology, the target for our apparel material suppliers was adjusted to a 35% reduction by 2020.

<sup>2</sup> E-KPI 2017 refers to environmental data covering full year 2016, using a baseline of 2014. Strategic suppliers enrolled in our environmental program cover more than 80% of our total sourcing volume.

achieve their waste reduction target, also marking a significant improvement of 16 percentage points compared to the previous results. 54% of this group of suppliers are on their way to achieving the water reduction targets, showing a stable performance and no change in percentage points compared to the previous ratings. In addition, 46% of our apparel material suppliers made good progress and are well on their way to achieve the 2020 target.

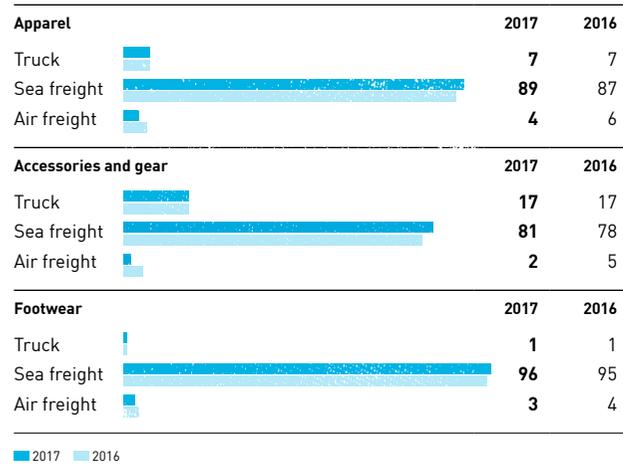
If facilities' performance achievement is at risk, we take several steps to support and ensure their performance gets back on track. For example, in 2017, we launched various energy efficiency projects targeting underperforming facilities in Vietnam, Cambodia and Indonesia with the help of external

expertise that identified and outlined short- and medium-term action for the facilities with a positive impact either immediately or within the next three years. Similarly with waste, we did a pilot assessment in Vietnam to identify waste reduction and recycling opportunities. The global guidelines developed will support all facilities to manage their waste and identify opportunities to recycle. Low-performing facilities are further asked to develop improvement plans and provide regular progress updates. adidas also hosts joint discussions with the factories.

In 2017, we tracked again the environmental impact related to the transport of our goods and recorded a small reduction in air freight and a slight increase in sea freight throughout all categories, while truck freight remained stable. All in all, the vast majority of our shipments take place via sea freight.

SEE DIAGRAM 32

#### Freight types used to ship adidas and Reebok products<sup>1</sup> in % of product shipped 32



<sup>1</sup> Figures are expressed as a percentage of the total number of products transported. Data covers products sourced through Global Operations, excluding local sourcing.

### SUSTAINABLE MATERIALS AND PROCESSES

Following our ambition to create the best for the athlete while optimizing our environmental impact, we innovate materials and processes. We are committed to steadily increasing the use of more sustainable materials in our production, products and stores and are driving toward closed-loop solutions. Our approach to sustainable materials is influenced by new technological trends and developments, engagement with stakeholders including scientific organizations as well as market availability. Any major changes in the material selection that impact product costs are subject to review and approval by Senior Management. Execution and progress is tracked and managed by the respective materials development and sourcing departments.

As a founding member of the Better Cotton Initiative (BCI), adidas is working on reducing the use of conventional cotton

and has committed to increasing the sourcing volumes of Better Cotton, with the aim of achieving 100% *sustainable cotton* SEE GLOSSARY by 2018. Not only does the BCI aim to reduce the use of pesticides, it also promotes efficient water use, crop rotation and fair working conditions.

In addition, we aim to reduce the use of virgin plastic and are increasing the use of recycled polyester in our products. As of 2015, adidas has partnered up with *Parley for the Oceans* SEE GLOSSARY. As a founding member, adidas supports Parley for the Oceans in its education and communication efforts and commits to the Parley A.I.R. (Avoid, Intercept, Redesign) strategy. As part of this strategy we are working on turning what we believe is a problem (marine plastic pollution) into progress with an eco-innovative replacement for virgin plastic, *Parley Ocean Plastic* SEE GLOSSARY, and have committed to extend the supply chain for Parley Ocean Plastic. SEE INNOVATION, P. 78 SEE CORPORATE STRATEGY, P. 62 ADIDAS-GROUP.COM/S/SUSTAINABILITY-INNOVATION

We are further rolling out a global take-back program to all our key cities and markets, implementing 'Make every thread count', with the main objective to raise consumers' awareness of what happens to products at the end of their life. It helps consumers to give their old clothes and footwear a second life. Consumers can drop off old shoes and apparel from any brand. The collected items are then sent to the adidas Distribution Center, where they are picked up by a service provider that sorts products according to different quality criteria. Products either go into a second-hand market or are further recycled into secondary raw material, to be used for new products in various industries. A small portion of products (less than 10%) cannot be recycled and thus is sent for disposal. ADIDAS-GROUP.COM/S/PRODUCT-END-OF-LIFE

**Progress toward targets**

In 2017, 93% (2016: 68%) of the cotton we sourced globally was Better Cotton, exceeding our original target of 80%. This is a huge step toward our goal of sourcing 100% sustainable cotton by 2018. Our success is the result of clear target setting – both with suppliers and with internal teams who support the sourcing of Better Cotton for our products.

	2015	2016	2017
Better Cotton sourced	43%	68%	93%

We already eliminated plastic bags in our own stores globally in 2016, and have started to integrate Parley Ocean Plastic into key products, including running, outdoor, Originals and Stella McCartney shoes, football jerseys and swimwear. [ADIDAS.COM/PARLEY](http://ADIDAS.COM/PARLEY) Overall, we managed to create more than one million pairs of shoes with Parley Ocean Plastic in 2017. Together with Parley for the Oceans, we have further driven the conceptualization of the required set-up for a global collection network at scale. As part of our overall effort to extend social and environmental monitoring to lower tiers, we expanded our scope for the Parley supply chain from apparel suppliers to also include suppliers for footwear, and accessories and gear, now covering almost 20 Tier 2 suppliers in total.

Our ambition to expand the use of waterless dyeing technologies for our products received renewed support in 2017 as it was chosen as a key accelerator project going forward. This means that we will look into different technologies, including DryDye, with the aim to develop a holistic approach on how to save water overall, including water reduction during pre-treatment or the creation of a closed-loop water treatment system in dyeing factories. Furthermore, we also built on and

advanced our existing take-back program in Canada and introduced 'Make every thread count' to four of our strategic key cities (Los Angeles, New York, London and Paris). [↵](#)

**CHEMICAL MANAGEMENT**

For years, adidas has been running leadership programs in Chemical Management within its area of direct influence. In a spirit of continuous improvement of our chemical footprint, these programs are regularly updated. Our approach has been developed in consultation with external stakeholders including chemical experts, environmental organizations and industry federations and was reviewed by the Sponsor Board and finally approved by SEA and GOPS Senior Management. Our targets for 2020 include achieving 100% sustainable input chemistry by adopting the Manufacturing Restricted Substances List (MRSL) of the Zero Discharge of Hazardous Chemistry (ZDHC) group, phasing out hazardous chemicals and providing our strategic suppliers with a list of positive chemistry (the bluesign bluefinder).

[ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT](http://ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT)

**Progress toward targets**

In 2017, we collected the ZDHC MRSL acknowledgement letters from our suppliers, with more than 99% signed letters received from our strategic suppliers. Carefully reviewing the feedback from our suppliers will support us to define proper tracking and monitoring of MRSL compliance in our supply chain. On our way to phasing out hazardous chemicals, we successfully delivered against our commitment to be 99% free of poly- and perfluorinated substances (PFCs) by no later than the end of 2017: More than 99% of the adidas products for the spring/summer 2018 season will be PFC-free. Lastly, our suppliers exceeded the 2017 targets of 50% of auxiliaries and 80% dyestuffs to be bluesign-approved: By 2020, our

strategic apparel material suppliers will have 80% of auxiliaries and 90% of dyestuffs bluesign-approved.

	2014	2017
Products free of PFC	90%	> 99%

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can – in high concentration – cause breathing difficulties and other health problems for production workers. In 2017, we achieved an all-time low of 11.6 grams (2016: 14 grams) of VOCs per pair of shoes<sup>3</sup>. By applying innovative as well as environmentally sound bonding and priming technologies while following the adidas guidelines on the use of chemicals, our athletic footwear suppliers have been able to reduce the use of VOCs from well above 100 grams per pair in 1999 to below 12 grams. [↵](#)

**FAIR WORKING CONDITIONS IN OUR SUPPLY CHAIN**

adidas recognizes its responsibility to respect human rights and the importance of showing that we are taking the necessary steps to fulfil this social obligation as a business. We do this by striving to operate responsibly along the entire value chain, by safeguarding the rights of our own employees and those of the workers who manufacture our products through our Workplace Standards, and by applying our influence to affect change wherever human rights issues are linked to our business activities. As part of its human rights efforts, adidas has developed a modern slavery outreach program that looks beyond strategic Tier 1 suppliers, aiming to drive greater transparency in its supply chain.

[ADIDAS-GROUP.COM/S/HUMAN-RIGHTS](http://ADIDAS-GROUP.COM/S/HUMAN-RIGHTS)

<sup>3</sup> Data covers production in our main sourcing region Asia.

### Ensuring compliance with standards

Since its inception in 1997, our human and labor rights program for our supply chain has been built on the back of intense stakeholder outreach and engagement, seeking to understand and define the most salient issues to address as a company. Our Workplace Standards, the supply chain code of conduct established in 1997, are a contractual obligation under the manufacturing agreements the company signs with its main business partners to ensure workers' health and safety and provide provisions to ensure environmentally sound factory operations. These standards follow International Labour Organization (ILO) and United Nations (UN) conventions relating to human rights and employment practices, as well as the model code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). Specific reference to the code provisions of the ILO conventions is provided in the adidas 'Guidelines on Employment Standards'. The SEA Senior Management reviews and approves all policies and implementation processes of the labor rights program.

To enforce compliance with these standards and rate suppliers on their ability to deliver fair, healthy and environmentally sound workplace conditions, adidas regularly conducts announced and unannounced, internal and external audits using a rating system with C- (social compliance) and E- (environmental compliance) KPIs and attached scores between 1C/1E and 5C/5E (with 1 being the worst and 5 being the best). According to the results, our sourcing teams decide the course of action, ranging from training needs at the factories to reinforcement mechanisms such as sending warning letters or even termination of contracts. Potential new suppliers are assessed in a similar way and orders can only be placed if approval by the SEA team has been granted.

### Worker empowerment

We offer any stakeholder the opportunity to anonymously raise complaints and have found efficient ways to specifically empower workers in our supply chain by providing them with innovative tools to raise their voice. [➔ ADIDAS-GROUP.COM/S/SUSTAINABILITY-CONTACT](https://www.adidas-group.com/s/sustainability-contact) Since 2012, in parallel to existing grievance systems, the 'Worker Hotline' enables factory workers to anonymously ask questions or raise concerns by writing a text message. Additional ways to measure worker satisfaction and get their view are worker satisfaction surveys that we started to conduct in Indonesia in 2016.

Our ambitions for 2020 include achieving 100% of strategic suppliers<sup>4</sup> covered by innovative grievance mechanisms and supporting our suppliers and licensees in further improving their social and environmental compliance performance as measured by our C- and E-KPI rating tools.

### Progress toward targets

Throughout 2017, we deepened our stakeholder engagement on the topic of human rights, extending our outreach to representatives of special-interest groups, migrant workers, and other vulnerable communities. We continued our involvement with a UN-backed multi-stakeholder committee, examining the adverse human rights impacts of mega sporting events and supported the UN's Standards of Conduct for Business on LGBTI rights. Our engagement with the newly formed Business Network for Civic Freedoms and Human Rights Defenders included, for example, responding to calls from labor rights advocates for direct engagement with the Cambodian government over freedom of expression and association. We further contributed to the UN Special Rapporteur's fourth annual report on the situation of human rights defenders and spoke at the United Nations in Geneva on this very topic. In addition, together with other stakeholders,

we have maintained a seat on FIFA's Independent Advisor Board on Human Rights.

Efforts within our modern slavery outreach program have ranged from providing targeted training to almost 100 Tier 2 suppliers across Asia to gaining deeper insights into prevailing labor conditions at the Tier 3 raw material source for leather and cotton. We were recognized as a leading brand in the KnowTheChain ranking that examined forced labor risks in the leather supply chain in 2016 and were awarded the Thomson Reuters Foundation Stop Slavery Award 2017, which celebrates businesses that excel in efforts to identify, investigate and root out forced labor from their supply chains.

We were able to expand the Worker Hotline service: 63% of our strategic suppliers with more than 250,000 factory workers across four of our major sourcing countries (Cambodia, China, Indonesia and Vietnam) were covered by the end of 2017. Our focus was to improve this service to develop into a digital worker grievance platform, including a new app-based version which was piloted in some factories. We also further rolled out the worker satisfaction survey to a total of 47 factories across nine countries with around 8,000 factory workers participating in the survey. The results will help our suppliers to identify areas for improvement that need to be addressed, with progress to be communicated back to the workers. Lastly, we saw more than two thirds of our strategic supply chain evaluated with a 3C rating and good performance. More details are provided below. [➔](#)

<sup>4</sup> Strategic suppliers are responsible for around 80% of our global production volumes.

## OUR PERFORMANCE (SUPPLY CHAIN)

At the end of 2017, we worked with 782 (2016: 1,038) independent factories which manufacture products for our company in 56 countries (2016: 63). [SEE DIAGRAM 33](#) The main reason for the decline in the number of suppliers is the divestiture of the TaylorMade and CCM Hockey businesses as well as further consolidation at factories producing for our Sports Licensed business in 2017. We worked with 62 licensees whose suppliers manufactured products in 360 factories across 44 countries (2016: 61 licensees in 377 factories across 48 countries). 68% of the factories are located in the Asia Pacific region, 20% in the Americas, and 12% in Europe, Middle East and Africa (EMEA)<sup>5</sup>. [SEE TABLE 33](#)

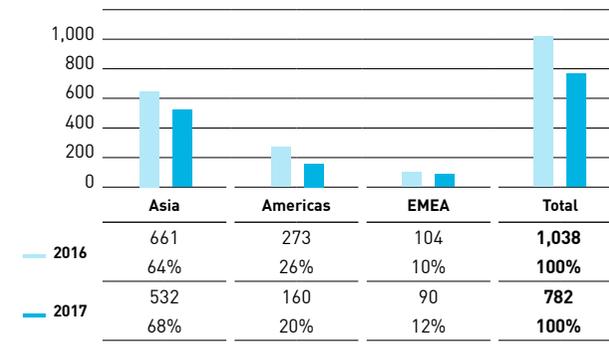
### AUDITS

In 2017, adidas conducted 1,015 social compliance and environmental audits (2016: 989), using in-house technical staff as well as external third-party monitors commissioned by adidas business entities and licensees. [SEE TABLE 34](#) [SEE TABLE 35](#)

In addition, 114 self-governance audits and collaboration audits were conducted. When a factory reaches a compliance maturity level of 4C and above, we empower the supplier to conduct their own audit and develop appropriate remediation plans ('self-governance' audit) while we carefully track this process. Collaboration audits are conducted in partnership with other brands, or as part of joint remediation exercises.

Supplier factories by region<sup>1</sup>

33



<sup>1</sup> Excluding own factories and licensee factories.

Number of audits in supplier factories 2015 – 2017

34

	2017	2016	2015
adidas	409	372	524
External monitor	606	617	611
<b>Total</b>	<b>1,015</b>	<b>989</b>	<b>1,135</b>

### Initial assessments, performance audits and environmental audits

In 2017, we conducted a total of 209 initial assessments (2016: 213), 81% of which were undertaken in Asia (2016: 84%), with China accounting for 42% of these assessments (2016: 46%). Overall, 29% (2016: 39%) of all candidate factories either were rejected outright or were rejected for failure to remediate threshold issues in a timely manner. The total number of initial assessments, the first approval stage for new entry factories, decreased marginally by 2% compared to 2016. Performance audits at our current suppliers showed a slight increase of 3%. As part of our divestiture strategy, we increased the number of audits carried out at the factories making for the brands that we divested in 2017. We did so to ensure workers received their full benefits and entitlements during the transition of the owner relationship. The total number of environmental audits increased by 8% compared to the previous year, mainly due to the increase in SAC HIGG environmental assessments. [SEE TABLE 35](#)

The number of audits in factories manufacturing goods for licensees remained the same, in line with the stable number of licensees. [SEE TABLE 36](#) The number of self-governance and collaboration audits at licensee factories totaled 26 at the end of 2017. [SEE TABLE 36](#)

### AUDIT COVERAGE

A total of 48% (2016: 40%) of all active suppliers were audited in 2017. 'High-risk' locations in Asia<sup>6</sup>, the major sourcing region of adidas, received extensive monitoring in 2017 with an audit coverage that was close to 70% (2016: 65%). As a general principle, factories located in low-risk countries (i.e. with strong government enforcement and inspectorate systems) are considered out of scope for our audit coverage. [SEE TABLE 37](#)

<sup>5</sup> Factories in scope: Individual facilities of direct supply chain including subcontractors and factories of agencies (indirect supply chain). Supplier factories: Excluding own factories and licensee factories. Licensee factories: This may include factories that produce both for adidas directly and for licensees/agents.

<sup>6</sup> High-risk locations in Asia include China, Hong Kong, Macao, Vietnam, Bangladesh, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.

## AUDIT RESULTS

▣ We audit our suppliers regularly against our Workplace Standards and rate them according to their social and environmental compliance performance with a C- and E-KPI rating tool. An evaluation of E-KPI is contained in the description of the environmental performance of our supply chain.

### Social compliance (C-KPI)

In 2017, more than two thirds (69%) of our direct suppliers completely fulfilled our basic expectations and received ratings of 3C or better. Out of these, 19% were given a rating of 4C or better, which reflects an increase of 3 percentage points compared to the previous year. Suppliers rated with a 4C are classified as 'self-governance', indicating that these factories have reached a high level of compliance maturity with the existence of effective social and health and safety management systems and the ability to conduct their own audits and develop remediation plans on their own.

▮ SEE DIAGRAM 37

Since 2013, there has been a focused effort to improve the 2C factories and move them up a level, which has led to a 14% reduction of suppliers in this category. The number of 1C category suppliers, which represent the lowest-performing factories with serious issues and very weak commitment to compliance, decreased from seven to six factories in 2017. Such factories are given a one-year grace period to move up a grade or have their services terminated.

The number of factories that are subject to C-KPI ratings has remained relatively stable at around 47% of the global supply chain for the last three years (2016: 45%). These factories represent our long-term strategic partners. ▮

### Number of audits by region and type

35

Region	Initial assessment <sup>1</sup>		Performance audit <sup>2</sup>		Environmental audit <sup>3</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Asia	170	178	544	524	138	137	852	839
Americas	9	23	70	75	12	0	91	98
EMEA	30	12	37	34	5	6	72	52
<b>Total<sup>4</sup></b>	<b>209</b>	<b>213</b>	<b>651</b>	<b>633</b>	<b>155</b>	<b>143</b>	<b>1,015</b>	<b>989</b>

<sup>1</sup> Every new supplier factory has to pass an initial assessment to prove compliance with the Workplace Standards before an order is placed. The data includes both 'initial assessments' and 'initial assessment follow-ups'.

<sup>2</sup> Audits conducted in approved supplier factories.

<sup>3</sup> Includes SAC HIGG as well as environmental and chemical management audits.

<sup>4</sup> Includes audits done in licensee factories.

### Number of audits conducted in licensee factories<sup>1</sup>

36

Region	Initial assessment <sup>2</sup>		Performance audit <sup>3</sup>		Environmental audit		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Asia	49	54	187	182	11	12	247	248
Americas	1	6	18	20	1	0	20	26
EMEA	3	2	16	12	1	2	20	16
<b>Total</b>	<b>53</b>	<b>62</b>	<b>221</b>	<b>214</b>	<b>13</b>	<b>14</b>	<b>287</b>	<b>290</b>

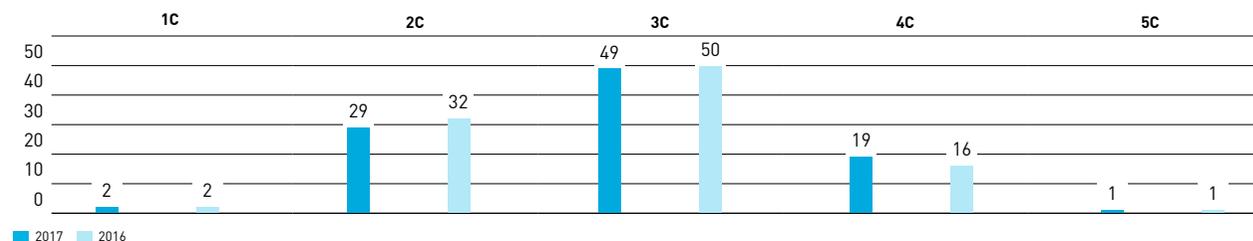
<sup>1</sup> This may include factories that produce both for adidas directly and for licensees/agents.

<sup>2</sup> Every new factory has to pass an initial assessment to prove compliance with the Workplace Standards before an order is placed.

<sup>3</sup> Audits conducted in approved factories.

### Percentage of KPI assessed factories by C rating

37



<sup>1</sup> The calculation method reflects actual supplier performance by calculating numbers using the latest KPI assessment rating of each active supplier.

**VISITS AND TRAINING**

During 2017, 1,241 factory visits (2016: 1,226) were undertaken. These visits involved various types of audit, Strategic Compliance Plan discussions, project work and project meetings with factory management on high-priority issues at different levels in our supply chain. Additionally, we conducted 132 training sessions and workshops for suppliers, licensees, workers and adidas employees (2016: 169). [SEE TABLE 38](#) The 22% decrease in the number of training sessions is a result of our advisory staff spending more time on engagement processes, including the development of worker satisfaction surveys and digital grievance systems for workers. In total, 1,907 people (2016: 3,349) attended the training sessions, which covered basic as well as long-term strategic topics.

**NON-COMPLIANCE IN ACTIVE FACTORIES**

Our suppliers are evaluated against a number of critical compliance issues. While threshold issues are serious but correctable non-compliances that can be addressed in a specified timeframe through remedial action, zero tolerance issues – such as forced labor, child labor practices and critical life-threatening health, safety and environment conditions – immediately trigger a warning and potential disqualification of a supplier. The diagrams [SEE DIAGRAM 39](#) [SEE DIAGRAM 40](#) illustrate the non-compliance findings that were identified through performance audits, collaboration audits and self-governance assessments.

**Labor non-compliance findings**

[DIAGRAM 39](#) presents the most frequent labor-related non-compliances identified during audits of our existing supplier factories. More than two thirds of these findings fall into the top three categories: ‘Basic wage’, ‘Management systems for working hours’ and ‘No standardized filing systems’. Besides identifying non-compliances with our Workplace Standards, adidas’ compliance team focuses on the use and effectiveness of the factories’ HR management systems, and identifies any gaps in policies and procedures related to specific risk areas, such as forced labor, child labor, freedom of association or discrimination. As a result, the percentages shown indicate the systemic shortcomings of active suppliers, rather than the confirmed presence of a specific case of non-compliance.

[SEE DIAGRAM 39](#)

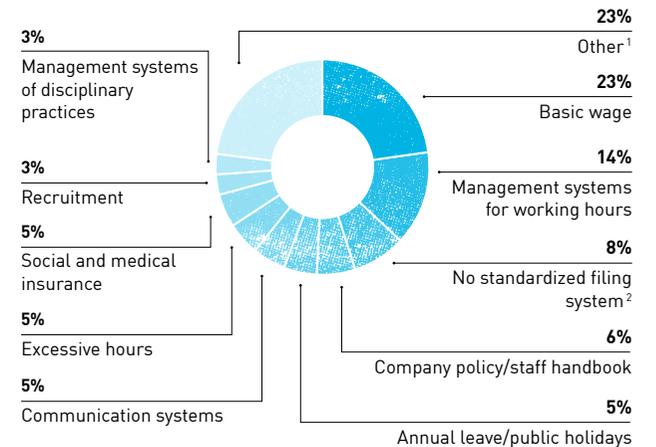
Number of training sessions by region and type 38

Region	Type and number of training sessions							
	Fundamental <sup>2</sup>		Performance <sup>3</sup>		Sustainability <sup>4</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Asia	42	42	4	40	49	45	95	127
Americas	24	24	0	0	1	0	25	24
EMEA	7	11	2	5	3	2	12	18
<b>Total</b>	<b>73</b>	<b>77</b>	<b>6</b>	<b>45</b>	<b>53</b>	<b>47</b>	<b>132</b>	<b>169</b>
in %	55	45	5	27	40	28	100	100

1 Training sessions conducted for suppliers, workers, licensees, agents and adidas employees.  
 2 Fundamental training covers Workplace Standards and SEA introduction, FFC training as well as SEA policies and standard operating procedures (SOPs).  
 3 Performance training covers specific labor, health, safety and environmental issues.  
 4 Sustainability training covers sustainable compliance guideline and KPI improvement as well as factory self-audits.

7 Data refers to the period May to December 2017 and includes self-governance and collaboration audits.

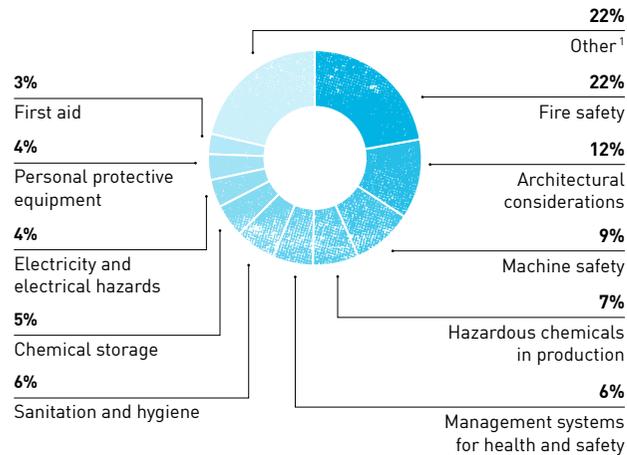
Top 10 labor non-compliance findings identified during audits in 2017 39



1 ‘Other’ includes freedom of association issues, discrimination, lack of training, etc.  
 2 ‘No standardized filing system’ indicates a factory does not keep relevant information/documents and records which demonstrate compliance with laws and regulations.

### Top 10 health and safety non-compliance findings identified during audits in 2017

40



<sup>1</sup> 'Other' refers, for example, to occupational hazard risks, personal protective equipment, ergonomics and housekeeping.

### Health and safety non-compliance findings

**DIAGRAM 40** shows the health and safety non-compliances identified during audits in supplier factories. Fire and electrical safety are critical areas for existing suppliers and together accounted for 26% of the non-compliances identified in 2017. The way chemicals were stored and used, including the presence of banned chemicals, accounted for 12% of non-compliance findings reported. A further 6% of the findings related to management systems, policies and procedures, and specifically a lack of compliance with our Workplace Standards and expectation for effective health and safety systems, including the recruitment and retention of qualified safety staff.

SEE DIAGRAM 40

### INDEPENDENT FLA AUDITS

In 2017, the FLA conducted four factory assessments or remediation verification exercises in Guatemala, Indonesia, Cambodia and Vietnam using the methodology from the Sustainable Compliance Initiative (SCI). The number of conventional independent monitoring visits conducted by FLA accredited monitors has declined over the years for companies' programs accredited by the FLA. This shifts companies' activities from conventional monitoring activities to engagement in value-added FLA projects that focus on reducing and eliminating chronic non-compliance issues or improving monitoring methodologies. During 2017, adidas' so-called twelve redirect activities included project activities for migrant worker protection, compliance beyond Tier 1 suppliers, civil society engagement in the Americas region, and responsible sourcing practices. We continued active support of the implementation of the FLA Fair Compensation Strategy with wage data gathering exercises in Honduras, Ukraine and Cambodia.

In 2017, the FLA accredited the adidas program for the third time. To provide information for the accreditation, nine years of social compliance work was evaluated, reviewed and verified, including factory assessments, annual reports, third-party complaints, participation in strategic projects for forced labor, migrant workers' protection, fair compensation, remediation, workplace standards alignment, responsible sourcing practices, and collaboration with civil society and brands. The accreditation recognized adidas' leadership to coordinate brand efforts which address labor violations, and included commendation for the application of mobile technology to implement the text message- and application-based platform for workers to submit grievances, for the pioneering and piloting of various methods to address fair compensation for workers as well as for the programmatic implementation of social compliance standards, assessments and risk mapping beyond the Tier 1 supply chain. FAIRLABOR.ORG

### ENFORCEMENT

Warning letters are an essential part of our enforcement efforts and are triggered when we find ongoing serious non-compliance issues that need to be addressed by our suppliers. We work closely with our suppliers to help them improve their performance. However, where we face situations of severe or repeated non-compliance, we do terminate business relationships with suppliers.

#### Warning letters

In 2017, we issued a total of 42 (2016: 31) warning letters across 15 countries. The largest number of warning letters continues to be issued in Asia, where more than 60% of all supplier factories are located. Compared to the previous year, the overall number of first warning letters doubled, mainly due to the fact that factories were not able to fully remediate their threshold issues identified in 2016, or had new threshold issues in 2017.

The total number of second warnings decreased in 2017, with three letters being issued (2016: 7). Suppliers who receive second warning letters are only one step away from being notified of possible termination of the manufacturing agreement and receive focused monitoring by the SEA team. The number of third warning letters issued to business partners (which result in factory terminations) decreased to one in 2017 (2016: 5). SEE TABLE 41

It is difficult to generalize about the grounds for a warning letter as it may be issued for a single unresolved non-conformance or for multiple breaches of our standards. The range of issues that resulted in warning letters in 2017 included non-compliances in regard to fire safety practices, receipt of wages, social and medical insurance, hazardous chemicals management, overtime, deductions, transparency and safety controls in high-risk areas.

## Terminations

In 2017, we terminated agreements with four suppliers for compliance reasons (2016: 10), mainly due to non-remediated threshold issues in consecutive audits, although in one of the cases it was triggered by the supplier refusing to grant the SEA team access to audit the factory. [SEE TABLE 43](#) While terminations happen at our existing factories, we pre-screen all new factories and if our initial assessments uncover zero tolerance or threshold issues suppliers are rejected.

In 2017, initial assessments were conducted in 209 factories (2016: 213 factories), and 50 factories (2016: 71 factories) were

either rejected directly after the initial assessment identified zero tolerance issues, or were 'rejected with a second visit' due to identification of one or more threshold issues, which means they were rejected but given the chance to remediate the non-compliance issues within a specific timeframe. [SEE TABLE 42](#)

Overall, at the end of 2017, the 'first-time rejection rate' of 29% of all new factories visited was lower than the previous year (2016: 39%) and the 'final rejection rate' was at 2% (2016: 4%). [SEE TABLE 42](#) This shows the importance and impact of pre-approval screening, as well as the efforts undertaken by the suppliers to resolve issues and come into conformance with

our Workplace Standards. The remediation of factory issues is beneficial for workers as it raises the bar in terms of better and timelier pay, improved benefits, reduced hours, and the legal protection of formal employment contracts as well as significant improvements in basic health and safety within the workplace. Suppliers who have threshold issues are normally given three months to remediate those issues before being re-audited for final SEA acceptance. [J](#)

### Number of warning letters issued to adidas suppliers by region<sup>1</sup>

41

Region	1st warning		2nd warning		3rd and final warning		Total warning letters	
	2017	2016	2017	2016	2017	2016	2017	2016
Asia	35	18	1	5	0	4	36	27
Americas	2	1	1	1	0	1	3	3
EMEA	1	0	1	1	1	0	3	1
<b>Total</b>	<b>38</b>	<b>19</b>	<b>3</b>	<b>7</b>	<b>1</b>	<b>5</b>	<b>42</b>	<b>31</b>

<sup>1</sup> Including warning letters issued by licensees and agents, but excluding warnings to main suppliers for the non-disclosure of subcontractors, which are either issued directly through business entities, or by the adidas Legal department where there is a breach of contract obligations under a manufacturing agreement. A third and final warning results in a recommended termination.

### Worldwide rejections after initial assessment due to compliance problems

42

	2017	2016
Total number of first-time rejections <sup>1</sup>	50	71
First-time rejection rate	29%	39%
Total number of final rejections <sup>2</sup>	4	8
Final rejection rate	2%	4%

<sup>1</sup> Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after initial assessments but which were given a chance for a second visit.

<sup>2</sup> Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after being visited a second time.

### Number of business relationship terminations due to compliance problems

43

Region	2017	2016
Asia	4	7
Americas	0	2
EMEA	0	1
Global	4	10