Sport matters. It matters to the dedicated athlete who is trying to be the best he can be. It matters to fans all over the world as they follow their team. And it matters to us, because it lies at the heart of our business.

Sport’s values of performance, passion, integrity and diversity are the adidas Group values. They drive our efforts to be a sustainable company, one that recognises we have responsibilities towards the environment, our employees and the people who make our products. This review covers the steps we have taken during 2008 to fulfil those responsibilities.

Acting responsibly is not without its challenges and many of these have been articulated by our stakeholders during 2008. See what they have said and how we have responded.
**WELCOME**

Welcome to the adidas Group’s 2008 sustainability performance review. This is the eighth year that we have published a report on our efforts to be a sustainable business.

We recognise that we are accountable for our performance to our stakeholders. These include regulators, customers, employees, investors and analysts as well as pressure groups. All our stakeholders have a right to express their concerns about our business and we take those concerns very seriously. This year our review starts with questions and comments from our stakeholders about the key issues raised in 2008.

The review also covers our corporate responsibility strategy where we set out our detailed strategic responses to the varied challenges we face in improving our social and environmental performance. This strategy has evolved from a considered reflection on how to align the Group’s business requirements with society’s demands of us as a major global sporting goods company. We focus on four primary areas in our strategy:

- Embedding environmental sustainability
- Managing business risks and social compliance in our global supply chain
- Extending our stakeholder engagement internally and externally
- Creating the best and most productive workplace in the industry.

How well we have been able to implement our strategy is covered in the following two sections.

First our performance data section presents our analysis of the key findings from our social and environmental dataset for 2008. It also includes detailed tables and charts of our performance, in some areas going back over several years so you can see our progress over time.

And second, our progress and targets section is where we present our progress against the targets we set ourselves for the year. We analyse that progress and highlight why we have achieved what we have, the barriers we encountered along the way and what our targets are for 2009.

We hope you will find this sustainability review informative and engaging. Please let us know what you think of it by sending an email to: sustainability@adidas-group.com.

**APPROACH TO REPORTING**

**OUR APPROACH TO REPORTING**

Our ambition is to be the best sporting goods company in the world. We have long said that part of being the best is being sustainable: creating a company that balances profits with respect for the people who make our products, our employees and the wider environment. We also recognise we have a responsibility to report on our progress in these areas each year, accounting to our stakeholders for our social and environmental performance.

**Scope**

This year’s sustainability performance review covers the efforts made in 2008 across all the Group brands (adidas, Reebok, TaylorMade) to improve workplace conditions in our direct and indirect supply chain. These are the suppliers with whom we have a direct business relationship and also those that are contracted by agents or licensees. The review also includes our performance with respect to the environment, our employees and the communities where we operate.

We have determined these areas as our key material issues through our own risk management process and through various engagements with stakeholders.

**Determining this year’s focus**

We set ourselves demanding targets, which means we are never satisfied with what we have done in the past – we want to go further and do more. This is true in our efforts to be a sustainable business and in the way we report our progress.
This year we have reflected on what really matters. To us as a sporting goods company, sport matters. Performance is one of our Group values that we have taken from sport. In the field of sustainability reporting, what matters most is our performance and our progress against the targets we set ourselves for 2008.

So this year, we have expanded those two sections and structured our reporting around them. For context we have included a more detailed explanation of our strategic priorities and of the issues that challenged us in 2008.

This review does not include stories that illustrate the approach we have taken. But there is more analysis of our performance, highlighting key findings and trends from our data. And we have also explained how the targets we set ourselves deliver our strategy, the reasons for the progress we have made and what we have learnt from our efforts.

Updating during the year
At several points in the review we refer readers to our corporate website which has a sustainability section that provides some of the background to our approach. It also includes a statements section, which we have regularly updated during the year with our responses to particular issues raised by stakeholders. We will continue to provide regular updates on our corporate website during 2009.

Our hope is that this sustainability performance review is a powerful resource for our readers. It aims to set our performance and progress in context, but also help the reader to find their way quickly and easily to the results of our efforts to be a sustainable company in 2008.

**CORPORATE RESPONSIBILITY STRATEGY**

As a leading company within the international sporting goods market, the adidas Group is exposed to various business challenges and interests of stakeholders. Aligning those interests requires strong commitment, strategic direction, efficient and careful execution, and regular reflection of the achievements made.

Corporate responsibility (CR) has become a widely accepted concept in striking the balance between business needs and societal and environmental demands. This is what it is to be a ‘sustainable business’.

There is no ‘one size fits all’ solution to achieve this stage. Every company – depending on the nature of its business – needs to develop its own approach for responding to changes in the economy, society and the environment. So it is for the adidas Group too.

Our commitment in managing our business in a responsible way is rooted in the Group’s values and principles. Our understanding of becoming a sustainable company is outlined in the adidas Group Sustainability Statement:

**PERFORMANCE, PASSION, INTEGRITY, DIVERSITY**

These are the adidas Group values.

They help us to create brands that our customers believe in and they commit us to playing by the rules that society expects of a responsible company.

Unlike sport, society’s rules are not always written down. We discover them by engaging with the people that our business touches, learning above all that companies are expected to be accountable for their actions. So we are committed to reporting publicly on the steps we take to have a more positive impact on society and the planet.

For the adidas Group, this means designing products that are environmentally sound, and reducing the environmental impacts of our day-to-day operations and in our supply chain.

It is about setting workplace standards for our suppliers to meet and helping them to ensure fair, safe and healthy conditions in their factories.

Importantly, it also means looking after the wellbeing and careers of our employees – the company’s biggest asset – and making a positive contribution to the communities where we operate.

Adhering to all applicable laws, directives and guidelines is a business imperative. But that is not enough. We are continuously striving to improve our performance and our standing in society. We set ourselves targets that stretch us, regularly review our progress and set ourselves new goals. That is what the world’s leading athletes do, and it is what we must do as a global leader in the sporting goods industry.

**STRATEGY 2010**

The adidas Group’s social and environmental strategy 2008-2010 has been built on the achievements and experiences from previous years. It responds to changes in our overall business development and to feedback that we have captured from stakeholders. Our strategy defines primary areas which are core to our business and where we dedicate our attention, efforts and resources. These areas are:

- Embedding environmental sustainability across our business – this recognises the urgent need to address questions of resource use, environmental degradation and climate change, ‘the’ business drivers for the 21st Century
- Effectively managing business risks and social compliance in our supply chain – the supply chain is expanding, and becoming more complex with multiple relationships and stretched lines of communication and control
- Extending our engagement internally and externally – partnering with others to embed new thinking and better ways of working within our business and along our supply chain. The issues are so large and complex that we cannot solve them alone
Creating the best and most productive workplace in the industry by becoming a champion in talent and succession management, a world-class recruiter and a Top 10 employer in every key market in which we operate.

More detailed targets for each of these core areas were defined for 2008 and published in our 2007 Social and Environmental Report. In the present report you can read about our progress against these targets.

### Key Focus Areas

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<thead>
<tr>
<th>Core area</th>
<th>Topic</th>
<th>Goal</th>
</tr>
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<tbody>
<tr>
<td>Environmental sustainability</td>
<td>Product</td>
<td>‘The right choice’</td>
</tr>
<tr>
<td></td>
<td>Production</td>
<td>‘Partner for change’</td>
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<tr>
<td></td>
<td>Own sites</td>
<td>‘Lead by example’</td>
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<tr>
<td>Supply chain</td>
<td>Direct supply chain</td>
<td>‘Drive self-governance’</td>
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<td></td>
<td>Indirect supply chain</td>
<td>‘Control and manage risks’</td>
</tr>
<tr>
<td></td>
<td>Business entities</td>
<td>‘Drive accountability’</td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td>Internal</td>
<td>‘Drive integration and embedded thinking’</td>
</tr>
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<td></td>
<td>External</td>
<td>‘Partner for change, transparency and accountability’</td>
</tr>
<tr>
<td>Our employees</td>
<td>Succession planning</td>
<td>‘To be a champion in succession planning’</td>
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<tr>
<td></td>
<td>Recruitment</td>
<td>‘To be a world-class recruiter’</td>
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### ENVIRONMENTAL SUSTAINABILITY

To manage and further reduce the environmental footprint of our business operations, the environmental strategy has defined core subjects which are products, production and own sites.

#### Products

Improving the environmental impact of our products requires tackling the root cause. The major part of environmental footprints of our products is predetermined through decisions made in the product creation, design and development stage. Our goal is to further drive and extend research, product innovation and development to ensure that we have made the right choice. By this we mean that we have created and launched products that are environmentally sustainable and high performance.

For example, in 2008 the adidas Sport Performance Division developed the Better Place programme, an innovative product concept that uses environmentally improved materials like recycled polyester and organic cotton. Read more about this in progress against targets.

#### Production

95% of direct environmental impacts are caused during the production of our products. Manufacturing operations are almost entirely managed by our external supply chain. While we do not have direct accountability for and control over our suppliers’ operations, we have a shared responsibility in supporting them to reduce environmental pollution and resource use.

Our long-term goal is to be a partner for change with our suppliers in improving their manufacturing conditions. We are looking for effective mechanisms that make environmental aspects an embedded part of their management. We strive to achieve this by supporting suppliers in awareness raising, capacity building programmes and in developing partnerships with brand and scientific organisations that help them manage change.

For example, in 2008, we contracted energy experts to run a series of energy efficiency workshops for core suppliers in China and Turkey.

#### Own sites

We have direct accountability for minimising the environmental impact resulting from our own sites and offices. Striving to be a leader in the industry means we work towards the goal of leading by example. In terms of environmental management we will further strengthen and extend our efforts in establishing sound environmental programmes that help systematically manage a reduction in our environmental impacts.

For example, in 2008 the adidas Group Green Company initiative was launched to all entities of the adidas Group. This programme is to drive environmental improvements at offices, sites and internal operations in a more systematic way and support employee engagement in this matter.
SUPPLY CHAIN MANAGEMENT

Workers in our suppliers’ factories play a central role in our programme. It was concern for their welfare and working conditions that led us to write our Workplace Standards and to establish a compliance management system covering all brands of the adidas Group.

Our supply chain is large, multi-tiered and varied. We have a detailed approach to managing relationships with our suppliers and we continue to develop approaches for engaging suppliers who are part of our direct and indirect supply chain.

Four primary areas are a critical part of our supply chain strategy:

- Our internal direct relationships with suppliers, which are managed by the adidas Group sourcing organisation. It accounts for around 75% of our sourcing business in terms of sourced units
- Our external indirect sourcing relationships we hold with agents and licensees
- Management of those adidas Group entities which manage their own sourcing arrangements
- Our immediate and mid-term efforts to support suppliers impacted by the global financial crisis.

Below we summarise our goals for each of these work areas.

Direct sourcing
For our direct sourcing relationships with suppliers we are looking for them to achieve self-governance, to internalise and manage their social compliance and fulfil the Workplace Standards. We expect them to achieve this through a committed leadership team, who are driving change through qualified, capable managers and effective management systems. We measure this through our Key Performance Indicator (KPI).

In 2008 we have revised our KPI so that it better reflects our suppliers’ performance in terms of effective worker-management communication and freedom of association practices. We see this as a further step in driving self-governance in our direct supply chain.

Indirect sourcing
For our indirect sourcing relationships we are looking to ensure that we are partnering with agents and licensees and developing supporting resources through external and independent monitors. That way we want to ensure we manage and control the risks inherent in a more disaggregated and smaller scale supply chain, one in which we have less leverage and often less committed business partners.

So in 2008 we conducted specific training to nominated external monitors in how to consistently and correctly apply adidas Group compliance policies and standards in their factory visits.

Business entity relationships
For those business entities, which manage their own sourcing arrangements outside the adidas Group sourcing organisation, we will further strengthen communication and understanding of Group-wide systems, policies and procedures. Ultimately, the accountability for the supply chain rests in their hands, but we need to partner with them to drive change, to reduce risk and to safeguard rights.

In 2008, we made further progress in our work with business entities in disclosing their supply chains in the Fair Factories Clearinghouse (FFC) and shared information with other members of the FFC.

Impact of the global economic crisis
With the prospect of a global recession, we are focused on transparently managing two issues that may directly impact our supply chain:

- The sharp downturn in global consumption and the effect this may have on the financial stability of our suppliers and long-term business continuity
- The future job security of workers who make our products.

For 2009 we have set a target to closely monitor our suppliers’ internal cost-control measures and the impacts these may have on workers’ wages and jobs.

STAKEHOLDER ENGAGEMENT
We have to look inside and outside the Group if we are to effectively manage risks and partner for change and accountability. We will continue to develop appropriate and innovative ways of embedding sustainability thinking and processes with the Group’s internal stakeholders. We will extend strategic compliance planning with our business entities, and define their accountability benchmarks. And by contributing to Group initiatives at the global and local levels, we will strengthen sustainability awareness throughout our workforce.

For example, in 2008 we have developed strategic compliance plans with 14 business entities of the adidas Group to encourage their direct accountability for their operations.

To drive improvement in the social and environmental performance of the adidas Group as a business and our global supply chain we will partner for change, accountability and transparency with external stakeholders. These stakeholders include governments, civil society and investors. To address systematic or chronic non-compliance, we will work with regulatory agencies and multi-stakeholder organisations such as the Fair Labor Association (FLA) or partner with other industry players.

We will continue to pursue validation processes and sustainability initiatives that build confidence in our corporate responsibility actions and challenge our own approaches and thinking, so that we are not only fit for today but fit for tomorrow.
For instance, in 2008, selected engagements included the Better Cotton Initiative, the Socially Responsible Investment community and our active participation in the MFA Forum in Mexico.

**OUR EMPLOYEES**

We know that our people are crucial to our success. Becoming the global leader in the sporting goods industry depends on the performance, potential, enthusiasm and dedication of our employees. We strive to create a working environment that promotes team spirit, passion, engagement and achievement. We promote a performance culture based on strong leadership and therefore link employee compensation to Group and individual achievements. We aim to continuously develop our employees with opportunities for career progression, while upholding a culture that celebrates diversity and encourages global mobility. This is now doubly important given the challenges we are all facing in these tough economic conditions.

In 2008 we have expanded on existing initiatives to help our employees develop and to be a champion in succession planning into senior positions.

We also know how important it is to continue to attract and recruit new talents to the adidas Group. In this so-called ‘war for talent’ it is important that we become a world-class recruiter and this ambition has led us to launch innovative programmes to raise our profile with potential employees.

We aim to create a stimulating and attractive work environment as we strive to be a Top 10 employer of choice in the key markets in which we operate. In 2008, we conducted engagement surveys in most business units around the globe to measure our progress internally and help us to benchmark ourselves externally.
Sport matters to us at the adidas Group because it lies at the heart of our business.

Sport’s values of performance, passion, integrity and diversity are our values here at the adidas Group, and they drive all of our efforts to be a sustainable business.

Our values have guided us to where we are today. A company that is successful and respected for its efforts to be sustainable. And we will continue to call on our values, for example as we contribute to the sustainability goals that have been set for the London Olympics in 2012.

This year we launched two important initiatives to embed sustainable thinking into our business.

The first is the adidas Better Place programme to create ‘green’ product ranges for consumers.

And the second is the Green Company initiative, which aims to reduce the environmental footprint of our operations. Something I know our employees are very passionate about.

We will keep you posted on our progress. In the meantime, please explore this online review of our sustainability performance for 2008. And let us know what you think.

Thank you.

Herbert Hainer
CEO and Chairman
adidas Group
2008 ISSUES

STAKEHOLDER ISSUES

Whenever we are approached by a stakeholder with an issue, our policy is very clear: we actively engage, we listen, we seek to understand the nature of the issue at hand and where it is within our ability, we act.

When you have a well-developed CR programme, engagement is rarely a one-off event: stakeholder relationships develop over time and along the way the nature of that dialogue changes, and matures. Where there is a positive and open approach to engagement, perspectives can be shared, differences respected and, at times, new partnerships forged.

In 2008, the adidas Group continued to pursue many long-standing engagements with international NGOs and trade unions and at a country-specific level we strengthened our existing relationships with local NGOs to support improvements in worker representation and communication. In El Salvador we reached out to government, to call for greater enforcement of the law, and in Indonesia we asked for the government’s support for a possible factory closure. We also called on the caretaker government in Bangladesh to release an independent labour monitor who had been arrested.

The Beijing 2008 Olympic Games was very much the focal point for the year, both for adidas as a sponsor and for our international stakeholders who voiced their concerns over human rights issues in China and in those places where they felt the Chinese government could apply its influence, namely in Darfur.

This section of our report describes the major stakeholder dialogues which took place around the world in 2008. Another section explains how these activities measure up against our targets for the year.

BEIJING 2008 OLYMPIC GAMES

STAKEHOLDERS’ CONCERNS BEFORE THE GAMES

As early as 2005, the adidas Group began an active engagement with international and local NGOs to understand their perspectives on the company’s involvement in the Beijing 2008 Olympic Games. These early informal discussions helped inform the company’s overall approach and subsequent communication efforts with the wider stakeholder community. Civil society groups in the West were highly critical of the International Olympic Committee (IOC)’s decision to award the 2008 Summer Games to Beijing. Over time, this opposition gave way to a heightened expectation that the IOC and its sponsors, such as adidas, would deliver improvements to the human rights situation in China.

International human rights groups in particular felt strongly that the IOC and the Olympic sponsors should apply leverage to shape Chinese government policy on subjects ranging from press freedom to the release of prisoners of conscience and freedom for Tibet. In April 2008 advocacy turned to protest action, as the Olympic torch made its way through Europe and North America. In China there was an angry backlash to the torch-relay protests and to calls for independence in Tibet, with nationalistic demonstrations in major cities directed against foreign brands.

THE ADIDAS GROUP POSITION

In our one-on-one engagements with stakeholders, and in our public dealings with the media, our employees and shareholders, the adidas Group maintained a clear and consistent position. As a company we recognise the importance of promoting and protecting human rights globally. We also believe that the private sector can play a constructive role in advancing this goal. We recognise, however, our own limitations and ability to influence change on the world stage. We therefore focus our efforts on those areas which are within our own sphere of influence. We do so firstly by striving to operate responsibly and in a sustainable way, and secondly by safeguarding the rights of our own employees and those of the workers who manufacture our products.
It is specifically within the area of worker rights that we seek to hold direct dialogue with governments and where we have offered our support to the NGO community in their campaigns and human rights activities. We do so when the issue, or problem, is in a country or locality from which we source our products.

**OUR OUTREACH**

Despite the Chinese government having extended some of the rules that gave foreign reporters greater freedom during the Beijing 2008 Olympic Games, lengthy approval processes and visa restrictions limited the number of journalists who were able to freely visit those locations where Olympic production was taking place. In spite of these restrictions, factory visits and interviews were conducted with the German and Swiss media, including visits by German national radio and state television, to footwear manufacturing plants in Southern China.

As part of our broader stakeholder efforts during the Olympic year, a delegation of 30 investors and shareholders was invited to visit an Olympic apparel producer in Shanghai. For many of the analysts, this was their first ever visit to a manufacturing plant in China.

**RESPONDING TO CRITICISM**

Factory conditions and worker rights remained a topical subject during 2008, reflecting the mainstream concerns of many of our most vocal stakeholders. In August 2008, the US-based NGO China Labor Watch (CLW) published a report on three factories producing for the adidas Group and other international sporting goods brands. The report was released to time with the opening of the Summer Olympics. Following our standard approach we launched an investigation in each factory to verify the claims being made and provided CLW with a detailed response to each allegation and issue. Read more about our statement and our detailed response on the Group’s website.

As a reflection of the open relationship that had been fostered with CLW over the past seven years, the NGO shared with us an advance copy of their report for our feedback. Despite CLW’s criticisms and concerns, they acknowledged ‘that efforts made by adidas in the past few years in advancing workers’ conditions are recognizable’ although they remained steadfast in their belief that the adidas Group can do much more to help factory workers.

**THE DREAM FOR DARFUR CAMPAIGN**

China’s hosting of the 2008 Olympic Games created a platform for many international groups to criticise the country for its internal human rights and environmental record. Other interest groups however used this event to apply pressure to the Chinese government, to address their specific causes or concerns. Dream for Darfur was one such campaign. Led by Hollywood actress Mia Farrow, its principal objective was to secure protection for civilians and humanitarian workers in crisis-ridden Darfur. Dream for Darfur believed that the Chinese government had the necessary leverage with the Sudanese government to secure access for peacekeepers and that given the high profile of the 2008 Olympic Games, sponsors had the ability to influence China’s foreign policy agenda. The adidas Group engaged with the Dream for Darfur campaign committee over a period of eleven months and provided them with an honest account of ways in which we could, and could not, help.

**Our position on Darfur**

We explained that we did not hold the political leverage they were seeking to attribute to us. Nor did we feel we had a legitimate role to play in the discourse between the Chinese and Sudanese governments. We acknowledged that we shared a common concern for those affected by the conflict in Darfur and that we felt that the United Nations (UN) was best placed to develop and negotiate solutions. We wrote to the UN High Commissioner for Human Rights, calling for the UN to take all necessary steps to alleviate the suffering of the people in Darfur and to push for a solution of the conflict in order to prevent a humanitarian catastrophe. The full letter accompanies our statement on our website.

We also reached out and consulted with representatives of Auswärtiges Amt (the German Federal Foreign Office) and the German Employers’ Association, and asked them to provide us with their assessment of the situation in Darfur.

On two separate occasions during their campaign the Dream for Darfur organisers rated the responses of the IOC and the 19 other Olympic sponsors targeted by them. In the first round of assessment, the adidas Group was credited for meeting with Dream for Darfur and for reaching out to the IOC and others. In the second round of assessments, the adidas Group was awarded a B+ rating, acknowledging the letter we had written to the UN. Overall the adidas Group was only one of three multinationals given a passing grade by the advocacy group.

**FREE TIBET**

In the months prior to the Olympic Games, the adidas Group received numerous letters from individuals and organisations concerned about the political situation in Tibet. Some individuals urged us to boycott the Games, others, like the International Campaign for Tibet and the International Support Network for Tibet, asked that adidas openly engage with the Chinese government to stop alleged human rights abuses in Tibet, to inform athletes sponsored by the company about the human rights situation and to raise the question of Tibet with our business partners in China. Representatives of some of these organisations spoke at the adidas Group’s Annual General Meeting and addressed these issues to the Executive and Supervisory Board directly.

In our responses we shared our concerns about the situation in Tibet, which saw unrest and violence in the spring of 2008. We stressed, however, that the question of independence for Tibet is a political issue and that as a company the adidas Group does not involve itself in national politics or political movements.

We outlined our very long history with the Olympics, which we have supported since 1928, and our strong belief that constructive dialogue is the best way to bring about change. We have been doing business in China for the past 14 years and, as the country has opened up, we have seen reform take place through engagement and dialogue.
**Worker Rights in Indonesia**

Oxfam Australia has been monitoring worker rights in Indonesia for more than a decade and has regularly communicated and campaigned for the improvement of working conditions in adidas Group suppliers. In Indonesia, Oxfam Australia’s principal concerns relate to workers’ job security, their inability to exercise their rights and a failure by the adidas Group to commit and retain orders in unionised factories. Read more about this on Oxfam Australia’s website.

Our engagement in 2008 centred on three topics, all of which carried forward dialogues from previous years:

- We responded to a call from Oxfam Australia, in a report jointly authored with the Clean Clothes Campaign, for ‘sector-wide solutions’ to labour rights issues in Indonesia.
- We held meetings and exchanged correspondence with Oxfam Australia on specific factory issues and the infringement of trade union rights.
- We offered comments on draft proposals, for inclusion in a purchasing practices report being prepared with Oxfam International.

**Sector-Wide Solutions**

In April 2008 we received a steady stream of letters and emails from the general public in Australia and countries in Europe voicing support for the Oxfam Australia and Clean Clothes Campaign report on ‘Sector-Wide Solutions for the sports shoe and apparel industry in Indonesia’.

Many of the topics covered in the report had been the subject of correspondence, calls and meetings with Oxfam Australia representatives in 2007 and again in early 2008. The report focused on ways to promote and protect freedom of association and the right for workers to organise and bargain collectively, to curb the use of short-term contract labour in factories and to secure severance and back pay for workers who had lost their jobs following a series of large-scale factory closures – in 2006/07, a total of 18,000 workers were made redundant, as three Reebok footwear suppliers filed for bankruptcy in quick succession.

As one of our key sourcing countries in Asia, the adidas Group has witnessed steady progress and improvement in the workplace conditions in Indonesia. Nevertheless, we also acknowledge and accept that our suppliers continue to face challenges as they strive to meet our Standards, as well as international NGO expectations. We published a statement on our website, addressing each of the major issues raised in the ’Sector-Wide Solutions’ report.

**Factory Issues**

Throughout 2008 Oxfam Australia maintained regular contact with adidas Group SEA staff, exchanging information and views on progress with a number of factory cases. Particular issues raised during the year included:

- Alleged discrimination against trade union officials in suppliers’ recruitment practices.
- Concern that the current minority union at PT Panarub was not being allowed to freely organise and collectively bargain.
- Continuing delays in finalising a union verification process – allowing workers to freely choose membership between the majority and the minority union at PT Panarub.

**Our response**

We reiterated our commitment to investigate any deliberate act of discrimination in our suppliers’ hiring practices and investigations were undertaken on the cases raised by Oxfam. The alleged restriction of freedom of association at PT Panarub was also investigated and resolved by mutual agreement between the factory management and the union concerned. With respect to trade union verification, we repeated our position that the responsibility for carrying out this process cannot be placed solely on the shoulders of the buyer, but as an internal matter requires the full participation and consensus of the affected unions and the factory management.

We agreed with Oxfam that given the length of time that had elapsed without any real progress, we would redouble our efforts in 2009 with the support of the Indonesian Ministry of Manpower. As for the employment status of former union officials at PT Panarub, we agreed to provide their union with the name and address of the HR Manager in each adidas Group supplier factory in Indonesia. We also requested that any application submitted to a supplier be copied to the SEA team in Jakarta, to independently track the recruitment process.

**Purchasing Practices**

On 24 September 2008 Oxfam Australia wrote to the adidas Group, requesting our input to a report by Oxfam International on transnational corporation purchasing practices in the apparel and footwear industries. The report focused on how reforms to purchasing practices could ‘help workers achieve sustainable livelihoods’.

Oxfam Australia sought information on adidas’ general purchasing practices and also thoughts and comments on the recommendations they were considering including in their report. In our reply, we expressed our concern that their recommendations did not take into account the nature and complexity of global sourcing activities or existing purchasing practices; practices which are driven by commercial interests, competitive business requirements and risk management, rather than any overriding social objective such as promoting trade union rights, or supporting collective bargaining mechanisms at an enterprise level.

**Our response**

As a company, the adidas Group does share an interest in seeking the maturing of worker-management relations in our suppliers’ factories as this furthers a safe and fair workplace. We also adhere to the need to protect trade union rights and collective bargaining processes (where these
exist) in the countries where we source products. But, as we explained to Oxfam, we feel our interest in meeting this objective is best served through government and ILO engagement, rather than reforming our own purchasing practices, or by restricting sourcing activities.

In response to Oxfam’s general call for greater transparency and information on where trade unions had been formed and where collective bargaining agreements (CBA) had been negotiated, we provided the NGO with the status of unionisation and CBAs for each of our 42 directly sourced factories in Indonesia. Of these 42 factories, 74% are unionised and 81% of those have CBAs. We have asked permission from our suppliers to disclose the full list of factory names and their union and CBA status.

PLAY FAIR 2008 CAMPAIGN

In July 2008, a month before the start of the Beijing 2008 Olympic Games, major brands, including the adidas Group, joined local and international trade unions and worker rights groups in Hong Kong for a three-day conference to discuss working conditions in the sporting goods industry.

The conference was hosted by the Play Fair 2008 campaign, an alliance of civil society organisations led by the International Textile, Garment and Leather Workers Federation (ITGLWF), Maquila Solidarity Network (MSN) and the Clean Clothes Campaign (CCC). The conference was the culmination of a series of engagements between Play Fair and the sporting goods companies spanning a period of eight years.

The 2008 conference was timed to follow on from the April 2008 release of Play Fair’s most recent report titled ‘Clearing the Hurdles’. The conference identified areas of common interest and concern, including the weakness of minimum wage setting systems, the lack of research being undertaken on the impact of lean manufacturing and productivity initiatives on workers’ pay and conditions, and the reduced benefits and job security for contract labour. Differences were also identified, including the lack of willingness of brands to share commercial information on pricing or to change global purchasing practices, or to directly promote the activities of trade unions.

Engagement with Play Fair 2008 is continuing, with a workshop planned in Indonesia during 2009.

Read the adidas Group’s full response to the recommendations and proposals put forward by Play Fair 2008 on the Group’s website.

Read our specific comments on the ‘Clearing the Hurdles’ report on our website.

UNIVERSITY VISITS VIETNAM AND CHINA

In early 2008, the adidas Group received a request from the University of Notre Dame in the United States to visit factories in Asia.

adidas America Inc., the adidas Group’s US subsidiary, is licensed by Notre Dame to make collegiate sportswear products. The licensing agreement is managed by the University’s Licensing Department and in-house legal team. A delegation of three senior staff from these two departments travelled to Asia in June 2008, accompanied by the President and Executive Vice President of Follets, a supplier and management company that runs university bookstores which sell collegiate-licensed products. The primary objective of their trip was to attend the Fair Labor Association meetings and Stakeholder Forum in Shanghai. However, they also wanted to take the opportunity, while in Asia, to see first-hand the general working conditions in factories and understand government restriction on trade union activities.

Notre Dame operates a policy that prohibits production in countries, such as China and Vietnam, as they do not lawfully recognise fundamental free association rights. The adidas Group provided the delegation with access to large-scale footwear and apparel suppliers in southern Vietnam and arranged meetings in Hanoi with the Director of Industrial Relations, the Ministry of Labour, Social and Invalid Affairs and with the Chief Technical Advisor for the ILO/Vietnam Industrial Relations Project. In China, visits were arranged to two mid-sized apparel suppliers. The feedback from the delegation was positive and they confirmed that the factory visits had provided them with a useful insight into the social compliance challenges in Asia.

GOVERNMENT OUTREACH

We recognise the value of having a broad range of engagements with governments in a number of countries. They help us to improve working conditions and secure worker rights in the countries where we source our products.

Three typical engagements with governments we undertook during 2008 were in Indonesia, El Salvador and Bangladesh.

WORKING WITH GOVERNMENT, INDONESIA

In mid 2007, PT Prima Inreksa Industries, a footwear factory in Indonesia, revealed that it was in serious financial trouble, following the abrupt departure of its management team. The former managers left behind a factory that was on the brink of bankruptcy. Faced with this situation, the adidas Group agreed to support the factory owner by putting in place measures to help the factory regain financial stability. After one week’s temporary closure, the factory reopened and the 6,000 employees returned to work.
For more than a year adidas supported the factory through direct financing of material supply, mobilising a team of experts to support the new factory management and continuing to place orders to provide time for the factory’s owner to develop a restructuring plan. Despite our best efforts, an assessment of the factory’s financial position by independent auditors in mid 2008 concluded that the factory could not achieve the level of solvency required to support the basic needs of the business. This situation left the adidas Group with no option other than to end the business relationship by giving PT Prima six months’ notice.

The adidas Group informed the Indonesian government and the Indonesian Footwear Manufacturers Association (Aprisindo) of its decision and its commitment to work closely with PT Prima’s owner during the six-month transition period. The factory raised its concerns about the volume of orders placed during the transition period and asked the adidas Group to modify its termination agreement. In response, the adidas Group agreed to participate in a series of discussions with the factory, facilitated by the Minister of Industry and Aprisindo, to find the best possible solution for both parties. The Minister was supportive and provided constructive feedback during the negotiation.

In the end, the adidas Group and PT Prima reached a final agreement on terms, signed in the presence of the Minister, which would ensure business continuity and allow time for the factory management to find new investors and alternative buyers.

**GOVERNMENT ENGAGEMENT, EL SALVADOR**

SEA continues to work with a noted local jurist, Juan Jose Zaldaña, to engage senior government officials from the Ministries for Labour, Economy and Social Security as well as unemployed workers and educators to resolve the employment issues and consequences from the closing of the Hermosa factory in 2005.

One approach focused on closing breaches in the regulatory enforcement. They included the lack of contributions to employee benefit entitlements, and the non-payment of severance and seniority indemnification. The government legislated for two regulatory improvements to employer benefit compensation. A third piece of legislation was being drafted at year-end 2008 to make worker severance and seniority compensation entitlements more secure.

Another approach focused on healthcare access, job training and job placement for unemployed Hermosa workers. Two of these points were completed in 2008, and the third is ongoing.

**Job training**

A national agency for professional formation and the Albert Einstein University sponsored twelve weekends of skills training for unemployed Hermosa workers. Classes included language, computer and sewing competency.

**Job fair**

The second of two sessions agreed between the government, workers and stakeholders was a job fair organised exclusively for unemployed Hermosa workers. This May 2008 event gathered HR administrators from twelve factories, five of which produce for the adidas Group, to a single venue for workers to interview and apply for open positions. 15 former Hermosa workers attended the job fair but none took applications from the factory employers.

**Healthcare**

The Ministry of Health has ensured all unemployed Hermosa workers are registered at one of the public hospitals in San Salvador. Workers have had easier access and faster treatment in a number of cases.

**Food**

Workers who participated in the job training received food baskets of rice, beans, milk, sugar, oatmeal, pasta, corn meal and cooking oil at every session they attended.

The engagement in 2008 showed the strongest progress since 2005, and the engagement is expected to continue maturing in 2009. Recovery of the workers severance compensation and the repatriation of social security funds remain important targets in 2009.

**HUMAN RIGHTS ADVOCACY, BANGLADESH**

On 24 January 2008, Mehedi Hasan of the Worker Rights Consortium (WRC) was arrested and detained by National Security Intelligence in Dhaka. His arrest was believed to be directly linked to the labour rights monitoring that he carried out for WRC, a non-governmental organisation which investigates labour practices on behalf of US colleges and universities.

Hasan was held incommunicado and was subject to interrogation over a number of days. His arrest was attributed by Human Rights Watch to ‘a recent pattern of harassment of labour rights activists that has followed clashes between workers and police’ in Dhaka. The WRC wrote to foreign buyers, including the adidas Group, asking them to support a call for the Bangladesh caretaker government to release Hasan. The adidas Group responded by writing to the acting Minister of Justice. We attested to the independence and credibility of the work of the WRC and their international standing as an NGO.

The combined efforts of foreign governments, brands and NGOs, both in Bangladesh and internationally, secured Hasan’s release. All pending charges were dropped and he was freed from police custody on the afternoon of Sunday, 3 February 2008.

We were happy to reach out to the Bangladesh government because we felt it was an issue where we could bring our influence to bear. We were able to vouchsafe Hasan’s NGO employer because it operates in the realm of worker rights as we do. This example stands in contrast to requests made of us to engage the Chinese government over the issues of Darfur and Tibet. Our view is that those are not issues we can influence.
MULTI-STAKEHOLDER COLLABORATIONS

We value the opportunities to work in partnership with other brands as well as NGOs. These partnerships help us to improve the way we conduct our business, in particular through:

- Gaining a deeper understanding of stakeholder concerns
- Sharing information with each other
- Pooling our expertise and collaborating in the development of innovative tools and new ways of working.

Three key multi-stakeholder collaborations that we participated in during 2008 are:

- The Fair Labor Association
- The Sustainable Compliance Leadership initiative
- The Fair Factories Clearinghouse.

FAIR LABOR ASSOCIATION

Since 1999, the Fair Labor Association (FLA) has offered global brands and companies an opportunity to participate in a multi-stakeholder organisation devoted to activities that promote fair, healthy and safe working conditions in supply chains making their products.

Independent monitoring, public reporting and accreditation

FLA member companies disclose their supply chains to the FLA who designates 4% of factories in those supply chains (chosen through a random, automated risk analysis tool) to undergo annual audits by FLA-accredited independent and external monitors. The monitors make unannounced visits to the factories and then report the audit findings back to the FLA and member companies. The obligation of the member companies is to remediate the non-compliant findings, as well as incorporate the lessons learnt to their internally driven monitoring programmes and activities.

The FLA makes the audit findings available to the public on their website, and uses the monitoring activities to inform an annual public report that objectively evaluates the programmatic activities of the member companies. After the initial implementation period, FLA staff conduct comprehensive bi-annual reviews of those activities and determine accreditation of individual company compliance programmes. In late 2005, Reebok and adidas were among the first member companies to receive FLA programmatic accreditation. In October 2008, the adidas Group programme (including the integrated Reebok programme since 2006) was among the first group of member companies to receive an FLA re-accreditation.

More than monitoring needed

In late 2006, the FLA launched several initiatives to not only improve its monitoring methodology and effectively reduce the trends of chronic non-compliance issues, but more closely fulfil its mission to promote fair, healthy and safe working conditions. They included FLA 3.0, a compliance activity focused on more active, direct engagement by factory management and their worker populations to identify the root causes of non-compliance. Once identified, there was a more relevant indication of the training programmes required to enhance the human resource and health and safety management systems in the factory. A scorecard was implemented that started to track the factory’s progress and improvement of the original non-compliant findings.

Addressing the issues sector-wide

Another initiative started was a series of FLA-managed projects that addressed chronic non-compliance on a sector-wide basis as well as at the individual factory level. During the last two years, the FLA has launched ten value-added projects with innovative and focused approaches for the reduction of chronic non-compliance. Those projects are, amongst others, related to the promotion of freedom of association, sound hiring, termination, grievance and discipline practices, as well as the development of innovative compliance and monitoring methodologies.

Promoting sustainable compliance

These projects were launched in partnership with FLA member companies whose programmes had been accredited, thereby showing capacities to act beyond conventional monitoring practices and participate in activities that promoted sustainable compliance solutions in workplaces (member companies working to complete their 3-year initial implementation period still participate in the conventional FLA 2.0, the performance-based monitoring methodology).

With a twice-accredited programme, the adidas Group has chosen to redirect a number of the conventional monitoring obligations to FLA 3.0 and FLA project work.

FLA Asia Board Meeting and Stakeholder Forum

In June 2008 the FLA held its first-ever board meeting in Asia. The meeting was hosted by the Chenfeng Group, an FLA-affiliated Participating Supplier and adidas Group apparel producer, at their plant in Kunshan, China. In conjunction with the meeting, the FLA organised a one-day Stakeholder Forum on labour law reform in China, as well as a study tour of factories at different levels of compliance. The adidas Group’s Head of Social and Environmental Affairs for Asia joined the Stakeholder Forum, which involved a lively debate on purchasing practices and their impact on labour standards. The Forum was attended by over 100 participants representing local and international NGOs, companies and universities. A summary of the Stakeholder Forum presentations and discussion is available on the FLA website.
Progress and next steps

During the past two years, the adidas Group has implemented the FFC platform as the adidas Group’s internal compliance database. All SEA and commissioned external monitoring reports are archived in the FFC and as of November 2008, the adidas Group actively started sharing audit reports in all regions.

The next milestone for the industry will be to start accepting each other’s audit reports. By reducing duplication in monitoring activities, brands will then be able to redirect resources to capacity building and remediation activities at the factory level. This will enable brands to reach more factories and more workers. Collaboration in compliance will also increase leverage and lead to more effective and sustainable solutions at the factories.

Sustainable Compliance Leadership (SCL)
The Sustainable Compliance Leadership (SCL) is a 2008 collaboration between the FLA and six companies to develop self-reliant management systems at the factory level. The SCL companies identified common hurdles in managing supply chain compliance such as transparency issues, major non-compliances and unsophisticated management systems — even after many years of engagement. The FLA remains focused on creating a critical mass to influence change as well as developing standard KPIs for participating companies, measuring the impact of collective efforts by industry, and drawing industry-wide comparisons in sustainable compliance activities.

All six companies in the SCL desire a common tool that assesses the factory’s human resource systems and non-compliance root causes, but ensures transparency of any egregious issues for each element of the code of conduct. The standardised tool should be comprehensive yet straightforward and relevant for a broader audience including company compliance practitioners, third-party monitors, less experienced companies, licensees, factory management and sourcing staff. It is intended to replace current compliance checklists. The tool should be universal and standardised but allow for a degree of customisation to meet country-specific requirements. The process will identify what a model factory looks like, with clear criteria and indicators established as guidelines and to measure progress. There will be efficiency gains in the requisite training for internal and external monitors, and the incorporation of lessons learnt from the FLA 3.0 supply chain empowerment model mentioned earlier.

The next steps are for the adidas Group to participate in monthly meetings with the SLC and the FLA consultancy to develop and finalise the launch of the tool in June 2009.

Fair Factories Clearinghouse (FFC)
The adidas Group believes that the Fair Factories Clearinghouse (FFC) promotes long-term sustainability in compliance activities through more effective collaboration with other companies. The shared platform is a result of a three-year industry-wide collaboration to build efficiencies in ensuring fair, safer and healthier workplaces by sharing compliance data from multiple sources. The key benefit for companies is that having more buyers sharing information leads to more effectiveness in executing supply chain remediation.

There are also many benefits to the factories including the potential reduction in code of conduct assessments (avoiding audit fatigue), more streamlined code of conduct communication from FFC member companies, and a reduction in resources needed to respond to remediation activities from multiple sources and buyers.
PERFORMANCE DATA

Reliable performance data is important. It allows us to review our progress and plan our next steps. By publishing that data we invite our stakeholders to form their own view about our performance.

Since 2006, the supply chain-related data management for the SEA programme has been managed on the Fair Factories Clearinghouse (FFC) platform. We use that data to inform critical communications and reporting to multiple internal and external stakeholders, including this review.

During 2008, we critically reviewed the data in the FFC and took steps to improve it. However, we did encounter some barriers that have affected the quality of some of the data in this review.

IN THIS SECTION
For 2008 we have provided a more detailed analysis of our performance data. This additional commentary covers issues such as the quality of the data and the reasons for the results and trends that we see. The page on data quality is followed by six sections of performance data:

- Data quality
- Supply chain
- Audits and training
- Enforcement
- Environment
- Our employees
- Community affairs

DATA QUALITY

STEPS TAKEN TO IMPROVE THE DATA
We reported in 2007 that during the operating year 2008 we would critically review the integrity of the data output from the Fair Factories Clearinghouse (FFC) database and enhance the input, maintenance and capabilities components of this system. During 2008, data-cleansing activities were led by key members of the SEA team, who then verified results with the relevant sourcing departments and business entities. Hence, corrected and accurate data was adjusted in the FFC system. FFC training programmes and capacity building modules to the users within the adidas Group were enhanced and in some cases redelivered.

SEA developed and implemented systemic tools for the FFC users to install as data integrity control points in their internal business management systems. The FFC operations teams was engaged to develop and complete a number of critical user features and enhancements, thereby facilitating the system’s ‘user-friendliness’.

BARRIERS TO IMPROVING THE DATA
A number of internal barriers emerged in 2008 and they have impacted some data we are reporting in this review. The number of business entities engaged in sourcing activities varied throughout the year and supply chain disclosure increased while making complexities in the indirect supply chain model more transparent. Also, the number of the adidas Group’s user community has been increasing rapidly since January 2007. Since the FFC data is maintained by dozens of users with variable levels of system proficiency, there have been inconsistencies in data input and maintenance. Factory consolidation and the evolving changes in our licensing agreements also hindered faster completion of data integrity exercises. The FFC did not meet all the expected deliveries of user enhancements, so some aspects of system maintenance were not achieved and remain difficult to facilitate.

IMPACT ON DATA IN THIS REPORT
Even though FFC data quality, integrity and reporting capability improved by the end of 2008, the above mentioned needs to be noted when reading the numbers in the data analysis sections of this review.
SUPPLY CHAIN

The total numbers of supplier and licensee factories and supplier factories by country of manufacture are consistent with those numbers reported in 2007. However, beneath what appears to be relatively static numbers is a significant change in the make-up of the supply chain with approximately 25% supplier turnover during the year. Several reasons caused this but were not easily visible in the current FFC system reporting parameters.

Factory turnover during 2008

25%

1. The supply chain disclosure by business entities increased.

2. The number of licensees and business entities within the Group contracted and expanded, resulting in a moving supplier and factory count.

3. Factories were counted only once, regardless of the number of relationships they have with adidas Group business entities.

While the data trend for the supply chain reflects a stable sourcing and supplier footprint, there was a notable movement of factories. The data we are reporting here is a snapshot in time, a static point capturing the situation at the end of 12 months of these movements.

NUMBER OF SUPPLIERS AND OUR OWN FACTORIES

On December 31, 2008, we worked with more than 1,050 independent factories (excluding factories of our licensees) who manufacture adidas Group products in 66 countries. 66% of the factories are located in Asia, 18% in the Americas and 16% in Europe, Middle East and Africa (EMEA). 25% of all these factories are in China.

<table>
<thead>
<tr>
<th></th>
<th>Asia</th>
<th>Americas</th>
<th>EMEA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of supplier factories (excluding own factories)</td>
<td>707</td>
<td>727</td>
<td>180</td>
<td>179</td>
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<tr>
<td>No. of own factories</td>
<td>2</td>
<td>2</td>
<td>8</td>
<td>9</td>
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<tr>
<td>Total</td>
<td>709</td>
<td>729</td>
<td>188</td>
<td>188</td>
</tr>
</tbody>
</table>

1) Supplier production sites of the adidas Group excluding licensee factories.
## NUMBER OF SUPPLIER FACTORIES PER COUNTRY

### ASIA

<table>
<thead>
<tr>
<th>Country</th>
<th>Total number of factories 2008</th>
<th>Total number of factories 2007</th>
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<tr>
<td>Australia</td>
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<td>14</td>
</tr>
<tr>
<td>Bangladesh</td>
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<td>9</td>
</tr>
<tr>
<td>Cambodia</td>
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<td>8</td>
</tr>
<tr>
<td>China</td>
<td>268</td>
<td>264</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>59</td>
<td>52</td>
</tr>
<tr>
<td>Indonesia</td>
<td>50</td>
<td>48</td>
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<td>Japan</td>
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<td>63</td>
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<tr>
<td>Korea</td>
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<td>Macao</td>
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<td>1</td>
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<tr>
<td>Madagascar</td>
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</tr>
<tr>
<td>Malaysia</td>
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<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
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<td>6</td>
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<td>Pakistan</td>
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<td><strong>Total Asia</strong></td>
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<td><strong>727</strong></td>
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## AMERICAS

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<thead>
<tr>
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<td>2008</td>
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<td>Argentina</td>
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<td>Brazil</td>
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<td>Canada</td>
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<td>Colombia</td>
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<td>Costa Rica</td>
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<tr>
<td>Dominican Republic</td>
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<tr>
<td>Ecuador</td>
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</tr>
<tr>
<td>El Salvador</td>
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<tr>
<td>Guatemala</td>
<td>3</td>
</tr>
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<td>Honduras</td>
<td>7</td>
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<tr>
<td>Mexico</td>
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<tr>
<td>Nicaragua</td>
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<td>Paraguay</td>
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<td>Peru</td>
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<tr>
<td>United States</td>
<td>58</td>
</tr>
<tr>
<td>Uruguay</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Americas</strong></td>
<td><strong>180</strong></td>
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## EMEA

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<tr>
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<th>Total number of factories</th>
</tr>
</thead>
<tbody>
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<td></td>
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</tr>
<tr>
<td>Albania</td>
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</tr>
<tr>
<td>Belarus</td>
<td>1</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
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</tr>
<tr>
<td>Bulgaria</td>
<td>1</td>
</tr>
<tr>
<td>Czech Republic</td>
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</tr>
<tr>
<td>Egypt</td>
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<tr>
<td>France</td>
<td>3</td>
</tr>
<tr>
<td>Germany</td>
<td>13</td>
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<tr>
<td>Greece</td>
<td>5</td>
</tr>
<tr>
<td>Hungary</td>
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<td>Israel</td>
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<td>Italy</td>
<td>23</td>
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<tr>
<td>Jordan</td>
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</tr>
<tr>
<td>Latvia</td>
<td>1</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1</td>
</tr>
<tr>
<td>Moldova</td>
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<tr>
<td>Morocco</td>
<td>-</td>
</tr>
<tr>
<td>Poland</td>
<td>3</td>
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<tr>
<td>Portugal</td>
<td>8</td>
</tr>
<tr>
<td>Romania</td>
<td>1</td>
</tr>
<tr>
<td>Russia</td>
<td>10</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1</td>
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<tr>
<td>Slovenia</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>18</td>
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<td>Spain</td>
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<tr>
<td>Swaziland</td>
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<td>Sweden</td>
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<td>Switzerland</td>
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<td>Tunisia</td>
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<td>Turkey</td>
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<td>Ukraine</td>
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<tr>
<td>United Kingdom</td>
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<tr>
<td><strong>Total EMEA</strong></td>
<td><strong>164</strong></td>
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</table>
**GLOBAL**

<table>
<thead>
<tr>
<th>Region</th>
<th>Total number of factories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Total Asia</td>
<td>707</td>
</tr>
<tr>
<td>Total Americas</td>
<td>180</td>
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<tr>
<td>Total EMEA</td>
<td>164</td>
</tr>
<tr>
<td>Total Global</td>
<td>1,051</td>
</tr>
</tbody>
</table>

1) Independent supplier production sites of the adidas Group excluding licensee factories and own production sites.

**ADIDAS GROUP LICENSEES**

In 2008, the adidas Group worked with 40 licensees whose suppliers manufactured products in 247 factories in 42 countries.

<table>
<thead>
<tr>
<th>Product range</th>
<th>Total no. of licensees</th>
<th>Total no. of factories producing for licensees</th>
<th>No. of countries where production is placed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>23</td>
<td>20</td>
<td>169</td>
</tr>
<tr>
<td>Hardware</td>
<td>12</td>
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<tr>
<td>Footwear</td>
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<td>3</td>
</tr>
<tr>
<td>Watches</td>
<td>1</td>
<td>1</td>
<td>3</td>
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<tr>
<td>Glasses</td>
<td>2</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>1</td>
<td>1</td>
<td>11</td>
</tr>
</tbody>
</table>

1) This might include factories which produce for both the adidas Group directly as well as for licensees/agents.
2) Accessories and gear.
3) In 2008, 40 licensees sourced products from 247 factories in 42 different countries.
4) In 2007, 44 licensees sourced products from 248 factories in 38 different countries.
AUDITS AND TRAINING

The numbers reported for audits, training and ratings were difficult to compare with 2007 figures. This is because the programmatic enhancements in 2008 reflect an increased scope of activities. They challenged the boundaries of data definitions we use for reporting. For instance, the number of external monitors decreased overall but they carried out a higher percentage of factory audits than in the past. There was also an increased number of monitoring activities with factories that had multiple relationships with adidas Group business entities.

AUDIT NUMBERS

The reporting designation for ‘audit’ reflects components that were not specifically reported in previous years. Most importantly this includes ‘visits’ which tracked activities outside the parameters of formal auditing. The increased number of initial assessments was directly impacted by disclosure and data-cleansing activities in the FPD.

<table>
<thead>
<tr>
<th>Year</th>
<th>Audits/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
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</tr>
<tr>
<td>2006</td>
<td>1,101</td>
</tr>
<tr>
<td>2007</td>
<td>1,007</td>
</tr>
<tr>
<td>2008</td>
<td>1,323</td>
</tr>
</tbody>
</table>

\(^1\)Excluding FLA audits; including multiple visits in the same factory

INDEPENDENT FLA AUDITS

We continue to be an active member and supporter of the Fair Labor Association (FLA). The number of conventional independent monitoring visits conducted by FLA accredited monitors has gone down for two reasons. The first is that the number of audits due to be carried out is calculated as a percentage of the number of suppliers disclosed to the FLA. This number decreased in the past years.

The second reason is that, because of the adidas Group’s accreditation to the FLA programme, we have been able to redirect some audits to more value-added FLA projects.

KPI ASSESSMENT

For the KPI assessment and C-Rating, our reporting calculates an average cumulative score. Comparisons with 2007 performance units of measure reflect a considerable lower average score in management commitment and responsiveness, but this is due to the 2008 implementation of a more stringent rating of that measurement. We have strengthened the integrity of our scoring through three upgrades to the KPI tool during the last five years.

SUMMARY

The numbers reported for the 2008 programme activities remain difficult to compare and measure with past years due to the emergence of new and more detailed data which is the result of:

- Changes in the method and depth of measurement
- Improvements in programmatic tools and processes
- Increased relationship management with adidas Group business entities.
NUMBER OF FACTORY AUDITS/VISITS AND TRAININGS
During 2008, 1,323 factory visits involving management and worker interviews, document review, facility inspections and trainings were conducted at different levels in our supply chain. The SEA team conducted 251 training sessions and workshops for suppliers, licensees, workers and adidas Group employees.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visits (incl. Audits)</td>
<td>1,323</td>
<td>1,007</td>
<td>1,101</td>
<td>916</td>
</tr>
<tr>
<td>Trainings</td>
<td>251</td>
<td>267</td>
<td>173</td>
<td>225</td>
</tr>
</tbody>
</table>

1) Including multiple audits/visits in the same factory conducted by the adidas Group SEA team and external monitors, but excluding FLA audits.
2) Including audits in licensee factories; visits involving management and worker interviews, document review, facility inspections and trainings on-site.
3) Figures for 2005 do not include the Reebok business.

NUMBER OF TRAINING SESSIONS DIVIDED BY REGION AND TYPE
In 2008, we continued our intensive efforts to provide training for our suppliers as well as for the SEA team, licensees and employees of the adidas Group.

To build capacity in our supply chain and within the adidas Group, the SEA team conducted 251 training sessions for more than 2,470 participants. Included in this number are 81 group training sessions.

Type and number of training

<table>
<thead>
<tr>
<th>Region</th>
<th>Fundamental 2</th>
<th>Performance 3</th>
<th>Sustainability 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>80</td>
<td>98</td>
<td>68</td>
<td>58</td>
</tr>
<tr>
<td>Americas</td>
<td>51</td>
<td>35</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>EMEA</td>
<td>24</td>
<td>24</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>155</td>
<td>157</td>
<td>79</td>
<td>61</td>
</tr>
</tbody>
</table>

1) Trainings conducted for suppliers, workers, licensees, agents and adidas Group employees.
2) Fundamental training covers: Workplace Standards & SEA introduction; FFC training; SEA policies & SOPs.
3) Performance training covers: Specific labour, health, safety and environmental issues.
4) Sustainability training covers: Sustainable compliance guideline & KPI improvement; Factory Self-Audits (factory internal audits).
5) In 2008, more than 2,470 people participated in these trainings.
6) In 2007, more than 3,500 people participated in these trainings.
7) Including 81 group training sessions, i.e. trainings with participation of more than one supplier.
8) Including 123 group training sessions, i.e. trainings with participation of more than one supplier.

NUMBER OF AUDITS DIVIDED BY REGION AND TYPE
In 2008, the SEA team conducted 1,261 audits (including external monitoring audits). In addition to these audits, the SEA team visited suppliers’ sites several times to meet with factory management and discuss specific issues, to follow up project work or conduct training sessions.

Completing a high volume of initial assessments remained a challenge for the SEA team in 2008, particularly in Asia. There were a total of 626 Initial Assessments, resulting in 19% of candidate factories rejected.

Performance audits are only recorded as such since the beginning of 2008, so that no comparable data is available for this audit type. All audits were collected as Initial Assessment or Sustainability Assessment in 2007.

Audits conducted by external monitors in 2008 were commissioned by adidas Group entities, including licensees with indirect sourcing models.
### Initial Assessment

<table>
<thead>
<tr>
<th>Region</th>
<th>SEA Team</th>
<th>External Monitors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>207</td>
<td>205</td>
<td>308</td>
</tr>
<tr>
<td>Americas</td>
<td>60</td>
<td>38</td>
<td>10</td>
</tr>
<tr>
<td>EMEA</td>
<td>9</td>
<td>13</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>276</strong></td>
<td><strong>256</strong></td>
<td><strong>350</strong></td>
</tr>
</tbody>
</table>

1) Every new supplier factory has to pass an Initial Assessment to prove compliance with the Workplace Standards prior to order placement.

### Performance Audit

<table>
<thead>
<tr>
<th>Region</th>
<th>SEA Team</th>
<th>External Monitors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>461</td>
<td>-</td>
<td>35</td>
</tr>
<tr>
<td>Americas</td>
<td>65</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EMEA</td>
<td>13</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>539</strong></td>
<td><strong>-</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

2) Audits conducted in approved supplier factories.

3) Including 181 audits conducted in licensee factories by external monitors and the SEA team.

### Sustainability Assessment

<table>
<thead>
<tr>
<th>Region</th>
<th>SEA Team</th>
<th>External Monitors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>39</td>
<td>240</td>
<td>-</td>
</tr>
<tr>
<td>Americas</td>
<td>6</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>EMEA</td>
<td>1</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46</strong></td>
<td><strong>281</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

### Total

<table>
<thead>
<tr>
<th>Region</th>
<th>SEA Team</th>
<th>External Monitors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>707</td>
<td>445</td>
<td>343</td>
</tr>
<tr>
<td>Americas</td>
<td>131</td>
<td>51</td>
<td>10</td>
</tr>
<tr>
<td>EMEA</td>
<td>23</td>
<td>41</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>861</strong></td>
<td><strong>537</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

1,261

1) Every new supplier factory has to pass an Initial Assessment to prove compliance with the Workplace Standards prior to order placement.

2) Audits conducted in approved supplier factories.

3) Including 181 audits conducted in licensee factories by external monitors and the SEA team.
## NUMBER OF AUDITS CONDUCTED IN LICENSEE FACTORIES BY EXTERNAL MONITORS AND THE SEA TEAM DIVIDED BY REGION AND TYPE IN 2008¹

**Initial Assessment²**

<table>
<thead>
<tr>
<th>Region</th>
<th>External Monitors</th>
<th>SEA Team</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>98</td>
<td>8</td>
<td>106</td>
</tr>
<tr>
<td>Americas</td>
<td>4</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>EMEA</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105</strong></td>
<td><strong>17</strong></td>
<td><strong>122</strong></td>
</tr>
</tbody>
</table>

**Performance Audit**

<table>
<thead>
<tr>
<th>Region</th>
<th>External Monitors</th>
<th>SEA Team</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>16</td>
<td>28</td>
<td>44</td>
</tr>
<tr>
<td>Americas</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>EMEA</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22</strong></td>
<td><strong>30</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

**Sustainability Assessment³**

<table>
<thead>
<tr>
<th>Region</th>
<th>External Monitors</th>
<th>SEA Team</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Americas</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>EMEA</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2</strong></td>
<td><strong>5</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Region</th>
<th>External Monitors</th>
<th>SEA Team</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>116</td>
<td>41</td>
<td>157</td>
</tr>
<tr>
<td>Americas</td>
<td>4</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>EMEA</td>
<td>9</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
<td><strong>52</strong></td>
<td><strong>181</strong></td>
</tr>
</tbody>
</table>

¹ This might include factories which produce both for the adidas Group directly as well as for licensees/agents.
² Every new supplier factory has to pass an Initial Assessment to prove compliance with the Workplace Standards prior to order placement.
³ Audits conducted in approved supplier factories.
KPI ASSESSMENT AND C-RATING
The table on the left side shows the average audit score by unit of measure for those active core suppliers that were rated against the six units of measure in the KPI to date. The right hand overview indicates the percentage of factories per C-Rating.

<table>
<thead>
<tr>
<th>KPI Unit of Measure</th>
<th>2008</th>
<th>2007</th>
<th>C-Rating</th>
<th>% of factories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management commitment and responsiveness</td>
<td>40.12</td>
<td>64</td>
<td>0-C</td>
<td>0.75%</td>
</tr>
<tr>
<td>Management systems</td>
<td>48.74</td>
<td>45</td>
<td>1-C</td>
<td>7.52%</td>
</tr>
<tr>
<td>Worker-management communication and industrial relations</td>
<td>65.44</td>
<td>64</td>
<td>2-C</td>
<td>54.51%</td>
</tr>
<tr>
<td>Compliance training for workers and management</td>
<td>58.80</td>
<td>55</td>
<td>3-C</td>
<td>28.57%</td>
</tr>
<tr>
<td>Transparency in communication and reporting</td>
<td>71.79</td>
<td>74</td>
<td>4-C</td>
<td>8.65%</td>
</tr>
<tr>
<td>Compliance performance</td>
<td>59.04</td>
<td>60</td>
<td>5-C</td>
<td>0%</td>
</tr>
<tr>
<td><strong>KPI Cumulative Score</strong></td>
<td>47.79</td>
<td>-</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

INDEPENDENT FLA AUDITS¹
Since joining the FLA in 1999, more than 220 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers. In 2008, FLA activities included 4 independent external monitoring visits to factories in Bangladesh, China, Egypt and Indonesia. 4 factories in China and Thailand participated in FLA 3.0 exercises and 3 factories received external verification visits. 8 factories participated in 3 FLA special projects in Asia, EMEA and Central America. These so-called redirected audits are FLA Participating Company engagements in specific project work that addresses resolution of chronic compliance issues in the global workplace. Re-directs are substituted for independent external monitoring visits to factories. This substitution option is only available to FLA accredited programmes. The term derives from the ‘re-direction’ of IEM fees to financially support specific project work by the FLA to address chronic compliance issues.

<table>
<thead>
<tr>
<th>FLA Year</th>
<th>Period</th>
<th>No. of audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th</td>
<td>Jan - Dec 2005</td>
<td>30</td>
</tr>
<tr>
<td>5th</td>
<td>Jan - Dec 2006</td>
<td>43</td>
</tr>
<tr>
<td>6th</td>
<td>Jan - Dec 2007</td>
<td>15</td>
</tr>
<tr>
<td>7th</td>
<td>Jan - Dec 2008</td>
<td>19</td>
</tr>
</tbody>
</table>

¹ Including Independent External Verification audits and redirected audits.
² Including audits conducted for Reebok before it was acquired by the adidas Group in 2006.
ENFORCEMENT

Rejection rate
Our initial assessments are uncovering threshold or zero tolerance issues in 19% of potential new suppliers, resulting in rejections. This shows that non-compliances with our Workplace Standards are still common in our potential supply chain.

Rejection rate of factories after initial assessments in 2008

19%

Warning Letters
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. For further information on our enforcement practices, please see our Enforcement Guidelines on our corporate website.

In 2008 we issued a total of 37 warning letters across twelve countries. The general trend for the past two years has been a reduced number of warning letters, both in total and by category.

The largest number of warning letters continued to be issued in Asia, where we have the greatest concentration of adidas Group suppliers. But there was a significant decline (62%) in numbers of first and second warning letters being issued in China and Indonesia in 2008, compared to the previous year.

Following the 2006 launch of the new adidas Group Workplace Standards and our supplier approval guidelines – that more clearly defined zero tolerance and threshold issues – we stepped up our efforts to achieve greater compliance among suppliers. This resulted in a larger number of warning letters being issued in 2007. Since then factory conditions have improved, with significant non-compliances remedied by those factories which had received the earlier warnings. As a consequence there was a reduced number of warning letters issued in 2008.
NUMBER OF WARNING LETTERS ISSUED TO ADIDAS GROUP SUPPLIERS
We issue warning letters when we see an ongoing serious lack of management commitment to improving compliance with our Standards. In 2008, we issued a total of 37 warning letters.

<table>
<thead>
<tr>
<th>Country</th>
<th>1st warning</th>
<th>2nd warning</th>
<th>3rd and final warning</th>
<th>Total warning letters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td>11</td>
<td>20</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Greece</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Jordan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Korea</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Macao</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Turkey</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>31</td>
<td>40</td>
<td>5</td>
<td>7</td>
</tr>
</tbody>
</table>

¹ Includes warning letters issued by licensees and agents.
NUMBER OF BUSINESS RELATIONSHIP TERMINATIONS / REJECTIONS AFTER INITIAL ASSESSMENT DUE TO COMPLIANCE PROBLEMS

We work closely with our suppliers to help them improve their performance. In situations of severe or repeat non-compliance we will terminate our business relationship with suppliers. In 2008 we terminated agreements with two suppliers for compliance reasons.

We also work closely with Global Operations to prescreen potential new suppliers. In total 626 Initial Assessments were conducted, resulting in a 19% rejection rate.

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of terminations per country</th>
<th>No. of rejections after IA per country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Cambodia</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Laos</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>El Salvador</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Guatemala</td>
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</tr>
<tr>
<td>Honduras</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Peru</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>
EMEA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>-</td>
<td>-</td>
<td>1</td>
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</tr>
<tr>
<td>Egypt</td>
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<td>Israel</td>
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<td>-</td>
</tr>
<tr>
<td>Jordan</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>South Africa</td>
<td>-</td>
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<td>1</td>
</tr>
<tr>
<td>Turkey</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>-</td>
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<td>2</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Global

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>2</td>
<td>4</td>
<td>121</td>
<td>106</td>
</tr>
</tbody>
</table>

ENVIRONMENT

OWN SITES

Coverage

The adidas Group operates more than 150 facilities around the world. Some are owned, many of them are leased. Since most of the production has been outsourced to external suppliers, these facilities are mainly administration and distribution sites or sales offices. Among them there are four major administration sites – Group and brand headquarters located in Germany (one) and USA (three) employing around 4,500 people.

Our production sites are located in Germany (one), Sweden (one), Finland (one), USA (four), Canada (four), China (one) and Japan (one). These facilities produce garments, athletic footwear, ice hockey sticks, helmets and blades and carry out screen-printing, embroidering and assembling of golf clubs. A full overview of the sites is given in the data section.

Environmental data has been recorded from these sites to track their overall environmental impact. Due to further production consolidation and a range of organisational changes at these sites during 2008, specific trends compared to the previous years are difficult to identify and report on.

In 2009, a revised environmental accounting framework is going to be established for all major sites and locations of the adidas Group that profiles their environmental impact and management performance in more detail. These profiles will be the basis for setting specific targets and local improvement programmes.

Global travel

As a global business, with many locations worldwide and a global supplier base, air travel is widely used by adidas Group employees. To obtain a better understanding of the environmental footprint caused by air travelling, the air travel managed through our in-house travel agency has been regularly recorded since 2006. In 2008 the total amount of business travel by adidas Group employees caused around 20,200 metric tonnes of carbon dioxide. The absolute amount of air travelling was stable, despite the growth of the business and the workforce. In relative terms therefore, the ratio of carbon dioxide emissions per employee has declined by more than 20% since 2006.
SUPPLY CHAIN

Environmental Management Systems

We have limited control over the direct environmental impacts of the manufacturing process and how our suppliers act. The best way to influence the environmental impacts at our suppliers’ factories is to encourage the introduction of environmental management systems, and we have made implementing such a system mandatory for all our core suppliers. Achieving certification to a management system requires factory managers to plan, manage and review their own environmental performance.

In 2008, 20 athletic footwear suppliers were certified in accordance with the international environmental management standard ISO 14001 and the workplace health and safety management standard OHSAS 18001. These suppliers produced around 73% of the adidas Group’s global athletic footwear sourcing volume.

Sourcing volume of athletic footwear suppliers certified in accordance with ISO 14001 and OHSAS 18001.

Transport and logistics data

The fuel used to transport goods to markets creates carbon dioxide emissions, a major contributor to climate change. The adidas Group works each year to reduce the environmental impact of transporting its products around the world. Our policy is to minimise the impacts from transport, by working with carriers who operate sound environmental management systems and in particular minimising air freight shipments. To reduce the environmental impact of our transport operations, we typically ship most of our cargo by sea.

Compared to 2007, we saw an increase in sea freight shipment and a reduction in air freight across all major product categories as a result of further enhancements in production and logistics planning with factories.
CERTIFICATIONS OBTAINED BY ATHLETIC FOOTWEAR SUPPLIER SITES

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>Argentina</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Brazil</td>
<td>2</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td>11</td>
<td>12</td>
<td>9</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
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<td>1</td>
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<tr>
<td>India</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Indonesia</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>1</td>
<td>1</td>
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<td>-</td>
</tr>
<tr>
<td>Korea</td>
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<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>35</td>
<td>20</td>
<td>22</td>
<td>20</td>
</tr>
</tbody>
</table>

1) Excluding factories from the Rockport business segment and licensee factories.

REDUCING VOCS IN ATHLETIC FOOTWEAR SUPPLIER FACTORIES

VOCs - volatile organic compounds - are found in solvents used in the manufacturing process. They can cause breathing difficulties and other health complaints. Our target is an average VOC emission of 20 grams/pair of shoes. The company’s footwear suppliers have reduced VOC emissions from 130 grams/pair in 1999 to 21.1 grams/pair in 2008, which includes nearly all adidas Group athletic footwear factories.

REDUCTION OF VOCS EXPOSURE IN GRAMS/PAIR OF SPORTS SHOES
FREIGHT TYPES USED TO SHIP ADIDAS PRODUCTS

Apparel

<table>
<thead>
<tr>
<th>Freight type</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck</td>
<td>17</td>
<td>18</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>Sea freight</td>
<td>77</td>
<td>74</td>
<td>72</td>
<td>73</td>
</tr>
<tr>
<td>Air freight</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Sea and air freight</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Hardware

<table>
<thead>
<tr>
<th>Freight type</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Sea freight</td>
<td>96</td>
<td>94</td>
<td>95</td>
<td>95</td>
</tr>
<tr>
<td>Air freight</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Sea and air freight</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Footwear

<table>
<thead>
<tr>
<th>Freight type</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truck</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Sea freight</td>
<td>96</td>
<td>89</td>
<td>97</td>
<td>96</td>
</tr>
<tr>
<td>Air freight</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sea and air freight</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

1) Figures expressed as a percentage of the total number of products transported.
2) Accessories and gear.

ENVIRONMENTAL INDICATORS

In 2004 a detailed set of indicators has been introduced, mainly in our athletic footwear suppliers’ factories, to measure, track and analyse the environmental impact of footwear operations. These metrics were established to enable the adidas Group to calculate the average consumption of key resources per pair of sports shoes produced by its key footwear suppliers in Asia. Suppliers covered by this system account for more than 95% of adidas athletic footwear production.

While the ongoing review and feedback process improved the general quality of the data we still noticed a lack of ownership of data management in daily factory operations. To further improve the process of internalisation, new forms of incentives for factories will be piloted and field-tested that are going to replace the previous data recording scheme from 2009 onwards.

One of the incentives is to develop approaches that clearly showcase the significant saving potentials that can be identified through the management of resources and costs by using mature data management systems.

Average resource consumption/pair of sports shoes

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy use (kWh/pair)</td>
<td>2.76</td>
<td>2.93</td>
<td>2.36</td>
<td>2.93</td>
</tr>
<tr>
<td>Waste water (m3/pair)</td>
<td>0.03</td>
<td>0.034</td>
<td>0.045</td>
<td>0.057</td>
</tr>
<tr>
<td>Average VOC (g/pair)</td>
<td>21.1</td>
<td>20.3</td>
<td>19.3</td>
<td>20.5</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------------------------------------------</td>
<td>----------------------------------------</td>
<td>---------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>HQ of the adidas Group, Herzogenaurach, Germany</td>
<td>12,683,749</td>
<td>9,627,567</td>
<td>21,487</td>
<td>426.4</td>
</tr>
<tr>
<td>adidas America Inc., Portland, USA</td>
<td>6,472,600</td>
<td>1,403,705</td>
<td>36,306</td>
<td>not reported</td>
</tr>
<tr>
<td>Reebok HQ, Canton, USA</td>
<td>13,375,974</td>
<td>13,930,828</td>
<td>34,936</td>
<td>564.9</td>
</tr>
<tr>
<td>TaylorMade-adidas Golf HQ, Carlsbad, USA</td>
<td>3,185,966</td>
<td>20,554</td>
<td>42,654</td>
<td>551</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>adidas Footwear Factory, Scheinfeld, Germany</td>
<td>1,578,340</td>
<td>4,432,207</td>
<td>1,736</td>
<td>260.2</td>
</tr>
<tr>
<td>adidas Apparel Factory, Suzhou, China</td>
<td>425,542</td>
<td>0</td>
<td>1,162</td>
<td>10.2</td>
</tr>
<tr>
<td>adidas Canada Assembly Factory, Brantford, Canada</td>
<td>382,393</td>
<td>212,520</td>
<td>n/a</td>
<td>14.5</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, St. Hyacinthe, Canada</td>
<td>2,002,800</td>
<td>973,440</td>
<td>5,150</td>
<td>25.4</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, St. Jean, Canada</td>
<td>2,637,900</td>
<td>3,193,460</td>
<td>2,082</td>
<td>72.2</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Edmundston, Canada</td>
<td>1,229,600</td>
<td>0</td>
<td>1,674</td>
<td>56.2</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Tammela, Finland</td>
<td>1,343,059</td>
<td>1,140,445</td>
<td>1,190</td>
<td>237.9</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Malung, Sweden</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Indianapolis, USA</td>
<td>10,844,350</td>
<td>120,158</td>
<td>19,822</td>
<td>455</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Mattapoisett, USA</td>
<td>725,671</td>
<td>475,011</td>
<td>n/a</td>
<td>150.1</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Cedar Rapids, USA</td>
<td>1,938,310</td>
<td>3,459,334</td>
<td>3,432</td>
<td>64</td>
</tr>
<tr>
<td>TaylorMade Assembly Factory, Togane-Shi, Japan</td>
<td>422,380</td>
<td>740</td>
<td>1,335</td>
<td>14.4</td>
</tr>
</tbody>
</table>

1) Figures cover TaylorMade HQ and assembly factory
2) No figures for 2007 because site was acquired in November 2007
3) Figures are not available because site is externally leased
KEY EMPLOYEE STATISTICS
On December 31, 2008, the adidas Group had 38,982 employees, which represents an increase of 24% versus 31,344 in the previous year. This development is primarily related to new employees in adidas and Reebok own retail, mainly on a part-time basis. At the end of 2008, 52% of our staff were employed in Europe (2007: 47%), 32% in the Americas (2007: 35%) and 16% in Asia (2007: 18%).

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees</td>
<td>23,202</td>
<td>18,678</td>
<td>8,836</td>
<td>6,751</td>
<td>1,852</td>
<td>1,393</td>
<td>5,092</td>
<td>4,522</td>
</tr>
<tr>
<td>Total employees - Male (in %)</td>
<td>50</td>
<td>52</td>
<td>53</td>
<td>54</td>
<td>53</td>
<td>68</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Total employees - Female (in %)</td>
<td>50</td>
<td>48</td>
<td>47</td>
<td>46</td>
<td>47</td>
<td>32</td>
<td>55</td>
<td>56</td>
</tr>
<tr>
<td>Management positions held - Male (in %)</td>
<td>71</td>
<td>67</td>
<td>73</td>
<td>77</td>
<td>73</td>
<td>84</td>
<td>73</td>
<td>68</td>
</tr>
<tr>
<td>Management positions held - Female (in %)</td>
<td>29</td>
<td>33</td>
<td>27</td>
<td>23</td>
<td>27</td>
<td>16</td>
<td>27</td>
<td>32</td>
</tr>
<tr>
<td>Average age of employees (in years)²</td>
<td>28</td>
<td>29.6</td>
<td>26</td>
<td>28.9</td>
<td>38</td>
<td>36.6</td>
<td>37</td>
<td>36.3</td>
</tr>
<tr>
<td>Employee turnover (in %)¹</td>
<td>16</td>
<td>18.8</td>
<td>19</td>
<td>45.2</td>
<td>8</td>
<td>12.4</td>
<td>11</td>
<td>22.3</td>
</tr>
<tr>
<td>Average tenure per employee (in years)</td>
<td>3.3</td>
<td>3.6</td>
<td>4.1</td>
<td>3.5</td>
<td>5.6</td>
<td>5</td>
<td>6.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Annual training hours by employee</td>
<td>13.6</td>
<td>16.1</td>
<td>5.6</td>
<td>8.1</td>
<td>6.2</td>
<td>4.5</td>
<td>8.5</td>
<td>6.4</td>
</tr>
</tbody>
</table>

¹) Global Marketing, Global Operations, Global Corporate Services (e.g. Legal, Finance, HR)
²) At year-end
³) Voluntary attrition; for 2008 excluding the Retail sector

HEALTH AND SAFETY STATISTICS FOR OUR MAIN ADMINISTRATION OFFICES AND OWN PRODUCTION SITES

<table>
<thead>
<tr>
<th>Our main administration offices</th>
<th>No. of employees</th>
<th>No. of workplace accidents</th>
<th>No. of lost days due to accidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ of the adidas Group, Herzogenaurach, Germany</td>
<td>2,454</td>
<td>2,395</td>
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</tr>
<tr>
<td>adidas America Inc., Portland, USA</td>
<td>688</td>
<td>773</td>
<td>5</td>
</tr>
<tr>
<td>Reebok HQ, Canton, USA</td>
<td>1,200</td>
<td>1,237</td>
<td>6</td>
</tr>
<tr>
<td>TaylorMade-adidas Golf HQ, Carlsbad, USA¹</td>
<td>848</td>
<td>850</td>
<td>31</td>
</tr>
<tr>
<td>Our main production sites</td>
<td>No. of employees</td>
<td>No. of workplace accidents</td>
<td>No. of lost days due to accidents</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>------------------</td>
<td>----------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>adidas Apparel Factory, Suzhou, China</td>
<td>230</td>
<td>197</td>
<td>0</td>
</tr>
<tr>
<td>adidas Footwear Factory, Scheinfeld, Germany</td>
<td>221</td>
<td>150</td>
<td>1</td>
</tr>
<tr>
<td>adidas Canada Assembly Factory, Brantford, Canada</td>
<td>61</td>
<td>n/a</td>
<td>5</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, St. Hyacinthe, Canada</td>
<td>149</td>
<td>200</td>
<td>8</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, St. Jean, Canada</td>
<td>142</td>
<td>175</td>
<td>9</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Edmundston, Canada</td>
<td>60</td>
<td>78</td>
<td>12</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Tammela, Finland</td>
<td>99</td>
<td>84</td>
<td>2</td>
</tr>
<tr>
<td>Reebok-CCM Hockey Factory, Malung, Sweden³</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Indianapolis, USA</td>
<td>943</td>
<td>802</td>
<td>62</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Mattapoisett, USA</td>
<td>124</td>
<td>124</td>
<td>4</td>
</tr>
<tr>
<td>Sports Licensed Division, Factory, Cedar Rapids, USA</td>
<td>173</td>
<td>175</td>
<td>23</td>
</tr>
<tr>
<td>TaylorMade Assembly Factory, Togane-Shi, Japan</td>
<td>144</td>
<td>150</td>
<td>0</td>
</tr>
</tbody>
</table>

1) Figures cover TaylorMade HQ and assembly factory
2) No figures for 2007 because site was acquired in November 2007
3) Figures are not available because site is externally leased
In 2008, the adidas Group again received a number of donation requests worldwide. We supported many of them through product donation. 2008 observed a considerable increase in employee volunteering hours which derives from activities organised by the Adi Dassler Fund. The decrease in product donation is related to a reduced stock of available sample products as well as products assigned to big sport events.

<table>
<thead>
<tr>
<th>Region</th>
<th>Donation requests received</th>
<th>Total number of projects supported</th>
<th>Units of products donated</th>
<th>Volunteer hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>1,424</td>
<td>1,915</td>
<td>215</td>
<td>191</td>
</tr>
<tr>
<td>Latin America</td>
<td>46</td>
<td>304</td>
<td>7</td>
<td>73</td>
</tr>
<tr>
<td>North America</td>
<td>3,504</td>
<td>4,265</td>
<td>1,238</td>
<td>999</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>106</td>
<td>1,044</td>
<td>101</td>
<td>192</td>
</tr>
<tr>
<td>Total</td>
<td>5,080</td>
<td>7,528</td>
<td>1,561</td>
<td>1,455</td>
</tr>
</tbody>
</table>

1) Numbers include brand adidas activities, corporate activities, Reebok Foundation and Adi Dassler Fund.
We are committed to improving our performance. We know that setting ourselves challenging targets drives us to aim higher and achieve more.

And we are committed to transparency. Every year we report on the progress we have made against our targets. We assess how well we have done, scoring our progress as follows:

- 0%: no progress
- 10%: initiated
- 25%: partly complete
- 50%: good progress
- 75%: substantially complete
- 100%: fully complete

This year we have expanded on the commentary around each target: why we chose that particular target, how we set about achieving it, and the barriers we encountered along the way. We think this approach will help readers gain a deeper insight into our approach to tackling the challenges we face and how well we have done. Our hope is that this richer content will lead to greater understanding and ultimately increase trust with our stakeholders.

We have categorised our progress against our targets under four categories:

- Stakeholder engagement
- Supply chain
- Environment
- Our employees

We also provide an aggregated list of progress against our targets and the targets we have set ourselves for 2009.

---

**STAKEHOLDER ENGAGEMENT**

**TARGET 1**
To build strategic partnerships with international agencies, governments and civil society, with the objective of improving social and environmental conditions in the garment industry in China, El Salvador, Honduras, India, Mexico and Vietnam.

**Approach**
Why was this target chosen?
It has been a long-term goal of the SEA programme to promote supplier self-governance and to build monitoring and enforcement capacity at a community level. Both objectives can be achieved by partnering with organisations that have the requisite skills, capability and experience to improve workplace conditions, are able to provide training and advice to workers and factory managers alike, and are viewed as credible by the stakeholder community. We decided to focus our efforts on selected countries – those where the nature of the issues demanded broad outreach or a multi-stakeholder approach.

What was the approach taken?

**ASIA**

**China** – We have continued to build on long-standing relationships with local NGOs. Our national Workers Hotline which was originally manned by SEA was transferred in 2008 to the China Labor Support Network (CLS), a Southern China based NGO. With the China Working Committee and CSR Asia, a social enterprise based in Hong Kong, we have also continued to explore the use of worker hotlines as a mechanism to underpin NGO capacity building.

**India** – In 2008 there were several high profile child labour cases linked to US and UK retailers manufacturing garments in India. Mindful of the risk of child labour in a developing country, SEA reached out to the International Labour Organization’s (ILO’s) New Delhi office, to the FLA representative in India and to the US government for their recommendations on credible NGO partners capable of monitoring for – and remediating – child labour.

**Vietnam** – During 2008 rampant inflation triggered nationwide strikes that impacted foreign-invested enterprises, including footwear and apparel manufacturing...
plants. Working with other brands and the Vietnamese Chamber of Commerce and Industry, we reached out to the Ministry of Manpower and to the ILO’s Chief Technical Advisor for Industrial Relations for guidance and support. Our four-year partnership with Marie Stopes International, an NGO and reproductive health specialist, continued, as did our engagement on HIV/AIDS training for workers in our supply chain.

**AMERICAS**

**El Salvador** – Consistent engagement with a local jurist, senior officials at the Ministries of Labour and Economy, leaders in the National Assembly, and US Embassy staff to resolve workers’ rights issues from the 2005 Hermosa factory closure.

**Honduras** – Preliminary meetings started with local trade associations and mid-level officials at the Ministry of Labour and the US Embassy.

**Mexico** – There was active participation in the MFA (Multi-Fibre Arrangement) Forum’s Working Group which engages with representatives from the Ministries of Labour and Economy for increased regulatory oversight of workplace conditions. For information on the MFA Forum and its working groups see: http://en.maquilasolidarity.org.

**Conclusion**

**ASIA**

**China** – We have critically reviewed workers’ awareness of the hotline services, having found that only a relatively small number of workers in a few factories are using the services. We have also sought to integrate government implementation guidance on the Contract Law into regular best practice training for suppliers.

**India** – Engagement has proven useful and allowed us to draw on existing knowledge and expertise, thereby shortening the learning curve.

**Vietnam** – Recurrent strikes have forged closer communication between government, buyers and manufacturers and also generated greater recognition of the importance of good labour relations and the need for genuine worker representation and an improvement in how wages and benefits are negotiated.

**AMERICAS**

**El Salvador** – There was positive progress with two new legislative acts implemented, and a third act drafted by year-end.

**Honduras** – The dialogue has matured with key local stakeholders. The approach has become more consultative with empowered local stakeholders.

**Mexico** – There has been slow progress and therefore little change.

**Next steps**

**Lessons learnt in 2008**

The target is broad-based, with many different forms of engagement taking place within different timeframes and with very different stakeholder groups and local conditions in each of the countries targeted.

**ASIA**

**China** – Our outreach has reinforced the need for greater capacity building within the NGO sector to support worker interests and education. Too few capable NGO partners exist.
and these are overstretched and under-resourced. Collaborative partnerships, for example across the garment industry, continue to make sense, but the timeframes required to launch such collaborations are much longer than single brand-managed initiatives.

India – Initiating a general dialogue is useful, but it is hard to build traction if the issue lacks specificity and there are multiple potential organisations to partner with.

Vietnam – A clear gap exists between industry level dialogue with government and the specific day-to-day management of industrial relations at the factory level. Inevitably factory issues, such as strikes, require immediate resolution but the underlying issues are tied to government minimum wage setting, or economic management, and these are operating under much longer timeframes and with only incremental change.

AMERICAS
El Salvador – This is a three-year engagement. Along the way many lessons have been learnt and barriers overcome and, as a result, the stakeholder relationships and understanding have matured. 2008 saw the need for less frequent meetings, which validated the approaches being used.

Honduras – Not yet any unforeseen consequences and it is too early in the dialogue to report on lessons learnt.

Mexico – The timelines for this target need to be in a five-year plan to better inform the annual goals.

New target for 2009
The 2008 engagement in each of the six countries will continue in 2009, with a specific focus on the impact of the global economic crisis. An additional country, Indonesia, will be added to the Asia Region, with a specific commitment to supporting a dialogue with the Play Fair Alliance in a country-based workshop.

TARGET 2
To enter into a dialogue with Hong Kong’s labour and human rights community and obtain NGO views on issues surrounding the Beijing 2008 Olympic Games.

Approach
Why was this target chosen?
We recognised that, having been chosen as an official sponsor for the Beijing 2008 Olympic Games, there would be both heightened expectations and campaign activities directed at the adidas Group. We therefore chose to be open and pro-active in our engagement at an international and national level. For a description of our engagement with international NGOs related to the Beijing 2008 Olympic Games see the 2008 issues section.

What was the approach taken?
We believed that the NGO community in Hong Kong would likely be the main conduit through which issues over working conditions in adidas suppliers making Olympic production would be raised. With respect to broader human rights topics, we also expected that Hong Kong based NGOs would take an active role and seek to enter into a dialogue with Olympic sponsors.

Progress Score
25%

Barriers encountered along the way
Using our extensive networks within Hong Kong civil society we conducted an informal outreach to gauge interest in a more formal dialogue about human rights and the Beijing 2008 Olympic Games. Surprisingly the general response was muted. Those in the NGO community most actively engaged in issues related to China indicated that they were not themselves planning to specifically target sponsors, or the Chinese government, as this would further reduce the limited operating space available to them in China. They were however supporting other international NGOs with relevant information to help with their advocacy work.

Conclusion
Given the expressed limited interest in entering into a more formal dialogue, we did not pursue engagement further. During the lead up to the Beijing 2008 Olympic Games, we were not contacted by any Hong Kong based NGO to discuss the Olympics. However, we did field enquiries and requests related to working conditions in factories in China from international NGOs and trade unions who themselves are widely networked with Hong Kong labour rights groups.

Next steps
Lessons learnt in 2008
Under the circumstances, the informal approach that was adopted was appropriate and timely. It was made possible by the well-developed relations between the adidas Group SEA department and individuals within the Hong Kong NGO human rights and labour rights community.

New target for 2009
As this was event specific, there is no related target for 2009.

TARGET 3
To expand the outreach with North American universities and collegiate NGOs.

Approach
Why was this target chosen?
This target was identified to continue a mature dialogue with critical licensor stakeholders and to ensure that expectations for transparency, reporting and the integrity of licensing contract obligations were achieved or surpassed. The adidas Group’s university licensor community is more than 300 strong.
**TARGET 4**

To steer and support the Better Cotton Initiative (BCI) to influence environmental change in the international cotton industry.

**Approach**

**Why was this target chosen?**

While the negative impacts of mainstream cotton cultivation continue, the challenges in regard of certified organic cotton remain. At the adidas Group, we are keen to find sources of sustainable cotton, and we see involvement in the work of the BCI as the best way to achieve this.

The Better Cotton Initiative (BCI) began as a multi-stakeholder project in early 2004, and became an organisation in mid 2005. It aims to enhance the collaboration between brands, NGOs and environmental organisations to improve the environmental conditions in the mainstream cotton industry. The primary focus is on reducing water consumption and pesticide use in cotton farming. The BCI aims to meet its goals by providing training and capacity building to cotton farmers in efficient farming techniques that do not add costs to the cotton growing process.

**What was the approach taken?**

Along with other brands, the adidas Group provided both funding and technical support to help develop tools and instruments to further the BCI’s aims. For example, following intensive internal and external consultation in 2008, the BCI Steering Committee, of which the adidas Group is a member, finalised the global ‘Principles, Criteria and Enabling Mechanism’, the core part of the future BCI structure.

The BCI supply chain task force developed a first version of the proposed marking, tracking and purchasing approach for better cotton. We were able to facilitate that this mechanism was being reviewed by the adidas Group sourcing liaison office in India.

**Progress**

**Score**

100%

**Barriers encountered along the way**

None.

**Conclusion**

The factory visits by university and academic representatives were successful in bringing a stronger consideration of actual field conditions to the ongoing philosophical and methodological discussions on several campuses. Additionally, the visits and other collaborations with these groups acted as verification of the adidas Group’s reporting data for specific factory cases in Asia-Pacific and Central America.
Barriers encountered along the way
Addressing environmental challenges in the very complex global cotton industry requires the involvement of a wide group of stakeholders, to take into account their diverse views and interests. While this makes decision-making processes more challenging, it helps design an approach that finds overall consensus among these groups, which in turn will reinforce effective execution.

While we are committed to the BCI process, the amount of people’s time and expertise that we can contribute is limited.

Next steps
Besides our continued financial and in-kind support to the development of the BCI strategy and tools, the adidas Group will review the inclusion of better cotton in its materials sourcing strategy.

New target for 2009
Kick-off of four major pilot projects scheduled for 2009, field-testing of the BCI criteria and preparatory actions for integration into the adidas Group supply chain structure.

TARGET 5
To expand the participation in FLA 3.0 and include El Salvador, Honduras and Turkey.

Approach
Why was this target chosen?
FLA 3.0 is a proactive, preventive system to achieve sustainable compliance through capacity building in the supply chain. It is the most recent generation of FLA audit methodologies and preceded by basic compliance auditing (FLA 1.0), and strategic auditing of the compliance systems and the root causes of non-compliance (FLA 2.0). The evolution of FLA auditing gives accredited company programmes increasing space to be creative. FLA 3.0, launched in China and Thailand in 2006, showed promising results and led to the decision to expand the programme in Central America and Turkey.

What was the approach taken?
To date a total of 24 factories in two countries [China and Thailand] are enrolled in the programme. Four adidas suppliers are participating in the FLA 3.0 pilot, the Soccer Project. Of the 24 factories, 19 have completed management self-assessments and 18 have had a representative sample of workers interviewed. In May 2008, FLA 3.0 foundation training was launched to 35 supplier participants in Central America.

The four adidas suppliers in the Soccer Project in China and Thailand have completed the Hours of Work training sessions and those suppliers have submitted capacity building plans. FLA Independent External Assessments (IEAs) will be conducted to assess improvements over the implementation period.

Barriers encountered along the way
The roll-out of FLA 3.0 continues, but at a slower rate than planned. There were a number of factors identified as contributing to the slow uptake, including the lack of trust between buyers and suppliers, the capacity of supplier management to absorb training, the need to retrain compliance staff and retool programmes, and implementation cost.

The FLA Board decided to discontinue the 3.0 roll-out in Turkey for a variety of reasons, including:

• Only a small number of factories from Turkey were originally included
• Declining production in the country
• Supplier participation in a previous project.

The adidas Group chose not to participate in the 2008 FLA 3.0 roll-out in Central America but will reconsider it in 2009. SEA team members previously planned for deployment to 3.0 were instead reallocated to support the Sustainable Compliance Leadership (SLC) working group. This group’s project to develop standardised audit tools is supported by FLA staff and FLA 3.0 monitoring practices so there remains a strong connection to FLA 3.0.

Conclusion
The most important conclusions were that factories that worked shorter hours had better worker retention, quality output and on-time delivery performance.

Next steps
Lessons learnt in 2008
The FLA staff analysed factory self-assessment documents and more than 2,000 worker interviews in China and Vietnam. Several findings about excessive working hours were surprising and pose new challenges for sustainable compliance approaches. The FLA 3.0 process steps for the factory self-assessment proved to be at least as penetrating as traditional audits and perhaps even more so in that it removes much of the adversarial character of the audit and encourages frankness rather than falsehood.

Hours of work
48% of workers and 47% of managers said their factory worked over 60 hours per week. The rate of non-compliance with the Hours of Work code element detected by independent external monitors has been running at 8-9% since 2003 but stands at almost 50% in the combined management and worker survey results and at 100% of the factories according to the worker interview results. Only three of fifteen factory management teams saw a greater
risk of accidents or minor incidents associated with longer hours while 70% of the workers did, expressing a view more consistent with the professional occupational health perspective. Factories cited other contributory risks related to the sourcing process, including changes in the style after the placement of the order, sudden increases in quantity and late delivery of materials by designated suppliers. While not surprising, this finding will inform the discussions with business units and sourcing departments on responsible buying practices.

Nonetheless, managers and workers tend not to see excessive working hours as a problem. While these results confirm what many people already know, namely that factories work long hours and workers are often willing to do so, it is interesting to note that the percentage of non-compliance reported by managers and workers is higher than in the FLA’s conventional independent audit results.

Finally, the most important conclusions from the evaluation of the data were that factories that worked shorter hours had better worker retention, quality and on-time delivery. Preventive strategies such as better training and improved quality standards can therefore go a long way to reducing code violations.

New target for 2009
The lessons learnt from the continued roll-out of FLA 3.0 will feed into the Sustainable Compliance Leadership (SCL) initiative that is to be launched in 2009.

TARGET 6
To complete a feedback report, providing the adidas Group’s response to the views and suggestions given in the 2007 suppliers stakeholder dialogue held in Hong Kong.

Approach
Why was this target chosen?
In each of our global multi-stakeholder dialogues we have followed a standard approach: direct engagement resulting in a formal stakeholder report (summarising stakeholder views) followed by a feedback mechanism, i.e. reporting back on how the issues raised were tackled by the adidas Group. Typically this feedback has been reported in the annual social and environmental report. For this stakeholder dialogue, however, we wanted to respond to the specific suggestions and views expressed by our suppliers and show how these had been accepted, or rejected, and how they had shaped the programme over the course of the year. Hence the idea of a feedback report.

What was the approach taken?
Initially, it was envisaged that a full report would be prepared covering the three thematic areas introduced by CSR Asia during the facilitation of the stakeholder dialogue – namely community investment, environmental sustainability within the supply chain and the implementation of the new Chinese Contract Labour Law. Subsequently however the target was redefined to focus on environmental sustainability issues only and to link this directly with a second round of engagement, with the same targeted stakeholders, at the end of 2008.

Progress
Score
10%

Barriers encountered along the way
The follow-up stakeholder meeting, originally scheduled for November 2008, has been deferred to March 2009. The focused feedback report has therefore also been deferred and will not be issued until April 2009.

Conclusion
Having reviewed the views expressed in the stakeholder report of the dialogue against the planned scope of the feedback report, it was clear that the community investment topic introduced by CSR Asia was of only general interest to the suppliers. Their principal focus and concern was on the immediate impacts on their business operations from the new China Contract Labour Law and the possible implications of the adidas Group expanding and strengthening its environmental performance requirements for suppliers.

Next steps
Lessons learnt in 2008
A review of the scope of the feedback report was helpful in that it became more focused and forward-looking rather than simply reporting back on actions already implemented. Also, in some respects, events overtook the reporting process. For example, the uncertainty over the application of the China Contract Labour Law so strongly expressed by the suppliers in 2007 was in part clarified by the government issuing implementing guidelines and by the expert training provided by SEA to suppliers over the course of 2008.

New target for 2009
Complete a focused feedback report, providing adidas Group’s response to the views and suggestions on environmental sustainability given in the 2007 suppliers stakeholder dialogue and link this to a dialogue with the same targeted suppliers in April 2009.
**Barriers encountered along the way**

Insufficient training opportunities and occasional limitations in the deployment of SEA staff and support mechanisms curtailed verification and ‘shadow’ exercises with external monitors. The intention to consolidate the list of approximately two-dozen approved monitors to one global service provider was not possible since not one service provider had the capacity to execute an acceptable level of monitoring performance with the geographically extensive and complex indirect supply chain of the adidas Group. Successful engagements with licensees to increase the transparency of their supply chains resulted in an increased number of factories requiring audits. Higher audit demand with fewer approved external monitoring agencies placed additional stresses on the performance consolidation work.

**Conclusion**

The number of approved external monitoring groups was reduced by half. The best performing monitors received customised training plans to further enhance their abilities to execute remediation, factory rating and FFC database maintenance. We developed customised templates for remediation planning by external monitors, and new operational tools as well as more transparent verification mechanisms were implemented. The communication channels between SEA staff, external monitoring field operatives, and business entities were streamlined.

**Next steps**

**New target for 2009**

The target remains the same as 2008: to increase the efficiency of the external monitoring activities servicing the Group’s indirect supply chain. External monitoring performance will continue to be critically evaluated for performance and lower-performing agencies will be decertified from the Group’s approved list. There will be ongoing training for external monitors. SEA’s participation in the Sustainable Compliance Leadership initiative to develop harmonised audit tools will define additional and in some cases, broader industry wide activities for capacity building with external monitors. As 2009 will be the first year for SEA approved external monitors to develop remediation planning and factory ratings, those activities will be closely watched and evaluated by a selected team of SEA managers.

**SYSTEMS – TARGET 2**

To review and enhance the integrity of the data output from the Fair Factories Clearinghouse (FFC) database and strengthen the input processes.

**Approach**

**Why was this target chosen?**

This target was chosen to drive the generation of more accurate and timely performance data which informs critical communications and reporting to multiple internal and external stakeholders. Since the FFC data is maintained by dozens of users from adidas Group sourcing and purchasing departments, licensees, agents, and external monitors, there have been inconsistencies in data input and
maintenance. This has compromised the expectations for data integrity and posed hurdles in our external reporting requirements.

What was the approach taken?
The FFC Working Group, an internal SEA task force with representatives from all regions, coordinated a series of data quality and integrity activities with internal and external users as well as executive and operations staff from the FFC.

FFC data-cleansing activities were led by key members of the SEA regional and global staff, who then verified results with the relevant sourcing departments and business entities. Corrected and accurate data was then adjusted in the FFC system by the user community. FFC topical training programmes and the delivery of capacity building modules to the Group’s user community were enhanced and in some cases redelivered. SEA developed and implemented tools for the FFC user community to install as data integrity control points in their internal business management systems. FFC operations staff were engaged to develop and complete a number of critical user features or enhancements, thereby facilitating the system ‘user-friendliness’.

Next steps
Lessons learnt in 2008
FFC work on ‘user-friendly’ features remains a critical target but inconsistent timeline management by the FFC will make the automation or accuracy of some SEA reporting difficult to plan and forecast.

Ownership of the data must be more widely taken on by the Group’s user community because the greatest improvements in 2008 were seen in business entities that did so.

New target for 2009
This is an ongoing target. There will be less emphasis on data-cleansing in 2009 since the bulk of archived data in past years has been reviewed and verified. Ongoing cleansing will cover smaller bits of data from shorter periods of time and will be supported by improved systemic verification tools and a better trained user community.

The largest challenge will remain in closing the gaps between the Group’s current reporting data needs and the FFC’s limitations in managing, archiving or reporting those data points.

SYSTEMS – TARGET 3
To complete strategic compliance planning for an additional fourteen critical business entities comprising ten licensees, one agent, one brand and two business units.

Approach
Why was this target chosen?
This target is focused on embedding SEA policies and practices within Group business entities that have direct and indirect product purchasing responsibilities.

We believe that successful promotion of fair, healthy and safe workplace conditions will occur when business entities’ executive management take a leadership role to integrate compliance in internal systems and business practices with core business planning. This will lead to business sustainability.

This 2008 target is an expansion of SEA’s three-year-old approach to Strategic Compliance Planning with suppliers and factories. Tools that were once developed for suppliers, were customised to more closely inform the business entities’ key performance indicators and transparent units of measure.
**What was the approach taken?**
Essentially, the approach in 2008 was to co-assign SEA compliance responsibilities to specific business entity staff. These include championing field level, FFC database, programmatic and decision-making activities at managerial and senior levels.

The primary tool is a master plan laying out the direction, strategy and action for the business entity’s implementation of sustainable compliance. This Strategic Compliance Plan (SCP) must be revisited, reviewed with the SEA corporate contact point and updated by the company annually. It is linked to a rating instrument and key performance indicator.

The methodology for the Strategic Compliance Plan starts with information gathering about the business entity’s existing compliance activity. A gap analysis is completed and informs the SCP three-year development plan. The SCP components are linked to a compliance rating for the business entity.

Management commitment is demonstrated by integrating compliance into core business planning management systems which enable the organisations to identify, measure, control and improve the various core business processes.

Compliance training includes creating infrastructure to support staff capacity building needs and initiatives. Transparency and regular reporting need to be supported by clear policies and systems and effective communication.

**Progress Score**

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100%
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**Barriers encountered along the way**
The time that was needed to develop Strategic Compliance Plans (SCP) was underestimated by 50%.

**Conclusion**
The 2008 target included 14 business entities which were completed.

- 10 licensee SCP’s were planned, 5 were completed.
- 2 business unit SCP’s were planned and 7 completed.
- 1 brand SCP was planned and completed.
- 1 agent SCP was planned and completed.

SCP development and completion was achieved. Implementation of the SCP actions has moved into 2009.

SEA flexibly managed an SCP candidates list that changed several times during the year.

**Next steps**

**Lessons learnt in 2008**
The Group’s business exigencies forced unplanned changes to the SCP candidates list during 2008. This is likely to continue in 2009 so SEA needs to continue a pragmatic approach to the selection of eligible business entities.

**New target for 2009**
This remains a target and is linked to our longer term goal to see strategic planning processes embedded within the business entities. In line with this, implementation and reporting by business entities are to grow during 2009.

**HEALTH & SAFETY – TARGET 1**
To extend the safety officer registration and training to all directly sourced suppliers in Cambodia, Philippines, Thailand, Brazil and Argentina.

**Approach**

**Why was this target chosen?**
This target was established to fulfil the requirement under the adidas Group’s 2006 Safety Officer Qualification and Registration Guidance note supporting improvements in health and Safety practices in our direct supply chain.

Argentine and Brazilian footwear suppliers were identified as new supply chain targets that would be integral to the completion of the global coverage of this registration programme.

**What was the approach taken?**
The 2008 Safety Officer programme was an extension of the existing training programme started in Asia during late 2006. The programme was a new launch for Argentina and Brazil.

**Progress Score**

**Asia:**

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75%
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**Americas:**

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10%
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**Notes**
- Asia: Completed in Cambodia, Philippines and Thailand; started in India
- Americas: A list of supplier candidates has been developed and training is planned for 2009.
Barriers encountered along the way
In Brazil and Argentina there were not enough trainers with local language skills and training materials were not available in Spanish or Portuguese.

Conclusion
Where we were able to roll out the programme, the approach has worked well to improve health and safety management within the supply chain.

Next steps
Lessons learnt in 2008
There have been some inconsistencies noted in the way the programme and materials are being delivered.

In addition, for some countries the turnover in trained staff has caused some setbacks in terms of the overall success of the training programme.

The diverse local and national regulations were not always considered during the programme’s development and launch.

New target for 2009
Currently, the Safety Officer training material is being reviewed and revisions to the material will be undertaken as and where appropriate. The structure of the programme is also being reviewed and changes may be made in 2009. The plan to relaunch the programme in all Brazilian and Argentine footwear factories is on track for 2009.

HEALTH & SAFETY – TARGET 2
To develop an e-Learning training platform to support the roll-out of the revised and updated version of the HSE Guidelines.

Approach
Why was this target chosen?
As the revised HSE Guidelines were being prepared, we considered how to improve the training and delivery of the updated materials. Online or e-learning based training would offer the necessary flexibility and opportunity

- To ensure consistency in occupational health and safety training across all regions
- To engage and interact more with the audience than a ‘static’ version of the Guidelines could do and
- To give regular and repeat training to factory personnel even if SEA team members are not locally available.

What was the approach taken?
The concept of an e-Learning platform was dropped for all training sessions due to the timeline required to develop an appropriate hosting platform.

Progress
Score
0%

Barriers encountered along the way
The required lead-in times and the sizable budget that was necessary to implement the concept of an interactive online training platform – given the considerable high number of languages we operate in as a global company – influenced the project development and implementation.

Conclusion
Although the development of an e-Learning training platform was dropped due to limited resources, training materials will be distributed as electronic versions on discs to suppliers.

Next steps
Lessons learnt in 2008
There have been some inconsistencies noted in the way the programme and materials are being delivered.

In addition, for some countries the turnover in trained staff has caused some setbacks in terms of the overall success of the training programme.

The diverse local and national regulations were not always considered during the programme’s development and launch.

New target for 2009
Currently, the Safety Officer training material is being reviewed and revisions to the material will be undertaken as and where appropriate. The structure of the programme is also being reviewed and changes may be made in 2009. The plan to relaunch the programme in all Brazilian and Argentine footwear factories is on track for 2009.

HEALTH & SAFETY – TARGET 3
To extend monitoring and reporting of volatile organic compounds (VOCs) at footwear factories in Brazil and Argentina.

Approach
Why was this target chosen?
This regionally specific target was identified to close the last remaining gap in the global target that all adidas Group athletic footwear suppliers monitor, measure and report on VOC emissions on the production floor.

What was the approach taken?
In 2008, Brazilian-based SEA and Group Operations staff coordinated briefings and monitoring activities at five footwear factories. There has been systematic VOC monitoring at three adidas footwear suppliers since Q1 and two of the Reebok local market suppliers in Brazil and Argentina started monitoring in Q4 2008.
Freedom of Association and Disciplinary Practices). Migrant worker issues, privacy rights, reproductive health, human resources management and local legislative trends don’t fall within the traditional compliance standards ‘boxes’. Yet, these issues all require serious attention and our suppliers desperately need guidance if they are to navigate this new terrain successfully and humanely.

The second edition of the adidas Group Employment Guidelines will be a user-friendly tool for internal compliance staff, sourcing colleagues, supplier factories and various stakeholders who wish to understand the dynamic landscape of labour compliance, and the relationship between factory employment conditions and current socio-economic trends.

**Progress Score** 50%

**Barriers encountered along the way**
One hurdle for measuring and reporting VOCs is the different threshold value limits for the Group’s occupational health guidance and recommended testing methodologies, compared with the requirements laid down in Brazilian national law. Another hurdle was insufficient resources to launch VOC monitoring at Rockport’s footwear supplier in southern Brazil.

**Conclusion**
Measurement activities are well developed but the reporting process is still at a factory localised level.

**Next steps**

**New target for 2009**
In 2009, the most important target will be to marry up the expectations of the Brazilian regulatory authorities with the Group’s Guidelines on Health, Safety and Environment. This will enable VOC reporting to Group level as well. Factory coverage should be enhanced to support VOC monitoring activities at Rockport’s footwear supplier.

**LABOUR – TARGET 1**
To review, revise and prepare the launch of updated SEA Employment Guidelines.

**Approach**

**Why was this target chosen?**
Following the integration with Reebok – which had its own set of clear human rights and labour standards – together with the emergence of new labour problems and employment trends in major sourcing countries, it is clear that the adidas Group needs to provide an up-to-date set of guidelines on labour standards and practices which reflects the challenges faced today across the supply chain.

**What was the approach taken?**
The original Employment Guidelines were developed to provide supplementary guidance for suppliers in relation to core ILO labour standards upon which most brands base their codes of conduct. The first edition of our Employment Guidelines was a compilation of international law, ‘Do’ and ‘Don’t’ checklists, sample documents, and case studies based on the experience of our own field staff.

The second edition is more ambitious. We seek to improve upon the existing, and still relevant, set of standards and practices set out in the first edition. Simply, the world has changed. Our programme – in the area of labour compliance – cannot be captured by reference to seven core standards alone (dealing with Forced Labour, Child Labour, Discrimination, Wages and Benefits, Working Hours,
LABOUR – TARGET 2
To develop and launch a Human Resources Management System training programme in China, Vietnam, Indonesia and Thailand.

Approach

Why was this target chosen?
In 2004, we discussed with our colleagues in Nike and Reebok the need for more sustainable solutions to basic labour compliance problems, and a more systematic approach to managing the workforce within our suppliers’ factories. At the same time, within the adidas Group, we were developing the Sustainable Compliance Guideline for key suppliers, a critical component of which is the establishment of an effective Human Resources Management System (HRMS) at a factory level. The key goal was to build a framework for effective human resources management in the supply chain which results in sustainable compliance with code standards and supports high performance workplace systems and production processes. Simply, an effective HRMS can provide long-term solutions for labour problems and it fundamentally supports and enhances production.

What was the approach taken?
By the end of 2005, we had begun working in collaboration with other brands on an HRMS training and implementation pilot programme in China, a project managed by TUV Rheinland. The China pilot lasted for two years and provided training to four groups of suppliers (approximately 100 trainees) in various locations. In addition to developing an HRMS Manual and the materials for delivery of six core modules covering the various components of HRMS, the project group developed a number of other key tools: HR Objectives & Metrics; Factory Reporting Template to capture details and progress reports on each implementation activity designed by the factory trainees and a Project Issues Tracking tool, for the project group to identify, record and resolve any problems that emerged during the training or implementation process. At the completion of their training, Groups 1 & 2 and Groups 3 & 4 joined together to review good and best practices at workshops to which key sourcing people from the various brands were invited. Two new groups (Groups 5 & 6) have now commenced the programme in China.

The kick-off meeting for the first group in Vietnam took place in early December 2008, using the materials developed in China, the project model, the lessons learnt, and incorporating the best practices identified in China. The materials and training content is being reviewed by local brand staff and consultants retained by TUV Rheinland Vietnam, to ensure that they are relevant to the local context. This work has been funded by the Vietnam Chamber of Commerce & Industry (VCCI), a key stakeholder for our industry and this project.

Conclusion
Suppliers participating in the training have begun to understand the links between HR management and compliance performance, as well as adopting a more holistic approach to the ‘soft’ tools, systems and approaches required to support productivity and production planning.

All factories participating in the programme were required to develop a factory committee to oversee the implementation activities designed by the trainees during the delivery of the 6 modules. Therefore, all factories have engaged in HR improvement programmes with significant results, showcased at the sharing best practice meetings. Some practical examples include: recruiting HR professionals;
Many suppliers have seen measurable cost savings and improvement in production planning and performance. The SEA team is beginning to collect data that confirms the business benefits for suppliers who develop their HRMS capacity.

**Next steps**

**Lessons learnt in 2008**

There have been many lessons learnt from the entire project process, concerning:

- Multi-stakeholder interests and needs
- Managing project plans, expectations, materials and tools
- Selecting service providers and managing that relationship
- Supplier capacity for a long-term training and implementation programme.

**New target for 2009**

Review of the application of the project model for those countries that do not fit the China/Vietnam sourcing model and further research the validity of an HRMS roll-out in India.

In order to ‘close the loop’ between implementation of HRMS at the factory level and our own monitoring programme: (1) develop an internal training for selected SEA field staff; and (2) update the KPI and other monitoring tools to reflect expectations concerning HRMS within suppliers.

**LABOUR – TARGET 3**

To critically review and strengthen the network of confidential reporting channels for worker complaints in all three regions. Specifically:

1. To evaluate the existing communication channels between workers and the SEA team, then identify gaps and solutions that improve those communication channels and tools.
2. To compile information on the best practices for worker-management communication system and distribute relevant guidance to suppliers.

**Approach**

**Why was this target chosen?**

As part of our goal to develop long-term, sustainable compliance processes, the SEA team has been keen to partner with credible members of local civil society to tackle issues in the workplace. This includes an effective address of workers concerns and channelling their complaints to local NGOs and advocacy groups. Moreover, ensuring that workers have proper communication systems at the factory level and with our compliance teams is critical to SEA efforts to protect worker rights as well as an obligation of a participating company of the Fair Labor Association.

**What was the approach taken?**

A survey was created and then distributed to SEA staff in each region to capture the diverse local experiences. The survey assessed multiple types of communication channels used by factory management and workers to address work related issues and grievances, as well as evaluating the different communication methods between factory workers and the SEA team. Though surveys have been used in earlier efforts to evaluate different components of the SEA programme, this was the first time that surveys were used to determine the efficacy of our global supply chain’s worker-management communication channel.

**Progress**

**Score**

75%

**Notes:**

- The survey was completed in September 2008 – 100%
- Based on the survey results, the SEA’s internal working group (Labour Network) is developing recommendations to improve communications between factory workers and SEA team – 75% complete
- The Labour Network drafted guidance notes for suppliers on reliable worker-management communication, the effective use of suggestion boxes, and the development of a non-retaliation policy – 100% complete

**Barriers encountered along the way**

There were no real barriers in completing the review and developing supplier guidance.

**Conclusion**

The survey was successfully launched and completed. The results showed similar trends, gaps and roadblocks in each region. Most factories use a mix of passive and active mechanisms to support and encourage worker-management communication including suggestion boxes, communication committees, ‘open door’ policies, and factory hotlines.

Neutral or even negative management attitudes played a critical role in the use of any communication channels available in the factories. A second factor was the level of workers’ trust in the factory management team, and this had a direct impact in workers’ willingness and interest to use the complaint and feedback mechanisms.
The supply chain’s internal communication channels with workers are diverse but generally ineffective. Worker feedback directly to SEA varies between the regions and relies on their familiarity with individual SEA team members. Overall, the existing channels for worker-management communications lack effective means for workers to realise their rights or to have grievances and complaints adequately addressed.

**ASIA**

West Asia – Many factories use suggestion boxes, union representatives and internal hotlines as communication channels. In factories where workers trust the management, or get a timely response from management, the communication channels are used by workers; in factories where management is not responsive or does not have workers’ trust, the factories’ internal systems are not readily used.

South China – According to the survey, face-to-face communication was the most common channel used by workers. However, if workers do not get feedback from management, they do not use any of the systems created by the factory.

North China – Suggestion boxes, worker hotline, open door policy, worker-management committees, and SMS are the most common channels used by workers, with hotlines and SMS being the most popular ones as they are the quickest and easiest. However, the survey responses also indicated that if workers do not receive response from management, they quickly lose trust in the system.

South-East Asia – Worker-management committee and suggestion boxes were the most commonly used communication channels. Worker committees sometimes find it challenging to address issues to management in a structured way. However, if workers don’t get a response from management, they do not use any of the communication channels in place.

**EUROPE, MIDDLE EAST, AFRICA**

Suggestion boxes were the most common channel used by workers. However, if management does not reply or take any action, workers use it less or not at all. In Turkey, there was a plan to introduce a factory subscribed worker-management communication tool called the Clear Voice Hotline (CVH) but the external service provider dropped the launch due to insufficient funding and participation by local factories. In late 2008, the Turkish Ministry of Labour opened a 24-hour hotline that allowed workers to report labour and employment issues.

**AMERICAS**

Workers tend to use suggestion boxes most frequently to communicate with management. One Central American factory participated in the CVH. Initially results showed that workers did use this communication tool to report grievances. However, the factory did not act quickly enough to solve some of the grievances and respond to workers so workers gradually stopped using it. Anticipating that management response would be a potential issue, CVH developed management-training modules for the improvement of response practices and grievance management but the training was costly and supplemental to factory’s CVH subscription fee.

**Next steps**

**Lessons learnt in 2008**

We learnt that accessibility to our team critically affects worker feedback. Where our field monitors are in the country or city where the factories are located we receive frequent communications from workers and actively respond to complaints. In those countries where our monitoring teams infrequently visit factories and where we have no permanent presence, feedback is restricted. In terms of communication channels, special attention therefore has to be given to areas where we have no permanent field presence.

**New target for 2009**

As part of the launch of the revised Employment Guidelines we will distribute guidance on ways to improve worker-management communication mechanisms at a factory level. Also we aim to finalise internal recommendations and best practices for improved worker communication to SEA field staff. As a minimum this will include the replacement of the Open Letters to workers with more visible posters that show complaint hotline or SEA contact numbers.
Our progress against our environment targets is covered on the following pages:

- Product (p50)
- Production (p52)
- Own sites (p54)

**PRODUCT – TARGET 1**
In last year’s report, this target was stated as:

To further increase the number of style developments within the adidas Sport Performance Division consisting of organic and recycled material components; product styles will be launched in 2009.

This was refined to a more specific target:

To launch the adidas Better Place programme internally, involving a minimum of 50% of the adidas Sport Performance Business Units in the programme during the first year. Develop a unified approach to the creation of sustainable products, involving sourcing, materials, innovation, design and product development departments.

**Approach**
**Why was this target chosen?**
Establishing adidas Better Place manifests our environmental initiatives in a set of adidas brand products, and serves as a platform for us to start a dialogue about sustainability with our consumers.

**What was the approach taken?**
adidas looked for champions in each business area, building a network of key individuals to drive the adidas Better Place initiatives in their department. These Better Place champions also fed information back into a central group, which ensured a consistent approach across the business.

As a result, 150 product styles primarily covering footwear and apparel were developed for launch under the Better Place programme from spring 2009 onwards.

The Better Place champions promoted the use of environmentally friendly materials such as organic cotton, recycled polyester and polylactide acid (a biodegradable polymer synthesised from processed corn). These materials all meet the adidas Group’s own guidelines on environmentally preferable products, which we produced in the absence of any single global standard.

To understand the environmental conditions and level of risk at each of the factories that manufacture Better Place products, an environmental benchmark analysis was conducted.

**Barriers encountered along the way**
One challenge was the need for these champions to invest a significant amount of additional time on top of their existing workload, to evaluate and assess the environmental profitability of product materials. This is likely to diminish over time, once structured processes for integrating sustainability elements in the inline product creation flow have matured.

**Conclusion**
This champions approach was extremely successful as it kept information flow consistent and current.

Taking a holistic approach to infusing sustainability throughout product development, instead of targeting single environmental and social challenges retroactively, has accelerated the pace of change internally.

**Next steps**
**Lessons learnt in 2008**
Codifying sustainable product under a specific product category (adidas Better Place), and communicating what that means internally, has helped our employees both to better visualise the challenges and to feel empowered to take action in their roles to create more sustainable products.

**New target for 2009**
We will launch adidas Better Place to the public in 2009. New goals are to both grow the number of adidas Better Place styles within the adidas Sport Performance Division, as well as increase the amount of sustainable materials used by adidas across all of its products.

**PRODUCT – TARGET 2**
To conduct an environmental benchmarking assessment (EBA) of factories nominated for the production of Better Place products.

**Approach**
**Why was this target chosen?**
This target was included to support the roll-out of the Better Place programme, due for public launch in early 2009. The purpose was to understand the environmental conditions and level of risk at each of the nominated factories as well as to benchmark against factories within the same industry sector. In addition, industry profiles and case studies will also be developed highlighting best practices within the adidas supply chain and areas of improvement.
Lessons learnt in 2008

More advanced planning is required, if environmental conditions within the supply chain are to be properly mapped and assessed, as part of any product launch.

The adidas Group’s indirect contractual relationship with Tier 2 apparel facilities meant it took more time and effort to engage them in this initiative than expected.

At the outset, the level of environmental awareness and understanding within long-term business partners was expected to be moderate to high. However, the information submitted by the factories for the EBA and the subsequent site assessments identified a range of gaps in the effective management of environmental issues at site level.

New target for 2009

The results of the benchmark will be used for a further maturation of the environmental assessment tools. These will be applied both to new factories and core suppliers that were covered by this benchmark analysis.

PRODUCT – TARGET 3

To commission an internationally recognised NGO to review and verify internal tools for the selection of environmental materials used in our products.

Approach

Why was this target chosen?

Making the right choice in using environmentally sound materials for our products remains a challenge. While we have extensive engagement with suppliers and scientific institutes on materials and their features, we also wanted a critical reflection from an NGO on the tools we use in selecting environmental materials.

Comments and recommendations from this review will serve to highlight any gaps and shortcomings in our rating tools and help us to address them. This would improve the approach we take to identify, classify and choose environmentally optimised materials for use in products launched under the adidas Better Place programme.

What was the approach taken?

An international environmental NGO was commissioned to study and review the material classification scheme that we developed to guide product development teams in using preferred materials for products under the Better Place programme. The NGO has been asked to review all materials that have been classified as environmentally preferable and to comment or raise questions related to areas of concern.

Progress

Score

50%
Barriers encountered along the way
Soon after the initiative was kicked off in early 2008, it became obvious that we had all underestimated the complexity of this project, in particular in terms of data availability and the technical and environmental expertise that is necessary to draw the right conclusions. There are various factors along the entire supply chain that need to be considered to be able to make a fair judgment about the environmental credentials of specific materials.

To tackle this challenge, it was decided that for the first stage the NGO would develop a list of core questions necessary to obtain more information and data about materials.

Conclusion
While there has been good progress in defining the project scope in 2008, the intended evaluation and assessment of the material classification scheme could not be conducted in the reporting period due to the lack of necessary information.

Next steps
Lessons learnt in 2008
While the review of the classification scheme has not been finalised yet, material research and product development teams have gained a broader perspective on what they need to consider when making judgments about environmentally friendly materials. So, despite the unforeseen complexities of the proposed workplan, there was merit in beginning the process and engaging colleagues in the initiative.

New target for 2009
Once the review has been completed, core findings will be included in the material rating scheme and material selection processes. Further research capacities will be dedicated to support the environmental assessments of product materials.

PRODUCTION – TARGET 1
To identify and engage with appropriate technical, brand and NGO partners to support the reduction of energy, waste and water in our core supply chain.

Approach
Why was this target chosen?
Previous engagements with other brands and NGO groups have been over social issues (i.e. labour, worker health and safety, etc.). In light of the growing interest and concern in environmental issues within the supply chain, there is a growing need to regularly engage with other brands and NGOs to deal with these issues.

What was the approach taken?
An environmental practitioners’ group was established with major brands in Asia, including a number of key sporting goods brands with which the adidas Group shares common suppliers. The first official meeting was held in March 2008.

It was intended that this network of practitioners could meet on a regular basis to discuss potential collaboration efforts and to share in best practices.

In addition, the team has reached out to organisations such as WWF in Europe and Hong Kong to identify areas of cooperation.

Progress
Score
50%

Barriers encountered along the way
A second meeting which was proposed for Q4 2008 did not take place due to other competing commitments. Discussions with individual practitioners about possible areas of collaboration did, however, take place.

In regards to the NGO outreach (in Hong Kong), some of the programmes that the NGO has proposed are restricted to Hong Kong or the Pearl River Delta only, thereby limiting the impact/coverage that it can have on the adidas Group supply chain.

Conclusion
There was regular discussion among various brands on a number of collaboration efforts, but a common direction and scope was not agreed.

The NGO discussions are still ongoing to see where potential partnerships can result in benefits to the supply chain.

Next steps
Lessons learnt in 2008
While the review of the classification scheme has not been finalised yet, material research and product development teams have gained a broader perspective on what they need to consider when making judgments about environmentally friendly materials. So, despite the unforeseen complexities of the proposed workplan, there was merit in beginning the process and engaging colleagues in the initiative.

New target for 2009
Once the review has been completed, core findings will be included in the material rating scheme and material selection processes. Further research capacities will be dedicated to support the environmental assessments of product materials.

PRODUCTION – TARGET 2
To enhance the internalisation of environmental metrics by core footwear suppliers to drive improvements in their reporting and defining reduction targets.
Approach
Why was this target chosen?
The adidas Group reports key environmental data from the manufacture of its products on its website on an annual basis. Some of this data is submitted to us by our footwear suppliers but they lack a sense of ownership of it, which compromises the accuracy of the data being reported.

What was the approach taken?
In order to cross-check that the data being reported by footwear suppliers is an accurate reflection of the production processes, the data of three footwear factories were verified on-site by the consultant appointed to conduct the Environmental Benchmarking Assessment (EBA). See Product Target 2.

In addition, we are currently reviewing an alternative data collection system, the Environmental Health and Safety Management Accounting System. This system has been designed to link environmental data to financial costs, an area which is critically reviewed by factory management and which should, indirectly, result in a greater awareness amongst management of the environmental costs of their operations.

Progress
Score
25%

Barriers encountered along the way
In a number of factories there is regular turnover of the staff who enter the data. This has resulted in a lot of time spent reviewing and verifying the data submitted by the suppliers.

The extension of the EHSMA pilot project in a factory in the Philippines was not completed on time, resulting in a delay in our assessment.

Conclusion
To further improve the internalisation of environmental data management new forms of incentives for factories have to be piloted and field-tested. One of these incentives is the significant savings in resources and costs that can be achieved by using mature data management systems.

While the EBA found that the data at three selected factories was acceptable, the review process did not allow for an assessment of how the data is collected from the point of production. Moreover, it was unable to show the level of internalisation of findings from data into factory management decisions.

Next steps
Lessons learnt in 2008
There is still in general a lack of understanding within factories about the value of the environmental data collected or how they can use it to manage resources within their own production processes.

New target for 2009
Complete the review of an alternative data collection system.

PRODUCTION – TARGET 3
To run four energy efficiency workshops for our suppliers in Asia and in the EMEA region to further drive the reduction in energy use.

Approach
Why was this target chosen?
The adidas Group is working towards building a more sustainable supply chain. One of the key focus areas to achieving this is helping suppliers manage their use of energy.

What was the approach taken?
Since 2006, the adidas Group has been working with external consultants to develop energy workshops tailored to the needs of our supply chain. Workshops have been held in China and Vietnam in 2007. We surveyed the workshop participants to understand the progress that had been made implementing energy management initiatives. Despite the intensive training efforts there had been only limited uptake of the ideas presented in earlier workshops.

In 2008, a training needs survey was conducted in factories in the Asia-Pacific region. At the same time, we gathered their feedback on past energy workshops. One of the key findings of the survey was the need to use local expertise to develop and deliver the workshops. As a result, the consultant who delivered the energy workshops already in 2007 in China and Vietnam, only conducted the workshops in Turkey and China in 2008. A local consultant was engaged to deliver the workshop in Indonesia.

Progress
Score
75%

Barriers encountered along the way
The lack of local energy specialists – particularly in most of the Asian countries – has been a key barrier to the successful delivery of the workshops. For this reason we could not run an energy workshop in Vietnam, and a second one planned for China was also cancelled.
OWN SITES – TARGET 1
To conduct a gap analysis of the environmental performance of the adidas Group's own production sites.

Approach
Why was this target chosen?
Measuring resource consumption and its environmental impact is the basis for managing further reduction and efficiencies through effective programmes. Since the year 2001 we have been systematically collecting key environmental data from our own production sites. adidas Group production sites in Germany and China have been running certified environmental management systems for years.

With Reebok becoming a member of the adidas Group in 2006, the company now operates thirteen own production sites.

What was the approach taken?
The aim was to develop a standardised approach in analysing and assessing the environmental performance of the production sites and to define tailored programmes for these sites to help further reduce their environmental impact.

Progress
Score
25%

Barriers encountered along the way
None.

Conclusion
During 2008, the target was merged with the goals that are now pursued under the Green Company initiative, which is an internal initiative to improve the environmental performance of the adidas Group overall. So the target has been rolled into a wider programme under the Green Company initiative to assess the environmental performance of all major sites, whether production or administration.

The assessment scheme was developed in 2008 and is going to be applied to all major locations in early 2009. The findings of the assessment are going to be used to outline Group-wide measurable environmental targets.

Next steps
Lessons learnt in 2008
Feedback received from the workshop participants in China and Indonesia clearly outlined the need for local consultants with energy management experience to conduct the workshops in the local language and to have the ability to follow up on-site at the factory.

The structure of the workshop has also been revised – following feedback – from a strictly theoretical, classroom based instructional format to one that includes hands on/practical homework which engages the participants more.

In Turkey, the group came together for a two day workshop with one classroom/theory day and one day practical work. On the second day small groups evaluated the actual situation in a factory with regard to individual energy areas such as heat processing and light. Subsequently the groups prepared individual presentations about their findings and suggestions for improvement, followed by feedback from the consultant.

New target for 2009
Run an energy efficiency workshop in Vietnam. Follow up the Indonesia energy efficiency workshop with an energy efficiency forum, to be held quarterly and run by an external consultant. A local energy specialist consultant will also be sought to deliver an energy workshop in North China.

Local consultants did not always clearly outline the technical level required of the attendees. In some cases, factories sent HR managers when engineers or other technical staff would have been more appropriate, given the nature of the workshop.

In Turkey the workshop was quite successful because of the technical understanding that most of the attendees had.

Conclusion
While the initial target was to hold workshops in four locations, only three workshops (South China, Indonesia and Turkey) were delivered in 2008 but with mixed success. In South China, where the attendees to the energy workshop were of a mixed level of technical understanding and the workshop delivered by an overseas consultant, the feedback and uptake of the workshop discussions has not fully met our expectations. For Indonesia, the format of the workshop was re-designed based on the observations and feedback to the workshop in South China and a local energy specialist consultant was engaged to deliver the workshop. The feedback from this workshop has been very positive.

Next steps
Lessons learnt in 2008
Feedback received from the workshop participants in China and Indonesia clearly outlined the need for local consultants with energy management experience to conduct the workshops in the local language and to have the ability to follow up on-site at the factory.

The structure of the workshop has also been revised – following feedback – from a strictly theoretical, classroom based instructional format to one that includes hands on/practical homework which engages the participants more.

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New target for 2009
Run an energy efficiency workshop in Vietnam. Follow up the Indonesia energy efficiency workshop with an energy efficiency forum, to be held quarterly and run by an external consultant. A local energy specialist consultant will also be sought to deliver an energy workshop in North China.
OWN SITES – TARGET 2
To conduct an in-depth environmental review of the adidas Group Headquarters facilities in Germany.

Approach
Why was this target chosen?
This target was chosen to identify the potential for environmental improvement at one of our major administration sites and to develop a role model for systematically addressing environmental issues at other adidas Group sites.

What was the approach taken?
Environmental consultants and energy efficiency experts were commissioned to conduct an in-depth environmental review at the three core sites of the adidas Group in Herzogenaurach, Germany. The major focus of this review was to identify potential energy and resource savings for both existing facilities and new building projects. Furthermore, the existing environmental management system was benchmarked against the environmental management standard ISO 14001 to identify shortcomings or gaps.

Progress
Score

100%

Barriers encountered along the way
None.

Conclusion
This approach provided a systematic framework for analysing all existing environmental initiatives, which prepared the ground for establishing a structured management system, operated by the site’s Facility & Services Management Team. The environmental management programme is going to be established from 2009 onwards. As part of the programme, the sites will take action and set targets for each year. There will be regular management review and employee communication.

Furthermore, this approach was the foundation of developing the Green Company programme that is going to be rolled out to other Group entities in 2009. See Target 1 above.

Next steps
Lessons learnt in 2008
Roles and responsibilities have been clarified and we now have a framework for managing environmental issues at our sites that can be applied across the whole Group.

New target for 2009
The adidas Group Headquarters in Germany will further develop its environmental management system and prepare for certification in accordance with ISO 14001 by the end of 2010.

OWN SITES – TARGET 3
To evaluate the environmental performance of the adidas Group transport and logistics providers to support our communication on the overall environmental footprint of our business.

Approach
Why was this target chosen?
For a company that has outsourced most of its production, efficient transportation of goods from factories to retail markets and customers is of critical relevance. The fuel used to transport goods creates carbon dioxide emissions, a major contributor to climate change.

What was the approach taken?
To reduce the environmental impact of transport operations, we typically ship most of our cargo by sea. We reviewed how we manage our freight service procurement process and our transportation planning activities.

Due to the fact that the adidas Group works with third parties rather than our own transportation fleet, it is difficult for us to measure the resulting vehicle emissions from transporting our products. Our transport and logistic department has therefore developed environmental benchmarks for carriers and forwarders to evaluate their performance. Seven of our major business partners who account for 80% of our global sea transports were required to provide in-depth information about their:

• Existing environmental management systems or safety certifications and their environmental policies
• Current CR activities
• CR strategy.

The aim is that social and environmental considerations should become a stronger element of business decisions in this area.

Progress
Score

75%

Barriers encountered along the way
None.

Conclusion
All of the cargo carriers had successfully undergone ISO 14001 certification and most of them could also show an established OHSAS 18001 health and safety management system.
The wide range of environmental improvement initiatives among our suppliers included:

- Reducing nitrogen/sulphur oxide emissions
- Energy efficiency measures
- Preventing oil spills
- Using solar energy in logistic centres
- CO₂ reduction programmes.

**Next steps**

**Lessons learnt in 2008**
We need a deeper level of engagement with our cargo suppliers if we are to accelerate existing programmes and drive improvements in our transportation and logistics impacts.

**OUR EMPLOYEES**

Our progress against our employee targets is covered on three separate pages:

- Succession planning (p56)
- World-class recruiter (p58)
- Employer of choice (p59)

**TALENT AND SUCCESSION MANAGEMENT – TARGET 1**

To substantially improve the activities in identifying, managing and developing internal talents and successors for our management and executive positions on a Group-wide scale.

**Approach**

**Why was this target chosen?**
We have identified succession management as a key driver for future success. A strong succession management process will support several of our strategic goals, particularly our aim to attract, develop and retain the right people that fit our current and future business needs. In turn, this will help us become a champion in leadership and talent management.

**What was the approach taken?**
We set key objectives for this initiative:

- Create Group-wide transparency on the succession situation
- Provide relevant information on potential successors
- Reduce recruitment costs through increasing the internal placement ratio
- Increase speed and quality of succession decision-making
- Provide cross-functional/-brand/-regional career perspectives for our people.

The idea was to adopt a new proactive business process that defines successors for our management and executive positions in the short and medium term. This approach replaces the former reactive process of filling vacant positions when they arose.

The process is supported by a software system called Horizon that provides transparency on potential successors, the succession situation per organisational unit and succession planning and related KPIs.
The structure of both the Management Development Programme (MDP) and the Executive Development Programme (EDP) is three modules of three days each, undertaken within a period of approximately nine months. The respective modules comply with the relevant competencies and thus with the requirements for either the managerial or executive level. The three cornerstones of the EDP for example are Organisational, Strategic and Personal Leadership.

These Group-oriented programmes are offered to talents in all regions (Americas, Asia-Pacific and Europe), all brands (adidas, Reebok, TaylorMade-adidas Golf) and in all Group functions.

Progress

Score

50%

Barriers encountered along the way

- Global standards on system solutions (SAP) and our Global Salary Management System (GSMS) grading needed to be established.
- Mobility and flexibility of our employees for cross-regional, -functional or -brand careers is sometimes limited.
- Realising our succession management ambitions by placing predefined successors is an ongoing challenge.

Conclusion

We have transparency on the succession situation for our first and second line management positions and deeper down in the hierarchy for the pilot areas in Finance and Legal. The medium term effects such as increasing the internal placement ratio, retention of our talents and reduced recruitment costs etc. will be evaluated regularly from 2009 onwards.

Next steps

Lessons learnt in 2008

Implementing a global system solution that supports a Group-wide standard process is a huge change management project and requires strong leadership and commitment by senior management and Group HR. The added value of the process and system increases with the global deployment of succession management.

New target for 2009

In 2009 and 2010 we will continue with the global implementation of the talent and succession management in all regions, functions and brands.
Progress
Score
75%

Barriers encountered along the way
There have been several challenges in the e-recruiting projects. Communication and training have been big challenges because most people who use the system are not recruitment specialists. They recruit as part of their job so they don’t necessarily have the time that recruitment specialists might have to invest in using the system to its fullest.

Budget has also caused issues, with constraints in the IT budget limiting our ability to expand the system’s tools, features and functionality.

In addition, as with any complex project, the project team of internal and external people had to establish successful working relationships.

Conclusion
The organisation has saved hundreds of thousands of Euros over the course of the last two years due to running fewer systems, increasing candidate applications as well as reducing our dependence on headhunters.

This project has also provided a platform to expand our knowledge of other recruitment topics such as sourcing and employer branding by establishing a project team that is keen to build a world-class recruiting approach.

Next steps
Lessons learnt in 2008
The current financial crisis has prevented us from being able to expand in 2009 the way we had originally intended to. Initially we hoped to include Latin America and Southeast Asia, but this portion of the project is on hold.

New target for 2009
We aim to extend e-recruiting to Russia in 2009 as well as provide better training for the existing users on the system.

WORLD-CLASS RECRUITER – TARGET 1
To implement and roll out Career Scout, our global electronic recruitment system, supporting worldwide hiring in all our operating markets, as follows:

- 2008: in each of our key markets within Europe, United States and the Asia-Pacific Region
- 2009 and beyond: in Russia and Latin America
- 2010: in key retail and wholesale markets throughout the world including Eastern Europe, Southeast Asia and Australia.

Approach
Why was this target chosen?
We chose to implement a global recruitment system to create one consistent recruiting process around the world, and to leverage the ability to share knowledge, best practices and candidates.

What was the approach taken?
We decided on a global e-recruiting system because it offers so many advantages:

- Costs – one global contract versus many local contracts is a strong cost-saver.
- Visibility – visibility of jobs worldwide allows recruiters to become more aware of succession opportunities for internal employees. It also allows external employees to see all adidas Group jobs around the world.
- Headhunter usage – having one candidate pool of hundreds of thousands of candidates allows HR people worldwide to access candidate information from jobs that their HR colleagues may have been working on. With previous systems, candidate information was not shared, so that there could be a candidate that was not right for Job A, who could have been right for Job B, but HR would not have been able to see that candidate.
- Global reporting – having all recruitment activities, jobs, candidates, etc. in one system allows for global reporting. It allows us on a global level to see open positions, the most effective candidate sources, the volume of candidates (by function) as well as the costs per hire.

Next steps
Lessons learnt in 2008
The current financial crisis has prevented us from being able to expand in 2009 the way we had originally intended to. Initially we hoped to include Latin America and Southeast Asia, but this portion of the project is on hold.

New target for 2009
We aim to extend e-recruiting to Russia in 2009 as well as provide better training for the existing users on the system.

WORLD-CLASS RECRUITER – TARGET 2
To implement an employer branding strategy in all our operating markets.

Approach
Why was this target chosen?
The employer branding strategy of the adidas Group is critical to our overall success and is a major component of the world-class recruiting initiative. Similar to marketing, our approach to employer branding creates consistent and truthful messages that tell the story of the adidas Group and our brands to active and passive candidates.
The messages are designed to provide people with an understanding of what we do, what it’s like to work for the adidas Group and how they might fit into this organisation. As a part of our employer branding strategy, we have included a key sub-project focused around ‘candidate experience’. We feel strongly that unless we put measures in place and standards around how we interact with potential candidates, all of the effort around communication of our brand will be compromised. An effective employer branding strategy draws people to actively seek out the company, and increases the awareness of us as an employer to passive candidates not actively looking for new opportunities.

What was the approach taken?
People are very familiar with our products and brands but often unaware of what type of career opportunities may exist within the organisation. We felt a strong need to put together a team of people from all brands and most locations around the world to create a consistent message to attract people from our target groups. And by doing this, it will allow us to identify the best people to work for the adidas Group and help us reach our business objectives.

Progress
Score

50%

Barriers encountered along the way
The main barrier is communication around the organisation. With so many people involved in the HR recruiting processes around the world, it is difficult to communicate the message to each and every one. There are still some inconsistencies in how we communicate our messages and how we position ourselves.

Conclusion
The adidas Group has gained a lot of recognition with our current efforts. We have had the opportunity and continue to get opportunities at top recruiting conferences around the world to educate other companies about our strategy.

In addition, we have expanded awareness of our brand strategy throughout the United States, many parts of Europe, Russia and now Asia.

Next steps
Lessons learnt in 2008
Restrictions in budget have made us review our current strategy and cancel some key projects. We have identified some no-cost routes that will help us continue to make progress.

New target for 2009
Our target for 2009 is about expanding what we have already started in other parts of the world, so more communicating about our brands.

EMPLOYER OF CHOICE – TARGET 1
We have a key university strategy which is an important part of our overall employer of choice activities. Our target is to identify, build and foster relationships to key universities around the world (e.g. Hochschule St. Gallen, ESADE Barcelona, RSM Rotterdam, Hong Kong University, Babson College Boston).

Approach
Why was this target chosen?
The expected outcome is a positive impact on our employer branding and recruiting activities, for example increasing the number of applications by top graduates from top universities globally. We need the best graduates to fuel our talent pipeline for the Group.

To become employer of choice and top recruiter are two of the cornerstones of the overall HR strategy. Therefore this target delivers right into the general HR strategy and our strategic business plan.

What was the approach taken?
Based upon existing university liaison activities we decided to create a new global key university strategy, which was started in 2008. The steps to reach our target were:

- Identifying key universities
- Establishing contacts or fostering already existing contacts
- Organising events with extended Board members (25 events around the globe at 12 universities) with approximately 2,000 students and graduates participating.
- Participating in career fairs, case studies, etc.
- Organising events with extended Board members (25 events around the globe at 12 universities) with approximately 2,000 students and graduates participating.
- Following up with universities to discuss our cooperation and to plan the activities for 2009 to ensure sustainable development
- Following up with students to ensure sustainable employer branding and recruiting (for example, mailings about career options at the adidas Group).

Progress
Score

75%

Barriers encountered along the way
It takes time to establish and maintain strong and effective relationships with universities.
Conclusion
One outcome was a positive impact on our employer branding as measured by rankings, student surveys, etc.

In addition we have already experienced a positive impact on our recruiting activities for internships, trainees and the Business Management Programme.

Next steps
Lessons learnt in 2008
- We learnt how to set up effective and efficient cooperation with the participating universities to ensure smooth planning, execution and follow-up.
- It was clear how important it is to establish and foster a personal contact and to build a great relationship with the university counterpart.
- A further learning is that the key for sustainable success is long-term, ongoing cooperation.
- To ensure an excellent outcome it is necessary to track and evaluate the results of our cooperation and to use this as a basis for the ongoing selection of our partners.

New target for 2009
Based on our experiences during 2008 we plan to go ahead with our key university strategy during 2009.

EMPLOYER OF CHOICE – TARGET 2
We want to become the employer of choice not only for external potential talents but equally important for all our current employees who carry our brands and business with great passion.

To get there, we need to listen to our employees, understand what is important to them and how they feel about the most relevant ‘engagement drivers’.

Approach
Why was this target chosen?
Satisfaction drives commitment, commitment drives engagement, engagement drives performance!

If we understand how engaged our global workforce is and what needs to be done to further improve engagement in every business unit, division and department, we will be able to measure how we are doing as an ‘employer of choice’ while also measuring the strength of our performance culture.

What was the approach taken?
We launched engagement surveys starting in 2006 and by the end of 2008 we had covered almost all brands, regions and functions worldwide, learning how our employees rate us on engagement drivers such as:

- Career opportunities
- Recognition
- Senior leaders
- Learning and development.

Following the survey, our HR department will analyse the results and with our employees create ‘result to action’ plans to improve engagement.

Progress
Score
75%

Barriers encountered along the way
None

Conclusion
We had to learn that the work starts ‘after’ the survey, to implement the ‘results to action’ as part of the process.

Engagement will be a focus point for our people and performance management going forward.

Next steps
Lessons learnt in 2008
Having a clearer understanding of the common themes for key engagement opportunity drivers – as well as threats – we geared our HR strategy towards supporting those positive areas.

New target for 2009
With regards to engagement, 2009 will be focused on the ‘result to action’ execution worldwide. We are planning the next global engagement survey for 2010.
### PROGRESS AGAINST TARGETS 2008

#### STAKEHOLDER ENGAGEMENT

**Target 1**
To build strategic partnerships with international agencies, governments and civil society, with the objective of improving social and environmental conditions in the garment industry in China, El Salvador, Honduras, India, Mexico and Vietnam.

- **50%**

**Target 2**
To enter into a dialogue with Hong Kong’s labour and human rights community and obtain NGO views on issues surrounding the Beijing 2008 Olympic Games.

- **25%**

**Target 3**
To expand the outreach with North American universities and collegiate NGOs.

- **100%**

**Target 4**
To steer and support the Better Cotton Initiative to influence environmental change in the international cotton industry.

- **75%**

**Target 5**
To expand the participation in FLA 3.0 and include El Salvador, Honduras and Turkey.

- **25%**

#### SUPPLY CHAIN

**Systems – Target 1**
To mature and strengthen the efficiency of the external monitoring model for the indirect supply chain used by adidas Group licensees.

- **50%**

**Systems – Target 2**
To review and enhance the integrity of the data output from the Fair Factories Clearinghouse database and strengthen the input processes.

- **50%**

**Systems – Target 3**
To complete strategic compliance planning for an additional fourteen critical business entities comprising ten licensees, one agent, one brand and two business units.

- **100%**

#### Health & Safety – Target 1
To extend the safety officer registration and training to all directly sourced suppliers in Cambodia, Philippines, Thailand, Brazil and Argentina.

- **75%**

**Target 6**
To complete a feedback report, providing the adidas Group’s response to the views and suggestions given in the 2007 suppliers stakeholder dialogue held in Hong Kong.

- **10%**
Environment
Product – Target 1
To launch the adidas Better Place programme internally, involving a minimum of 50% of the adidas Sport Performance Business Units in the programme during the first year. Develop a unified approach to the creation of sustainable products, involving sourcing, materials, innovation, design and product development departments.

100%

Product – Target 2
To conduct an environmental benchmarking assessment of factories nominated for the production of Better Place products.

75%

Product – Target 3
To commission an internationally recognised NGO to review and verify internal tools for the selection of environmental materials used in our products.

50%

Production – Target 1
To identify and engage with appropriate technical, brand and NGO partners to support the reduction of energy, waste and water in our core supply chain.

50%

Production – Target 2
To enhance the internalisation of environmental metrics by core footwear suppliers to drive improvements in their reporting and defining reduction targets.

25%

Health & Safety – Target 2
To develop an e-Learning training platform to support the roll-out of the revised and updated version of the HSE Guidelines.

0%

Health & Safety – Target 3
To extend monitoring and reporting of volatile organic compounds at footwear factories in Brazil and Argentina.

50%

Labour – Target 1
To review, revise and prepare the launch of updated SEA Employment Guidelines.

50%

Labour – Target 2
To develop and launch a Human Resources Management System training programme in China, Vietnam, Indonesia and Thailand.

50%

Labour – Target 3
To critically review and strengthen the network of confidential reporting channels for worker complaints in all three regions.

75%

Environment
Product – Target 1
To launch the adidas Better Place programme internally, involving a minimum of 50% of the adidas Sport Performance Business Units in the programme during the first year. Develop a unified approach to the creation of sustainable products, involving sourcing, materials, innovation, design and product development departments.

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Product – Target 2
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75%

Product – Target 3
To commission an internationally recognised NGO to review and verify internal tools for the selection of environmental materials used in our products.

50%

Production – Target 1
To identify and engage with appropriate technical, brand and NGO partners to support the reduction of energy, waste and water in our core supply chain.

50%

Production – Target 2
To enhance the internalisation of environmental metrics by core footwear suppliers to drive improvements in their reporting and defining reduction targets.

25%
Talent and succession management – Target 2
To identify, develop and retain adidas Group talents and place them in management and executive level positions.

75%

World-class recruiter – Target 1
To implement and roll out Career Scout, our global electronic recruitment system, supporting worldwide hiring in all our operating markets.

75%

World-class recruiter – Target 2
To implement an employer branding strategy in all our operating markets.

50%

Employer of choice – Target 1
To identify, build and foster relationships to key universities around the world.

75%

Employer of choice – Target 2
To become the employer of choice not only for external potential talents but equally important for all our current employees who carry our brands and business with great passion.

50%
## TARGETS 2009

### Environmental sustainability

**Group strategy**
1. Review the current Group strategy on climate change and carbon emissions and publish the results on the corporate website in 2009.

**Product**
1. Communicate and support across all adidas Group brands a harmonised definition and direction for environmentally optimised product materials. Develop associated internal guidelines to support decisions on the selection of materials.
2. Incorporate the findings from the NGO review of our environmental material selection into our internal tools and guidelines.

**Production**
1. Continue to critically review our efforts to internalise the environmental metrics of core footwear suppliers and test mechanisms to drive improvements.
2. Redesign training concepts based on a critical review of our 2008 training initiatives for energy efficiency.
3. Review industry best practices for the management of water, energy and carbon emissions. Identify key partnership organisations that are providing leadership in these areas.
4. Complete environmental site assessments and industry profiles for all Better Place suppliers and selected suppliers producing products licensed by the London 2012 Organising Committee of the Olympic Games (LOCOG).

**Properties**
1. Launch internal Green Company initiative to drive and promote environmental engagements and awareness among the adidas Group workforce.
2. Use results from environmental assessments conducted at adidas Group core sites for setting Group-wide environmental targets.
3. Review and update the in-house ‘Think Green Guide’ and support online resources to drive energy and environmental improvements across all adidas Group offices.
4. Establish/align environmental management systems at brands’ Headquarters and obtain ISO 14001 certification by end of 2010 for each.

**Supply chain**

**Systems and guidelines**
1. Enhance our participation in the FFC Compliance Data Sharing Platform and continue to critically review the integrity of the data available from the FFC database system.
2. Strengthen the application of SEA’s supplier key performance indicator through an upgrade of worker-management communication and management systems units of measure.
3. Replace our sustainable compliance monitoring methodology with a commonly used sustainable compliance leadership audit tool developed in collaboration with other brands.
5. Publish our internal supplier termination policy online.

**Direct sourcing model**
1. Revisit our risk assessments for factory monitoring coverage and reprioritise the annual auditing work plans.
2. Identify and close gaps in KPI assessments and strategic compliance plans for factories that will manufacture products licensed by LOCOG.
3. Support global apparel sourcing in developing compliance benchmarks for order allocation as part of the Global Apparel Strategic Alliance scheme.

**Indirect sourcing model**
1. Extend the range of external monitors compliance services beyond initial assessments, to include action plan development, KPI assessment and scoring.
2. Ensure that all SEA policies, practices and monitoring requirements are being extended and applied to the supply chains managed by sourcing agents and licensees.

**Business entities relationships**
1. Internally verify ongoing disclosure of the supply chain in the FFC.
3. Drive greater consistency in the application of the Group-wide restricted substances and product safety policy.

**Global economic crisis**
1. Prioritise monitoring activities that track worker issues related to factory closures and layoffs as a consequence of the global economic crisis.
2. Offer guidance to all suppliers on ways to handle worker redundancies and layoffs in a fair and transparent way.
Stakeholder engagement

Internal
1. Review the inclusion of Better Cotton in the adidas Group material sourcing strategy together with marketing and sourcing departments.

External
1. Continue to engage with government and civil society to influence positive change in the regulatory environment and in particular, track and understand the implications of government policy changes on labour law and enforcement practices as a result of the global economic crisis.
2. Constructively engage with and participate in a workshop run by the Play Fair Alliance in Indonesia.
3. Continue to collaborate with other brands in the development and launch of an innovative harmonised audit tool methodology (Sustainable Compliance Leadership) and the FFC Compliance Data Sharing Platform.
4. Explore the strategic value of industry leadership initiatives and engage with scientific organisations to evaluate carbon management and labelling schemes.
5. Host a stakeholder dialogue on environmental sustainability with selected Asian suppliers and report on their feedback.

Our employees

Talent management and succession planning
1. Implement the global succession management process in all regions, functions and brands by end of 2010.

World-class recruiter
1. Extend e-recruiting to Russia in 2009.

Employer of choice
1. Conduct the next global employee engagement survey by end 2010.
2. To rank as a Top 10 employer in our key markets.
GLOSSARY

CAPACITY BUILDING
Helping our business partners and others understand how to manage and improve workplace conditions, e.g. through training, producing guidance manuals, and sharing best practice.

COMMUNITY AFFAIRS
Corporate function which coordinates a network of employees managing corporate donations, volunteering programmes and community relations in the subsidiaries and other local entities of the adidas Group. This function has become part of the SEA team in 2005.

CORPORATE SOCIAL RESPONSIBILITY (CSR)
Managing a company’s business processes in a way that creates economic value while also respecting people and communities and minimising environmental impact.

DOW JONES SUSTAINABILITY INDEXES (DJSI)
Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and Sustainable Asset Management (SAM) they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

ECO-MANAGEMENT AND AUDIT SCHEME (EMAS)
System designed to improve a company’s environmental performance by ensuring that all environmental effects and impacts of a facility are recorded and documented.

FAIR FACTORIES CLEARINGHOUSE (FFC)
A collaborative industry effort involving retail and consumer brands and retail trade associations to create a system for managing and sharing social audit information.

FAIR LABOR ASSOCIATION (FLA)
Non-profit organisation working cooperatively with companies, NGOs and universities, to promote a workplace code of conduct based on International Labour Organization standards.

FLOCK TRANSFER PRINTING
Technology that allows structural and solid print designs.

FTSE4GOOD INDEX SERIES
The FTSE4Good Index Series has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies.

GLOBAL OPERATIONS
Group function which manages product development, commercialisation and distribution and also supervises the major part of manufacturing for the adidas, Reebok and TaylorMade-adidas Golf segments.

GLOBAL REPORTING INITIATIVE (GRI)
Independent institution developing a generally accepted framework for sustainability reporting.

INTERNATIONAL LABOUR ORGANIZATION (ILO)
The ILO is the tripartite UN agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world. Its main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue in handling work-related issues.

ISO 14000/1
Environmental management standard.

KEY PERFORMANCE INDICATOR (KPI)
Measures the effectiveness of actions taken by our suppliers to ensure compliance with the ‘Workplace Standards’.

LEAN
Manufacturing efficiency programme promoted by the adidas Group to improve overall factory performance in terms of delivery, quality and cost.

MULTI-FIBRE ARRANGEMENT (MFA)
Introduced in 1974, establishing the rules for international trade in textiles and garments. Through the MFA, quotas were set limiting the amount of imports of textiles and clothing to the developed world. The MFA expired at the end of 2004.

NON-GOVERNMENTAL ORGANISATIONS (NGOS)
Special interest groups, often not-for-profit, raising awareness of sustainable development issues in business.

OCCUPATIONAL HEALTH AND SAFETY ASSESSMENT SERIES 18001 (OHSAS)
Occupational health and safety standard.

POLYVINYL CHLORIDE (PVC)
Synthetic material used in the manufacture of sports apparel and hardware that we are striving to phase out because of its adverse health and environmental impacts.

SOCIAL AND ENVIRONMENTAL AFFAIRS (SEA)
Department of the adidas Group responsible for producing and developing sustainability policies and initiatives, and promoting social and environmental awareness throughout the company and its supply chain.

SOCIALLY RESPONSIBLE INVESTMENT (SRI)
Investment that is made on the basis of the financial, environmental and social performance of a company.

STAKEHOLDER
Person, community or organisation that affects, or is affected by, the operations of a company.

SUSTAINABILITY
The ability to create economic, social and environmental value in the long term.

VOLATILE ORGANIC COMPOUNDS (VOCs)
Solvents that can cause breathing and health problems. VOCs are by-products of the shoe manufacturing process.

WORKPLACE STANDARDS
The Group’s supply chain code of conduct, formerly known as the ‘Standards of Engagement’ [SOE]: A set of labour, health and safety, and environmental principles designed as tools to help the adidas Group choose supply chain partners, monitor their performance and identify problems.
CONTACT

We welcome your views about our efforts to be a more sustainable company.

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For inquiries to our social and environmental programme please send an email to sustainability@adidas-Group.com

For media inquiries please send an email to corporate.press@adidas-Group.com

COMPLAINTS
We want to know if anyone has complaints about conditions in our suppliers’ factories.

If you have a complaint to make, you can contact us with the specific details of the case and we commit to taking your complaint seriously.

We appreciate that you may want to contact us anonymously. This does not change the seriousness we give your complaint although it does affect the process we follow:

1. We investigate all complaints we receive.
2. We will reply to you requesting further contact to establish the full details of your complaint. However, we understand if you wish to remain anonymous and do not wish to identify yourself.
3. We speak to all the other parties involved to establish the full facts of the matter and determine if our supplier has a case to answer.
4. If so, we inform the supplier and specify remedial action for the supplier to take in order to address the issue.
5. Unless your complaint was anonymous, we will contact you to inform you of the results of our investigation and the steps we are taking.

Independent complaints process
We understand if you do not wish to complain to us about one of our suppliers. If this is the case, there is an independent process available to you through the Fair Labor Association, of which we are a member.

CREDITS
This report has been prepared by the adidas Group SEA team.

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