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Managing our environmental impacts has been a key focus for us in 2010. We have reviewed the life cycle of our products to understand what impacts occur where in our business processes. We have looked

all along the value chain where our products are designed, created, manufactured, transported and sold. The illustration shows a simplified picture of the adidas Group's value chain.



Where do the environmental impacts occur? In short, all along the value chain crude oil is used to manufacture polyester, water is needed to grow cotton and chemicals are used for dyeing and finishing fabrics or for tanning leather. Once the products have been made, there are emissions associated with transporting them to where they are sold, and at the end of their useful life they become waste.

To reduce our environmental footprint we need to manage all these issues at the most relevant stage in the process. So we aim to deliver guidelines and tools to the people within the specific business operations who can actually influence the impacts, even though the actual impact might occur somewhere else. For example, decisions taken at the design stage have a direct bearing on impacts further along the value chain.

This section is structured around our value chain. So first we present our Environmental Strategy 2015 on page 18 which helps us to coordinate and manage our Group's environmental initiatives. Then under Product creation on page 23, we include the efforts we are making at the Innovation, Design, Marketing and Development stages of the value chain. This is followed by Sourcing and Manufacturing on page 32 and Green Company on page 36, which is the name for the environmental programme for our own operations, and finally Sales on page 40.

STRATEGY 2015

Building on several environmental initiatives over the past years, in 2010, we have developed a coherent Environmental Strategy for the whole adidas Group.

The Environmental Strategy 2015 aims to reduce our environmental footprint 15% by 2015 relative to sales. It follows a clear vision and mission and sets targets to be reached by 2015 on page 21. These targets cover our whole value chain from product creation to sourcing and manufacturing and from our own operations to our stores and all other sales points.

AN INTEGRATED APPROACH

"Our approach is to manage environmental issues as an integral part of our daily operations, positively contributing to the adidas Group's overall business performance," says Karin Ekberg, Head of Environmental Services, adidas Group. "With this mindset the Environmental Strategy targets are interrelated with business targets and also require support from more than one single business function to achieve them. This is the beauty and the challenge in the approach: it is possible to drive the Strategy from different parts of the business, depending on where the leverage is greatest."

'BETTER COTTON' COMMITMENT ILLUSTRATES OUR APPROACH

The decision to have 100% 'Better Cotton' in our products by 2018 is a good example of this. 'Better Cotton' is cotton grown to social and environmental standards set by the multi-stakeholder Better Cotton Initiative (BCI). So while setting this target supports our ambitions to make our products more sustainable, the responsibility for meeting it rests with our Global Operations team and their sourcing strategy. Working together and using the strengths of different parts of the business is the best way to meet our goals.

Read more about our commitment to 'Better Cotton' on page 28.

VISION AND MISSION

The adidas Group's environmental vision and mission reflect the principles of business integration and operational excellence.

VISION

Our commitment to improve our environmental footprint is embedded in all our products, processes and services.

MISSION

Adopting a leadership role in environmental management supports our business performance. This means for our different target groups:

- Our **employees** are proud and passionate to work for the adidas Group because we operate honestly and deliver our environmental commitments by empowering our workforce to think and act green.
- We actively shape the **industry** and lead the way by sharing best practice and partnering with others to achieve environmental sustainability.
- Our **shareholders** invest in our company as they recognise we manage our business profitably and responsibly, based on long-term goals and the expectations of our society.
- Our **customers and consumers** value our products for their performance, quality and environmental credentials.

GOVERNANCE

An Environmental Strategy team led by Group Social and Environmental Affairs (SEA) and consisting of representatives of all brands and core functions, reports to the Executive Board of the adidas Group. Working groups tasked with meeting targets in specific areas support the Strategy team.

IMPACTS ALONG THE VALUE CHAIN

In developing our Strategy we identified eight types of environmental impacts – or ‘Environmental Impact Categories’ – that occur across our value chain. These are illustrated below.

We have assessed the relative importance of these impact categories and prioritised action accordingly. The main ways we can make a difference are to manage resources efficiently and manage hazards and emissions.

So we aim to:

- Save energy and reduce carbon emissions
- Save water
- Reduce the use of raw materials, using more environmentally friendly materials
- Reduce waste
- Reduce toxicity, for example through using less toxic chemicals and through efforts to reduce the pollutants in waste water at supplier factories
- Improve the environmental footprint of raw materials
- Improve the environmental footprint of products
- Manage supplier performance through auditing, measuring and reporting against key performance indicators
- Use management systems to drive continuous improvement.

FOCAL AREAS FOR TARGETS AND APPROACH

The Strategy is designed to significantly improve our environmental footprint. We are clear that the levers for change are located in our actual business processes. So the Environmental Strategy team reviewed how we work and identified four focal areas to be targeted by 2015 to ensure we make a difference across the whole value chain. These are:

Management processes, covering best practice guidance, tools and key performance indicators (KPIs) to track environmental performance across all functions and brands. These processes ensure that the Strategy is coherent and that the targets complement each other.

Product excellence, embedding environmental aspects into our innovation projects within each brand where the product innovation and design takes place. Overall ambitions are to reduce complexity and create sustainable products and packaging.





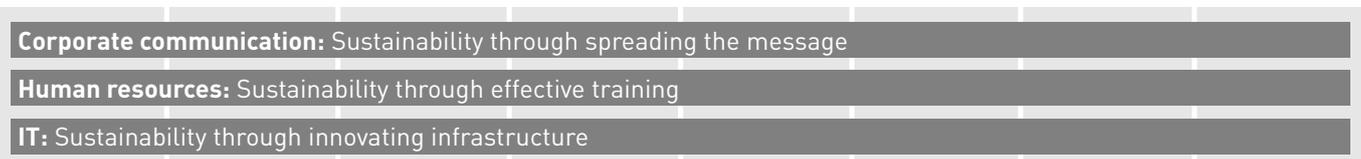
MANAGEMENT PROCESS



BUSINESS PROCESS



SUPPORT PROCESS



Process excellence, implementing and tracking environmental improvements across our value chain, such as energy savings in the supply chain and in our stores.

Support processes, aligning all environmental initiatives through the support functions such as HR, IT and Corporate Communications and bringing the Strategy to all our employees.

The illustration above shows where across the value chain these four focal areas can help us improve our environmental performance.

MANAGING CARBON

Based on the overall Environmental Strategy 2015, we have developed an approach to managing our carbon emissions:

We aim to reduce our carbon footprint by at least 10%. We will achieve this by driving energy and carbon efficiencies throughout the value chain, beginning with a 'hot spot' approach, targeting specific areas.

We have a hierarchy of approaches we will follow to reach our goal:

1. Reducing energy consumption
2. Using energy with a lower carbon footprint
3. Offset carbon where appropriate in approved schemes.

We have a comprehensive programme for our own sites with targets to reduce carbon emissions by 30% in total. We report our own sites' emissions to the Carbon Disclosure Project. This year we have improved our score in the Carbon Disclosure Leadership Index from 53 to 68. Find out more about our performance in the Green Company section on page 36.

We also work with our suppliers, focusing on the top 50 energy consumers relative to the production output for the adidas Group. We aim to help them reduce their carbon footprint by:

- Developing guidelines for energy auditing
- Conducting energy workshops
- Developing benchmarking tools and reports.

We are committed to transparent reporting about the adidas Group's environmental impact and performance. So we report about our progress publicly through the Carbon Disclosure Project and we are members of the Climate Neutral Network

ROADMAP AND TARGETS

The overall target is to reduce our environmental footprint by at least 15% by 2015 relative to sales. The individual targets for 2015 and milestones for 2011 are grouped by the four focal areas. The overall approach is summarised in our roadmap.

HOW WILL WE GET THERE – ROADMAP

2010–2011 BUILD ON THE FOUNDATIONS

- Guidelines, trainings, tools, KPIs and databases
- Communication and collaboration

2011–2015 OPERATIONAL ENVIRONMENTAL EFFICIENCY

- Consolidation, measurable improvements
- Alignment throughout the value chain
- Data reporting

2013–2015 DEVELOP AND EXPAND

- Drive and improve results
- Benchmarking

2015 Targets and 2011 milestones

Target area	2015 Targets	2011 Milestones
Management processes		
	Overall target – develop a management system that ensures a successful strategy implementation as well as an effective management of environmental impacts, risks and opportunities.	Develop a format for guidelines and tools.
Business processes		
Innovation	All future innovation projects to contain some environmental elements.	Develop partnerships with suppliers.
Design	50% reduction in used colours within the adidas Sports Performance division (excluding colours required by clubs or otherwise outside the control of Design).	Consolidate colours by 20% in apparel and 40% in footwear.
Marketing	<ul style="list-style-type: none"> • 100% of footwear and an increasing amount of apparel to have 'more sustainable content' (by 2012), i.e. to be included into the Better Place product range (applicable to the adidas Sports Performance division). • Reduce number of ranges as a whole by 20% (adidas Sports Performance division). • Virtualisation project to drive reduction in samples. 	<ul style="list-style-type: none"> • Revise Better Place Guidelines to ensure alignment with the Eco Index and the Index developed by the Apparel Coalition.
Development	<ul style="list-style-type: none"> • 20% reduction in colour-material combinations. • Optimise packaging solutions. 	<ul style="list-style-type: none"> • Establish baseline measurements and KPIs. • Increase number of more sustainable materials in toolboxes for apparel and footwear. • Review packaging status and define 2015 targets.
Sourcing	<p>A detailed Environmental Sourcing Strategy has been developed that builds on the following three steps:</p> <ol style="list-style-type: none"> 1. Risk mitigation 2. Performance improvement 3. Collaboration <ul style="list-style-type: none"> • 'Better Cotton' ('Sustainable Cotton') use: 40% by 2015, 100% by 2018 of all cotton used. • Establish full traceability of more sustainable materials (apparel products) by 2014. • Extend environmental assessments to selected supplier groups. • Establish an industry-wide recognised audit protocol and certification scheme for dye house facilities in collaboration with other brands and associations. • 10-15% cut in energy emissions by product output at core suppliers. • Leather tanneries: 100% of non-Europe tanneries to achieve Leather Working Group (LWG) Silver or above rating (based on the LWG audit protocol). • Implement Green Design requirements for new buildings at suppliers. 	<ul style="list-style-type: none"> • Introduce 'Better Cotton' into the adidas Group supply chain. • Conduct environmental assessments of high-risk suppliers. • Review environmental audit tools in the light of external initiatives. • At least 80% of the value of leather sourced from non-Europe tanneries to be from Gold Standard tanneries (based on the LWG audit protocol). • Review design and construction reports prior to approval.

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Target area	2015 Targets	2011 Milestones
Own Operations	<ul style="list-style-type: none"> • 20% relative reduction in energy consumption • 30% relative reduction in carbon emissions • 20% water savings/employee • 25% waste reduction/employee. <p>See a full list of Green Company targets on our corporate website at http://www.adidas-group.com/en/sustainability/assets/progress_targets/Green_Company_targets.pdf</p>	<ul style="list-style-type: none"> • Strengthen implementation plan to meet annual saving targets. • Refine ISO 14001 environmental management system. • Strengthen and expand engagement with Green Teams. • Certify the adidas Group headquarters site 'World of Sports' to the ISO 14001 standard. • Develop a Group 'Green car' policy.
Sales	<ul style="list-style-type: none"> • Develop strategic sustainability alliances with key customers in all key markets. • Own retail stores: 5-15% savings of resources (applicable to Western Europe market). 	<ul style="list-style-type: none"> • Pilot partnership with one key account. • Develop toolbox of different approaches for strategic partnerships with wholesalers. • Develop global saving targets for retail outlets. • Develop new lighting concepts for retail stores. • Pilot greener energy sources. • Pilot paper-saving options.
Support processes		
Communication	Create awareness and engage employees by driving messaging through internal communication channels.	
Human Resources	Integrate environmental sustainability into global HR programmes: <ul style="list-style-type: none"> • Drive awareness and activation of Environmental Strategy. • Develop ambassadors for environmentally responsible behaviour. • Drive Group-wide awareness and top management involvement. 	<ul style="list-style-type: none"> • Develop training and e-Learning courses. • Set HR-relevant targets for environmental achievements by management functions. • Run employee events supported by senior management.
IT	Reduce the environmental footprint of IT infrastructure 20% through the following initiatives: <ul style="list-style-type: none"> • 80% of all PCs to have 'green' power management options. • 30% less energy consumption of PCs. • 100% of requests for proposals to evaluate 'green' performance of possible vendors. • Virtualisation of servers/data centre consolidation. 	<ul style="list-style-type: none"> • Decommission more than 40 physical systems and/or virtualise them. • Improve the physical-to-virtual ratio by at least 11%. • Focus on energy efficient infrastructure solutions.

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CHALLENGES

The Environmental Strategy 2015 takes a holistic and ambitious approach, incorporating all Group-wide business functions and brands into one Strategy. The execution of the Strategy is not without its challenges, for the following reasons:

- Being a global organisation with several business functions, there are overlaps and shared responsibility for specific targets, which demands effective coordination.
- The major environmental impact of our operations occurs in the manufacturing of our products and the downstream supply chain. We only have a limited influence in this area as we have outsourced most production. Therefore, collaboration with other organisations in our industry is critical to build a consensus and the critical mass to develop effective solutions. Given the complexity and dynamics of our supply chain, setting targets and making progress depends on the commitment of industry players in supporting collaborative approaches.

However, we truly believe that our ambition to strive for a value chain approach that is fully aligned with the adidas Group business strategy will drive stronger results in the long term.

PRODUCT CREATION

DESIGN FOR ENVIRONMENT

Design for Environment (DfE) is the systematic application of environmental and human health considerations at the product design stage. DfE aims to avoid or minimise significant environmental impacts and increase resource efficiency at all stages of a product's life cycle – raw material extraction and processing, innovation, design, development, manufacturing, packaging and distribution, product use, and end-of-life.

Three key approaches shape the framework and practice of eco-design:

- Life cycle thinking
- Decrease environmental impacts early in the design process
- Environment as an additional design requirement.

We use the term Design when talking about Design for Environment throughout this report. In this broader sense, we implicitly include the innovation function as well; that is, that most of the guidance can be applied to the innovation process as well.

INNOVATION

The adidas Innovation Team (ait) is tasked with coming up with innovations in materials and processes to help improve the products made by the adidas Sports Performance division.

"It is all about improving performance for the athletes, whether that's a top star or my mother!" explains Gerd Manz, Head of Engineering in the ait. "We explore new processes and technologies, partnering with suppliers and universities to build up our knowledge and then we work out how to apply that know-how to products."

Environmental considerations come into the equation once the team has identified a performance-enhancing technology. Robert Leimer is a Senior Development Manager in Gerd's team: "We always try to build this high-performance equipment in the most environmentally-friendly way we can."

HOW TO ADDRESS ENVIRONMENTAL ISSUES

There are two main ways the team can address environmental issues: first in how the component is made and secondly in the choice of materials. As Gerd explains, the team has to investigate how to manufacture a new component anyway: "We need to know everything about a new technology. Our task is to add new technologies to the toolbox for our in-line design colleagues. We have to run a full feasibility study and we need to be able to demonstrate how a component can be made."

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This is where the team will explore if the component can be thinner: using less material means less waste and less embedded carbon. It also helps meet cost criteria. The choice of materials is key, too. If the component can be made from a lighter material then that will also reduce carbon emissions. And with plastics being oil-based, the team is also on the lookout for bio-based alternatives.

Robert says: "If we get the lightweighting right, this generally improves performance as well because it makes the final product faster and more comfortable to use. But whatever we put in, it has to be right. If the performance is not there we won't use it."

Improving product performance is key and it seems that the processes and tools in place to achieve this lend themselves to improving environmental performance, too.

FORMOTION™ TECHNOLOGY

An example of where new technologies have been used to improve performance and reduce environmental impacts is in the FORMOTION™ heel component for footwear. FORMOTION™ is a free-moving heel system that is decoupled from the sole which allows a pair of trainers to adapt to each individual's running style to give a smoother running experience.

"Sometimes our learning can come from another industry," says Robert Leimer. "The hot runner technology we use for some of our FORMOTION™ heel components has been widely used in other areas like the automotive sector."

The hot runners used in FORMOTION™ reduce waste by eliminating sprue units. The sprue is the passage through which melted plastic is injected. During the injection process the melt hardens in the sprue which means it needs to be removed from the finished product and thrown away. Eliminating sprues thanks to the use of hot runners has reduced material waste by up to 50%.

A modular mould system which allows for the same mould base to be used on different products also reduces waste. And using lighter, stiffer materials means less material is used and also cuts down on carbon emissions because the finished product is lighter to transport.

Finally, for our current development, the amount of glue used has been reduced by using laser welding or a mechanical locking design, thereby reducing emissions. And where glue is used, the team has specified water-based glues as much as possible.

FORMOTION™ ENVIRONMENTAL BENEFITS

- Using hot runners means up to 50% less material waste
- Less glue so fewer toxic emissions
- Lightweight construction technologies reduces material use and CO₂ emissions from transport
- Modular mould system allows for sharing mould bases between products and so reduces mould material waste.

DESIGN

Here James Carnes, Vice President Design for adidas Sports Performance explains how his team is responding to the environmental agenda.

Q: What are the key challenges for you in the Design team in 'going green'?

A: The key challenge is to find a way to go from recognising the importance of the topic to actionable ways of working. Targets are important but you need cultural change as well. You need to spread awareness so that people want to do it because it feels right, not just because they are being told to do it.

So the most obvious area for us to look at is our use of colours. We went through the numbers with the team, and there was no commercial reason to have 800 colours in use at any one time. We calculated we could use half that many. So that is now our target.

We showed our designers some photos of what happened in a factory when we made a decision to change from one orange to a slightly different orange. We all saw how much water, chemicals and materials were wasted. Now our designers have a connection with what it means to change a colour. They are emotionally empowered to achieve the 50% target.

Q: Is pursuing environmental goals a constraint to your team's creativity?

A: We asked ourselves the question: "Are we risking our ability to provide variety by reducing colour?" Our entire design directors' team said 'No'. We are increasing our ability to be a brand that has impact and sets trends by making bold decisions to be narrower in our focus.

Designers have a natural instinct to simplify. "How do I reduce this down to what I need to make a statement?" If you make sustainability a factor that they use to simplify, they get used to it.

Q: So environmental considerations can be an opportunity for you?

A: Yes, it starts to become one of the greatest opportunities for designers. Now they identify early on that there is an opportunity to steer a product to being high performance and also made in a sustainable way. In the past, it was a compromise to make something sustainable. Now the two things are striking a chord.

So for example, in footwear, we have a designer who was working on improving the process of making a line of trainers. He investigated simplifying the construction into only three separate components: the upper and cushioning system in one piece, the traction and then the tongue and laces. So that makes the product itself even more high-tech and high performance. But the ability to make the product without significant labour means it can be made in Germany or the USA. So you have less shipping and a smaller carbon footprint.

The VIK Fluid Trainer is the shoe we will give to the Olympic volunteers. It has achieved the highest level under Better Place and what we have done is to re-engineer the whole process so there is no cement holding the pieces together – it

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is all done with stitching. And they are made with recyclable materials. So without compromising performance, they can now be disassembled by the consumer and recycled.

It is part of the commitment we have made for London 2012. We decided every product should have some aspect of sustainability in it. The village apparel is made of 100% sustainable fabrics. As is the competition apparel and footwear, where we have been able to find a sustainable fabric to use that does not compromise performance.

Q: So what do you think consumers are looking for now from green products?

A: The time when people want a product that showcases in its aesthetic that it has been made sustainably are fading. They don't want to choose between a green product and a non-green product. Today's consumer wants a cool new look and for the product to be sustainable as well.

We are developing a new line for 2011 that tries to combine both the sport and sustainability technology in a new way. It is all about natural. The idea is that a performance product is not always about giving you a percentage increase in what you can do. Maybe your body is entirely capable of doing what it can do already, and the product unleashes that ability rather than enhances it.

So the statements this line makes are anti-tech – which is very modern – and also one about a natural, pure, modern aesthetic. It is parallel to what you see now in the auto industry. Tesla are making premium electric cars that look better than a car with a traditional engine. The message there is if you want something cooler, you take the responsible option. We think we can go in a similar direction.

Q: That all sounds very exciting... What are the next steps for your team?

A: We need to make sure we track these initiatives and that they are having the measurable impact we want them to have. So whether that is the colour strategy or material and fabric consolidation, we need some more people to manage those programmes, and make sure we implement them correctly.

Read about our 24-hour design project focusing on environmental issues at http://www.adidas-group.com/en/sustainability/environment/case_studies/Default.aspx

DEVELOPMENT

The Materials Development teams at the adidas Group are responsible for researching and developing new materials that meet the needs of the different categories such as Running and Tennis. One of those needs is an understanding of the environmental qualities of the materials.

"If we have to develop materials to meet a performance need, we should do this on a platform of sustainability, so we are already taking into account environmental criteria," says Joan Anderson, Head of Footwear Material Development for the adidas brand.

That platform is provided by a material toolbox that promotes consolidation and a set of material guidelines that rank materials on sustainability criteria.

MATERIAL TOOLBOX

Both the footwear and apparel businesses work with material toolboxes. A material toolbox is a set of pre-selected approved base materials and colours. "Just by choosing a material from the toolbox a Product team is contributing to waste reduction," says Joan. "The choices in the toolbox are volume-driven so you have production efficiencies, less water and electricity use, less cutting and so on."

Continuous efforts are put into reducing the overall number of materials and colours within the toolboxes. The work now being undertaken by the Design teams to consolidate colours is the next phase in reducing complexity as it will reduce the number of colours per material.

"The toolbox encourages us to reduce the variations of fabric type – weight, construction and knit – which helps to reduce environmental impacts," says Christine Volkholz, Head of Apparel Material Development & Innovation for the adidas brand.

MATERIAL GUIDELINES

Alongside the material toolbox sit the material guidelines, which document what is known about the variants of each material type and what the opportunities are to make them more sustainable. They indicate where materials are on the sliding scale towards sustainability that adidas uses in its products.

"The material guidelines are a growing database of information," says Heini Lang, a Senior Manager in Joan's Footwear Material Development team. "They are evolving, with new materials coming on stream every season. We get data from suppliers if they have it; ideally it is life cycle analysis information such as we have for recycled polyester. But it is also a question of reviewing current research ourselves to rate the materials. And we might re-rank an existing material if a better material comes along."

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TACKLING CHALLENGES

“Cost is the biggest challenge. In many cases more sustainable alternatives are more expensive,” says Heini. “That can be because of a limited supply or simply because it is new and you don’t have a large product base to use it on,” explains Joan.

This is certainly the case with e.g. organic cotton. However, the adidas Group was a founding member of the Better Cotton Initiative (BCI), which aims to help farmers produce sustainable cotton more effectively and offer them in mainstream market. The first harvest of ‘Better Cotton’ was only in October 2010, so there is only limited supply yet. And the adidas Group has committed to using 100% Sustainable Cotton by 2018, see page 28. “It is a volatile market so we think we are helping to ensure our own security of supply by developing relationships with the spinners and cotton farmers and further strengthen the partnership with our direct fabric suppliers,” says Philipp Meister from the Apparel Materials Development team. “Our commitment to sustainability is effectively driving us deeper into our supply chain.”

SUCCESSES THIS YEAR

To address some of the challenges around cost and supply, the Apparel Development team works together with the suppliers in order to set a seasonal guideline for the sustainable material premium those suppliers can charge for organic cotton or recycled polyester. This allows the Product teams to calculate their margins with more certainty earlier in the process which encourages them to choose the more sustainable option.

The Footwear team has made great strides in recycling factory waste. Working with companies that make injected plastic plates for football boots, they are now recycling 99% of that waste back into production. And they have also been able to increase the percentage of rubber and EVA that can be reground and reused in shoes.

THE FUTURE

It has been more than ten years since the adidas Group first produced a restricted substances list and nearly as long since it stopped using PVC in mainstream applications. Now the material guidelines are updated twice a year for each new season. So things have come a long way in that time. Joan is convinced that even closer working with other brands and suppliers is key to more success in the future. “Protecting the environment is not a point of competition between brands. It is a substantial, base-line principle: consumers just expect it now. So ideally the brands should collaborate more. The cleaner and more consistent our message as brands is to suppliers, the easier it will be for them to take waste out of their systems.”

MATERIALS OVERVIEW

The Design for Environment approach applied to materials is about innovating to reduce the overall environmental impact of materials used to develop our products. The approach considers the environmental impact of the material throughout its life cycle and encourages us to use recycled or sustainable materials.

MORE SUSTAINABLE MATERIALS

More sustainable materials are materials that have a lower overall environmental impact during their life cycle than conventional ones. We are improving our own Guidelines on Sustainable Materials, and pro-actively drive sustainable material innovation in partnership with our key suppliers and industry leaders.

Read more about how we assess materials on page 28.

The most commonly used materials are recycled polyester, organic cotton, ‘Better Cotton’ as a future development, Polylactic Acid (PLA), Tencel (a fibre made from wood pulp), non-mulesed wool for apparel and leather. Some of these are described briefly below.

RECYCLED MATERIALS

We source various recycled materials such as inlay soles, textiles, metals, plastics, packaging, and rubber. Using recycled materials prevents waste, reduces the consumption of fresh raw materials, and lowers the total amount of energy required to make products.

WORKING CONDITIONS IN THE COTTON INDUSTRY

The adidas Group and our consumers worldwide are aware of and concerned by the social and environmental conditions that exist today in certain parts of the cotton industry. These conditions, in the worst cases, include child labour and human exposure to pesticides and environmental pollution. There have been reported cases of the widespread use of forced child labour practices in cotton cultivation in Uzbekistan. We have joined others in condemning this practice and have called on our suppliers to ensure they do not source cotton from Uzbekistan.

Read more about this in the About our programme section on page 1.

Through our commitment to the Better Cotton Initiative, which includes labour conditions in its assessment criteria, we have taken a clear position on our requirements for safe and healthy working conditions in the cotton industry.

Read more about our ‘Better Cotton’ commitment on page 28.

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ORGANIC COTTON

Organic cotton is grown without synthetic pesticides or fertilizers and from seeds that are not genetically modified or treated. To obtain an organic certification, a farm must have been inspected by an accredited certification organisation using strict international standards.

We have set up a tracking system which is based on the Organic Exchange Standard. All our organic cotton can now be tracked from the product back to the field to prove the organic origin of the material. This gives us the option to label our products 'Made with organically grown cotton'.

Read about our traceability programme on page 12.

Find out more about Organic Exchange at <http://organicexchange.org/oecms/>

LEATHER

Hides go through a tanning process before they are usable as leather. The adidas Group has long been concerned with the environmental impact of leather tanning, and was a founding member of the Leather Working Group.

Read more about the adidas Group's approach to leather and a view from Greenpeace on page 12.

RECYCLED POLYESTER (PES)

Recycled polyester is a synthetic fibre based on post-consumer waste, such as plastic bottles and used garments. The raw material is reprocessed and spun into fibres. Recycled PES helps us reduce our dependency on petroleum, allows us to discharge less waste and reduces toxic emissions from incinerators.

We commissioned the first so-called 'life cycle assessment' of recycled polyester which demonstrated its environmental benefits over virgin polyester.

Read more about the study on our corporate website at http://www.adidas-group.com/en/sustainability/environment/case_studies/default.aspx

MATERIAL SELECTION POLICY

The company does not source raw materials from any endangered or threatened species, as defined by the International Union for Conservation of Nature and Natural Resources (IUCN) in its red list. The policy also prohibits using leathers from animals that have been inhumanely treated, whether these animals are wild or farmed.

The adidas Group clearly does not tolerate animal testing for new product or material developments. And, where necessary, we ask for written confirmations from our licensees, in particular for the cosmetics business, that they strictly adhere to our requirements.

ELIMINATING PVC AND PHTHALATES

In 2000, we were one of the first companies in the global consumer goods sector to decide to eliminate PVC from our products. Alternatives have been found and introduced for most uses and nearly all styles in our global product range are PVC-free. However, in a few countries, alternatives are not available so some local production of athletic footwear products still uses PVC. We remain committed to finding solutions in the longer term.

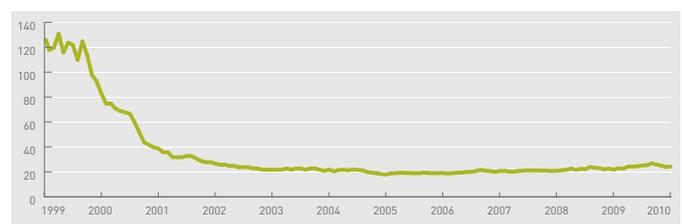
In extending the programme we continued to engage with material scientists to understand the environmental impact of chlorine-based materials. We therefore also eliminated the usage of Polyethylene Chloride in 2003 for having a similar environmental footprint as PVC.

We are also encouraging a move to printing with phthalate-free inks. This process is underway and some of our business units have made the changeover in their owned facilities and more and more of their suppliers are changing over, too.

VOLATILE ORGANIC COMPOUNDS (VOCs)

Since more than a decade we have been requesting our footwear suppliers to reduce the use of volatile organic compounds (VOCs) in their manufacturing. It has been possible to reduce the use from well above 100 grams per pair down to below 30 grams, for a shorter period even to 20 grams. However, in the last 2-3 years, we have seen a slight increase up to currently around 25 grams. The reason is that some new footwear constructions, such as outdoor models need organic solvents in order to maintain the highest performance standards under outdoor conditions. The technical reason is the stronger bonding needed between different footwear parts, which can only be obtained with solvent-based primers and adhesives.

VOC emissions (grams/pair)



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ASSESSING MATERIALS

The adidas Group has been developing a set of internal criteria for the assessment of materials. We consider several factors when we are evaluating the sustainability of materials including land use, elimination of toxic substances, animal welfare, energy consumption and water consumption.

DEVELOPING AN ASSESSMENT TOOL

To ensure we had a common process across the adidas Group for assessing the environmental impact of materials, we created the Tool for the Environmental Assessment of Materials or TEAM. Aware of the fact that Life Cycle Assessments (LCA) are not always available, we knew we needed alternative ways to make a credible assessment of a material.

The principal characteristics of the tool are that:

- The assessments are based on a life cycle approach
- It is applicable to all our main sectors: footwear, apparel and accessories and gear
- It uses knowledge widely held in the apparel and footwear industry
- It can be explained and communicated to external stakeholders
- It reflects the needs of the adidas Group, as well as the individual brands
- It can be integrated into existing guidelines, such as adidas Better Place.

TEAM VERSION 1

The tool has been developed using both qualitative and quantitative measures. It builds on a life cycle approach and uses criteria to assess the impact across several environmental impact categories. Applying a weighting to the different impact scores gives one topline score.

The tool includes a matrix design, whereby the:

- Criteria are oriented horizontally in matrix
- Indicators are oriented vertically in matrix.

The criteria are the main environmental impact categories:

- Base material (including land use, biodiversity, and similar criteria that are differentiated and more complex in nature)
- Water
- Waste
- Environmental toxicity
- Human toxicity
- Energy.

This first version of the tool will be amended following the results of work done in working groups and after input from external parties. It is also anticipated that the tool may be integrated into the work of the Apparel Coalition.

BETTER COTTON

The Better Cotton Initiative (BCI) aims to make global cotton production sustainable. By 2018 the adidas Group has committed to using 100% 'Sustainable Cotton' in all its brands.

The adidas Group is a founding member of the BCI, which works with organisations from across the cotton supply chain and interested stakeholders to address the negative social and environmental impacts of mainstream cotton farming, such as excessive pesticide and water use. BCI's philosophy is to develop a market for a new mainstream commodity – 'Better Cotton' – and thereby transform the cotton sector to bring long-term benefits for the environment, farmers and other people dependent on cotton for their livelihood.

CREATING THE MARKET

We are not alone in setting a target to use 100% 'Better Cotton'. Other leading brands in the BCI such as IKEA, H&M, Marks and Spencer and Levi's have made a similar commitment. Together we have become part of the Better Cotton Fast Track Programme (BCFT). Our commitment and support can help create the market for this new sustainable cotton.

As members of the BCFT we are financially supporting farmer education, which is what is needed to increase the supply of 'Better Cotton' in the future. The funds pledged by the private partners of the BCFT are matched by the Dutch Sustainable Initiative (IDH), Rabobank and ICCO, an inter-church organisation for development cooperation.

Read more about the Better Cotton Fast Track Programme at http://www.bettercotton.org/index/194/better_cotton_fast_track_programme.html.

MEETING OUR TARGET

We have set incremental annual targets for the quantity of 'Better Cotton' we will use, starting from 2010, to keep us on track for our target of 100% by 2018. This 'Better Cotton' target is part of our Environmental Strategy 2015.

It is an ambitious target – the first ever harvest of 'Better Cotton' was only in October 2010. And although we have managed to secure some of this first harvest 'Better Cotton', this target is not without its risks. To manage these risks and ensure we can meet our target, we are going beyond engaging with our material suppliers and we are dealing with cotton ginners directly, in cooperation with our material suppliers. This level of engagement helps us understand the challenges and opportunities at each stage of the supply chain.

VISITING INDIA

As part of this initiative, members of our Development and Sourcing teams visited India in 2010. While there they met organic cotton farmers and heard from the regional representative of the BCI.

“What I found fascinating about this visit was seeing the origin of our cotton material and interacting face-to-face with the people who are at the very start of our supply chain,” said Philipp Meister from our Apparel Materials Development team.

Ebru Gencoglu from our Sourcing team welcomed the opportunity to hear from the BCI directly: “The presentation and the meeting with BCI gave us all further confidence in this important initiative.”

Reflecting on the value to him of engaging more deeply in the supply chain, Philipp concluded: “One takeaway perhaps was that we should also start sharing more information on our brands and products with them to illustrate how they are contributing to the adidas Group’s success.”

LEATHER

The adidas Group uses processed leather material primarily in footwear products. In the following we explain the leather supply chain for adidas Group products:

- Animal husbandry includes cattle ranching and feedlots, which are responsible for raising cattle for meat production and distribution.
- Meat packing suppliers purchase cattle for slaughter and then distribute meat products. The animal hide is a by-product of this activity and as such represents only a small fraction of the value of cattle. The meat packers sell the raw hides to leather materials suppliers.
- Leather suppliers purchase leather hides and finish the leather for use in shoe production. The leather material suppliers are tanneries.
- The shoe factories are adidas Group manufacturing partners who use finished leather from the leather material supplier in accordance with the material specifications defined by adidas Group Design and Development teams.
- adidas Group brands purchase finished shoes from our contract manufacturing partners.

Various environmental impacts occur at the different stages in the leather supply chain. For example, extended cattle ranching can cause deforestation and tanning uses significant quantities of water and chemicals. The adidas Group takes steps to address these impacts.

LEATHER TANNERIES SCORE WELL

Tanning is the process of making leather from the skins of animals, the hides. The tanning process uses chemicals and considerable amounts of water. So we have been working with a group of companies, researchers and brands – the BLC Leather Working Group – on guidelines for how our leather suppliers should measure the environmental performance of their tanneries. We insist that our leather suppliers use these guidelines, known as an ‘audit protocol’ and achieve BLC compliance. The tanneries that score well in the protocol can achieve Gold, Silver or Bronze ratings.

Around 30 tanneries supply us with leather. The table below shows that 70% of the tanneries supplying to the adidas Group are Gold-rated.

Rating	Percentage of total value
Gold	70
Silver	26
Bronze	3.5
Un-rated	0.5

BLC Leather Working Group at <http://www.blcleathertech.com/lwg-audits/lwg-information.htm>

WE SAY NO TO DEFORESTATION OF THE AMAZON RAINFOREST

Through a report issued by Greenpeace in 2009, we were made aware of the level of illegal deforestation in the Amazon rainforest caused by the increasing expansion of the cattle sector. We have been engaging with Greenpeace and our leather suppliers and have discussed the report findings. As a result, accompanied by a number of other international brands, we have called for a moratorium on cutting down the Brazilian rainforest. We have asked our suppliers to support this goal and have set them a range of requirements.

In the About our Programme section, you can see what we are doing to ensure traceability in our leather supply chain on page 12 and what Greenpeace says about progress made by the industry on page 13.

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PRODUCT SAFETY

CONTROLLING AND MONITORING RESTRICTED SUBSTANCES

Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our approach is that suppliers must avoid the use of possible harmful substances to ensure that our products are environmentally safe.

In 2010, we reviewed and updated our standards and policies on restricted substances – the A-01 Requirements – to make sure that they were following state of the art science, and we were consistently executing them to the highest standard. We also successfully adjusted our policies and internal guidelines in keeping with developing requirements such as the US Consumer Product Safety Improvement Act (CPSIA) and the EU system for Registration, Evaluation and Authorisation and Restriction of Chemicals (REACH). New information, amendments and guidance material were issued and all adidas Group entities and product divisions began to implement them.

WHAT OUR MATERIALS SUPPLIERS MUST DO

Materials supplied to the adidas Group must meet the strictest local standards globally. We ask our suppliers to ensure that:

- Materials are non-toxic in use and disposal
- Used materials do not cause toxic emissions during the manufacturing process
- Products are manufactured under the best possible conditions using the best available technology
- Materials meet the sourcing standards of retailers, customer expectations and recommendations from consumer organisations.

Not only do we regularly consult with scientists and other experts about new legal requirements, requests from consumer groups or critical materials, but we also frequently tell our material suppliers about new scientific findings and developments. They in return must prove that materials comply with our standards by providing test reports from independent external test institutes on a regular basis. Development and production samples are checked randomly.

THE AFIRM WORKING GROUP

To further strengthen our programmes and benchmark our achievements, the adidas Group is an active member in the Apparel & Footwear International Restricted Substances (RS) Management Working Group (AFIRM), which we co-founded in 2004, together with six other international brands. It is a multi-company working group which provides a forum to advance the global management of restricted substances in the apparel and footwear industry, to exchange ideas for improving RS management to ultimately increase consumer satisfaction.

The AFIRM Working Group brings together product chemistry, safety, regulatory, and other experts within the apparel and footwear industry. During 2010, the AFIRM Working Group held the fourth of its joint supplier workshops with around 450 participants in Hong Kong. Discussions centred on the further global harmonisation of standards, extended communication with the scientific community, and also further interaction to enhance the performance of the nominated test houses.

PRODUCT SAFETY FOCUS

Besides ensuring safe and environmental sound products within our core product ranges, we constantly monitor and educate branded product areas that may have special risk profiles. These areas range from promotional items about bioactive textiles (ones that can interact with living organism) to personal protective equipment, electronic devices and traditional kids and baby clothing.

In 2010, our Global Operation teams, in consultation with the SEA team, updated our Global Apparel Safety Manual for Children's Clothing to keep our products safe for this young and very active consumer group. A similar Footwear Kids Safety Manual was also developed and rolled out.

The adidas Group faces a risk of selling defective products, which may result in injury to consumers and/or image impairment. We mitigate this risk by employing dedicated teams that monitor the quality of our products on all levels of the supply chain through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary. In 2010, we did not recall any products.

GREEN PRODUCTS

ADIDAS BETTER PLACE

Better Place was started in 2007 as an adidas brand initiative to help guide and encourage the creation of more sustainable products without compromising functional and quality performance. To do that, the programme tools set environmental performance benchmarks products need to qualify for to achieve the Better Place standard.

The development of the sustainable product guidelines within adidas – the Better Place Apparel, Footwear and Hardware Tools – was a response to the absence of a single global standard that defines what it meant to create sustainable products. So the goal was to demand sustainability at the same level as adidas requires of product performance.

In constructing the Tools, existing environmental product standards, product examples from around the globe, leading edge materials and construction technologies were evaluated to establish meaningful and applicable guidance for designers, developers and materials sourcing for their decision-making. They also cover adidas Group mainstream standards as defined in the adidas Group's policy on restricted substances as well as Environmental Guidelines that supplier factories are required to adhere to.

The Tools award points to each process or material based on its ability to improve against a set of environmental criteria. In the Footwear Guideline Tool, a weighting system is applied, which gives large parts (outsoles, base uppers) and large processes (pattern efficiency) more points when they reduce waste or energy than the smaller processes (closures, laces).

The Apparel Tool is based upon the same principle, with large processes carrying more weight, and action required in these areas for the product to pass minimum level.

Points are then totalled up, and a product is ranked against three levels:

- Baseline level, containing a minimum of 5% sustainable content or process improvements
- Competitive, requiring a majority of sustainable content or process improvements
- Technically advanced in the area of sustainability, with 100% sustainable content and technology innovations.

After reviewing this methodology against industry experts, adidas created the first generation of Better Place products which was released in the marketplace in January of 2009.

CONSUMER COMMUNICATION

Better Place products are identified in stores by a special hangtag or shoe box, both of which are made from 100% recycled paper and free of glues. Further information about this concept is provided through a dedicated Better Place website.

Every season the Better Place concept is integrated into more sports categories and more products. It is our target that by 2012 100% of adidas athletic footwear products and an increasing amount of adidas apparel products will pass the Better Place's baseline level.

The numbers of products that have passed the baseline are shown in the table below:

Product category	2009	2010	2011 (forecast)
Footwear (in million pairs)	9.5	23.7	56.0
Apparel (in million units)	5.9	6.7	10.7

ECO INDEX

The Eco Index is an environmental assessment tool designed to advance sustainability practices within the outdoor industry. It provides companies throughout the supply chain with a way to benchmark and measure their environmental footprint, allowing them to identify areas for improvement and make informed sourcing and product life cycle decisions. Although rooted in the outdoor industry, the project's output and tools have a wide range of applicability to other industries and sectors.

The Eco Index initiative is led by the Outdoor Industry Association (OIA) and the European Outdoor Group (EOG).

The Eco Index uses environmental guidelines, environmental performance indicators and environmental footprint metrics to assess the impacts within six product life cycle stages: Materials, Packaging, Product Manufacturing and Assembly, Transport and Distribution, Use and Service, and End of Life.

ADIDAS GROUP PILOT OF THE ECO INDEX

The adidas Group piloted the Eco Index in 2010 by applying it to eleven different products across brand adidas, adidas Golf and Rockport.

Based on the findings a detailed response was provided to the OIA and the EOG. Comments were focused on the following aspects:

- Encouraging small companies to use the Index
- Ensuring that guidance is referenced not only at the stage of the life cycle where an impact occurs but also where a company can reduce that impact, for example the design stage
- The need for guidelines and indicators that allow for results to be measured not just company practices
- The need to review the current metrics to ensure the Index can generate a balanced assessment of a company's efforts.

Between August and November 2010, major brands from the apparel sector started to engage with the Eco Index through the Apparel Coalition. The adidas Group joined the Apparel Coalition as a founding member.

Read more about the Eco Index at <http://www.ecoindexbeta.org/>

Read more about the Outdoor Industry Association at <http://www.outdoorindustry.org/>

Read more about the European Outdoor Group at <http://europeanoutdoorgroup.com/>

Read more about the Apparel Coalition at <http://www.apparelcoalition.org/>

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PACKAGING

The adidas Group has been enhancing the material content in shoe boxes for many years. Beginning with the use of soy-based and water-based inks through to 100% recycled cardboards.

In 2011, we will review all packaging concepts used throughout our brands and different product groups. Following this review, we will specify environmental targets for further packaging reduction and optimisation for 2015.

Major accomplishments made within packaging for footwear are summarised below.

ADIDAS

- Transport cartons:
 - Contain 100% recycled material
 - 33% reduction in weight since 2006
- Shoe boxes:
 - 200 million units in 2010
 - Overall recycled content is 95% based on weight
 - Most shoe boxes are made from 100% recycled fibre + clay coating/varnish; the ink used is soy-origin and water-based
 - Between 38% and 60% weight reduction for shoe boxes since 2006
- Ball box: 95% recycled material based on weight (100% recycled fibre + clay coating/varnish)
- No hangtag policy except for product warning labels.

REEBOK

- Transport cartons:
 - Contain 100% recycled material
- Shoe boxes:
 - 65 million units in 2010
 - Overall recycled content is 95% based on weight
 - Most shoe boxes are made from 100% recycled fibre + clay coating/varnish.

SOURCING AND MANUFACTURING

ENVIRONMENTAL SOURCING STRATEGY

In 2010, we established an Environmental Sourcing Strategy (ESS) to align the sustainability efforts and activities in our supply chain with those of the overall adidas Group Environmental Strategy 2015. The ESS aims to give our suppliers a clear sense of direction in tackling their environmental impacts. We will review progress each year and adjust the Strategy accordingly as we approach 2015.

SETTING OUR GOALS

Through the process of developing the ESS, we have learned we need to:

- Identify and manage the environmental risks along our supply chain
- Drive improvements with the focus on developing a top performing supply chain
- Reach out and partner with others to increase our overall impact in the industry.

These drivers indicate how we can meet our goals as a Group, which are to:

- Have sound management systems in place at a supplier level which reduce and eliminate environmental hazards
- Have environmental and resource management embedded in our sourcing decisions and our selection and retention of suppliers
- Reduce the overall environmental footprint of material sourcing and the manufacture of our products.

FROM ANALYSIS TO ACTION

We have identified the key tasks required to meet these goals. The tasks are interconnected and build upon each other. In order to be able to manage the environmental risks within our supply chain, we need to first understand them. To do that, we developed and implemented our Supplier Risk Assessment Tool and Environmental Assessment Tool. They have provided us with a ranking of our footwear, apparel and accessories & gear suppliers according to their level of environmental risk. This in turn has helped us to develop targeted training or capacity building programmes for our suppliers. It has also allowed us to develop appropriate standards and policies.

Over the next few years, we will be focusing on data reporting and setting quantified targets for our strategic suppliers while ensuring traceability throughout the supply chain.

WORKING WITH OTHERS

Throughout 2010, the SEA team continued to reach out to industry organisations and other brands to identify and work on joint initiatives. The SEA team has been a major contributor to the development and piloting of the Outdoor Industry Association's Eco-Index and has provided specialist input into the development of the Global Social Compliance Programme's environmental module. Also underpinning our strategy is a process of continuous learning, evaluation, and engagement with our internal and external stakeholders. This approach should help us – and our suppliers – to manage and respond to evolving stakeholder expectations of environmental performance.

Read how we are training suppliers in environmental management systems on page 34.

Read how we are tracking sustainable materials on page 35.

AUDITING SUPPLIERS

OUR ENVIRONMENTAL ASSESSMENT TOOL

At the end of 2009, the SEA team completed the development of our initial Environmental Assessment Tool and a supplementary remediation guideline.

The Tool is a series of questions covering:

- Sustainable resource use (including energy, water and materials)
- Emissions (air, noise, waste, wastewater, soil and groundwater)
- Hazardous materials (including hazardous/non-hazardous chemicals and products)
- Associated questions in the area of health and safety.

It has been designed to provide a general overview of the environmental conditions at any given factory while also identifying specific issues which may require further in-depth assessment or follow-up. The remediation guideline, which is a live document, was developed to support the overall assessment process. It sets out our expectations and suggests remedial measures for common environmental issues found at factories.

“We have carried out a review of the comparability and compatibility of our tool with that of other similar tools currently being developed or tested by other organisations (for example the Environmental Module of the Global Social Compliance Programme and the Eco-Index of the Outdoor Industry Association/European Outdoor Group),” explains Lyn Ip, Regional Manager HSE in Asia Pacific. “We found that while there are significant similarities, our Assessment Tool also allows us to analyse issues specific to our industry”.

SUMMARISED AUDIT RESULTS

In 2010, the Tool was applied in the assessment of 97 supplier facilities in the Asia Pacific region.

Product type	Number of first audits	Number of verification audits	Total number of audits
Tier 1 Footwear	24	–	24
Tier 1 Accessories & Gear	10	5	15
Tier 1 Apparel	32	11	43
Tier 2 Material Suppliers	31	–	31
Better Place Corrective Action Plan Verification	–	5	5
Total Audits	97	21	118

The results of the audits conducted in the past year have confirmed our assumptions about the environmental performance of the core sectors of our supply chain, namely, footwear, apparel and accessories and gear. In general, we found that apparel factories have a low environmental risk level, which we expected given that their production processes are not chemical or water-intensive. The main environmental issues identified have largely been related to energy (as cut and sew processes are equipment-intensive) and waste management (due to the volume of fabric or textiles used). The audit findings have also confirmed that chemical management and energy are the more pressing issues in footwear and accessories and gear. This validates the work that we are carrying out on integrated chemical management.

SCREENING OTHER SUPPLIERS

While 2010 was focused on analysing suppliers within the core product sectors of the company, we recognise that there are other production processes within our supply chain which may have higher (or lower) risk than those we audited this past year. So we have developed a methodology to screen prospective and existing suppliers to determine their level of risk and whether a detailed environmental impact assessment is required.

The screening aims to identify whether the nature and type of the product processes employed by the manufacturing operation or the general site conditions and location present potential environmental risks, or place pressure on resources, thereby warranting further detailed investigation and reporting. This tool will be applied to suppliers from which the adidas Group directly sources products, as well as nominated Tier 2 suppliers.

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ENVIRONMENTAL KPI

With the rollout of the Environmental Sourcing Strategy (ESS), we required a tool to provide a systematic way of assessing and ranking our suppliers. So we developed an Environmental Key Performance Indicator (KPI) tool.

The Environmental KPI is comprised of three key units of measure – management systems, risk and performance – all key drivers of our ESS. Each section is given a score which is then weighted to give a total score out of 100.

All factories will undergo a pre-screening process through which they will be classified as high, medium or low-risk. High-risk factories will be subject to an environmental assessment during which the auditor will also complete the Environmental KPI. Unless otherwise warranted, for those factories which are categorised as medium to low-risk, the Environmental KPI will be conducted as a desktop exercise supplemented by inputs from SEA’s Performance Audit and Compliance KPI results. Like the SEA Social Compliance KPI, the SEA Environmental KPI score for each factory will be reviewed annually and reported to Sourcing. They will then use it as part of their overall assessment of the supplier’s performance.

The pilot testing of the Environmental KPI tool began in late 2010 and will be completed within the first quarter of 2011 with planned full implementation by mid 2011.

TRAINING SUPPLIERS

In 2010, we further tailored our training programmes on environmental issues. Primary focus was on trainings related to management systems for material suppliers as well as preparatory steps for the development of a sustainable manufacturing programme.

MANAGEMENT SYSTEMS TRAINING FOR MATERIAL SUPPLIERS

In 2010, the SEA team undertook a detailed examination of the environmental risk of Tier 2 material suppliers (fabric mills and dye houses) as part of the Risk Management profiling under the Environmental Sourcing Strategy. During the course of the audits, it became clear that many of the suppliers lacked the knowledge and skills to implement the ISO 14001 environmental management system and the OHSAS 18001 occupational health and safety management system. In many cases, the lack of structured systems resulted in the poor management of environmental, health and safety issues at these facilities.

AN INTRODUCTION TO MANAGEMENT SYSTEMS

In response, we organised a one-day introductory seminar focusing on ISO 14001 and OHSAS 18001 for our key Tier 2 fabric mill suppliers in August 2010 in Taipei, Taiwan. The seminar was conducted in Chinese by an external professional member of the Taiwan Industry Service Foundation. In total, 43 participants attended, representing 17 suppliers.

The key topics covered included:

- Elements of the ISO 14001 and OHSAS 18001 management systems
- How to implement the systems in a factory setting
- Required resources (manpower, cost, time)
- An introduction to the consultancies that can assist in establishing systems and certification bodies.

LEARNING BY DOING

During the workshop, participants were separated into smaller working groups to discuss the potential environmental impacts and health and safety risks within a major dyeing process area. This enabled the participants to practice the principles they had been trained on earlier in the day. The day went well with participants expressing a 95% satisfaction level with the workshop.

To consolidate their learning, participants were set a mini assignment as homework:

- To complete an organisation chart outlining key roles and responsibilities
- To establish key objectives and set targets
- To prepare a legal list review (related specifically to environmental and safety health aspects).

All of the suppliers completed and submitted their assignments on time, and we are hopeful they will go on to implement the management systems in their factories.

SUSTAINABLE MANUFACTURING TRAINING PROGRAMME

The adidas Group has recently commissioned the Royal Melbourne Institute of Technology University (RMIT) to undertake a research study to identify the opportunities and barriers to establishing a regional Sustainable Manufacturing Training Programme for the footwear and garment industry in Asia. The research is to run integrated with the adidas Group’s internal Environmental Strategy and environmental supply chain auditing initiatives and our planned production for the London 2012 Olympic Games, the world’s first sustainable Olympic Games.

RMIT has been retained to advise on the best institutional arrangement to build supply chain capacity and strengthen factory-level capabilities in the fields of sustainable manufacturing and resource efficiency. The research institute will also define possible opportunities for collaboration across the industry, with other multinationals and with local manufacturing associations. It will also look at the possible benefits of forming public-private partnerships with national governments, or international agencies. The researchers will map out existing opportunities and training initiatives and build on these, to help drive closer collaboration and improved performance across the broader supply chain, from raw material sourcing, through sub-components, to finished goods. The results of the first phase of the research will be made available for industry comment at the end of 2011.

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TRACKING SUSTAINABLE MATERIALS

One important aspect of becoming a more sustainable business is to build transparency into one's value chain – something the Sourcing and Social and Environmental Affairs teams within the adidas Group have been working on intensively for the last couple of years.

As part of this effort, the Sourcing group has recently introduced an online tool called 'String' that tracks sustainable materials and products used in our apparel business.

Tayfun Kahraman from our Liaison Office (LO) in Istanbul explains more: "String allows Tier 1 and Tier 2 suppliers to upload their batch level information into their account so that as LO staff we will be able to see all the details and certification belonging to each specific batch and purchase order."

During 2010 'String' was presented to Tier 1 manufacturers (T1) and Tier 2 material suppliers (T2) at meetings in Bangkok and Shanghai. Attendees included strategic suppliers from Thailand, Indonesia, China and Taiwan with presentations from Tayfun Kahraman and systems vendor Simon Chen from Historic Futures Ltd.

The meetings aimed to explain how the system worked and register T1 and T2 suppliers and LO staff as system users. One attendee at the meeting was Macmillan Warangkana, Materials Manager from our LO in Thailand: "'String' is a user-friendly system which gives us visibility on the supply chain information of various sustainability products. 'String' is also sustainable itself as it helps to reduce the need for numerous paper documents."

After the meeting, 29 suppliers as well as a staff member from each LO registered for the system which is well used now. There are also plans to develop it further.

Tayfun Kahraman again: "At the moment we are concentrating on apparel products using sustainable materials such as recycled polyester and organic cotton. In the future, we could extend the programme to other suppliers making other sustainable products."

Read more about 'String' at <http://www.historicfutures.com/>

CO-LOCATION WITHIN THE SUPPLY CHAIN

Transporting materials and goods between different manufacturing facilities – such as Tier 1 production factories and Tier 2 material suppliers – is a significant environmental impact in our manufacturing process. Any reduction in transport will have several benefits for both the environment and our business: not only will it reduce our carbon emissions, but it will also reduce the complexity of our manufacturing, which should lead to savings in both waste and time.

So during 2010 we looked closely at the locations of the manufacturing entities selected to produce the adidas Better Place products and have developed a programme to increase co-location.

GOAL

The goal is to keep the Better Place supplier base as consolidated and aligned as possible, to facilitate fibre tracking, and to reduce the environmental footprint.

APPROACH

The spring/summer 2011 season saw the introduction of the new Better Place process, making the Tier 1/Tier 2 (T1T2) alignment a priority throughout product creation, fabric selection and allocation.

To facilitate the process, a T1T2 tool has been developed for use during fabric selection. For each business unit the tool identifies the best combination of T1 and T2 supplier – priority 1 is given to vertical suppliers, priority 2 is given when T1 and T2 share the same country of origin, and priority 3 when T1 and T2 have different countries of origin.

RESULTS

For the fall/winter 2011 season, the T1T2 alignment for organic cotton achieved 79% (the total of vertical suppliers and T1s with the same country of origin). For recycled polyester, the achieved alignment is only 3%. Currently, we rely on Taiwanese recycled material mills – in the future we will focus on sourcing materials locally and reduce the Taiwan share, with a target of 20% for locally sourced materials for fall/winter 2012.

COST SAVINGS AND ENVIRONMENTAL BENEFITS

We are in the process of translating what we have achieved to date in the T1T2 alignment into cost savings that come from eliminating CIF costs (Custom/Insurance /Freight). We are also calculating the reduction of our environmental footprint, as a result of the carbon emissions savings.

TRANSPORT

When evaluating the carbon emissions associated with sourcing our products we need to look at how goods are transported from where they are made to where they are sold.

Our policy and target 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.

Over the past three years we have seen 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. However, due to the increased consumer demand for customisation as well as due to the short delivery times for the 2010 FIFA World Cup South Africa™, we saw a slight increase of air freights again in 2010.

See the Performance section for more information on page 89.

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Due to the fact that the adidas Group works with third parties rather than our own transport fleet, our transport and logistics department has developed environmental requirements for carriers and forwarders. One of these requirements is that carriers and forwarders have environmental management systems in place that have successfully been certified in accordance with the ISO 14001 standard.

GREEN COMPANY

Green Company is the name we give to our environmental programme run at our own sites around the globe. It builds on years of environmental initiatives, drawing them together into a coherent programme. Our Green Company vision is to become a zero-emission company by:

- Embedding environmental best practice in everything we do
- Maximising environmental efficiency gains
- Supporting and harnessing our people's passion for a greener planet.

We have adopted a management systems approach to drive continuous improvement. Read about how five sites this year gained certification to ISO 14001 below, together with the central function at our headquarters in Germany.

HELPING OUR SITES TO MEET TARGETS

All our Green Company targets were developed and approved at the end of 2009. You can see them on our corporate website at http://www.adidas-group.com/en/sustainability/assets/progress_targets/Green_Company_targets.pdf

This year we issued a set of guidelines to help our 70 reporting entities establish programmes to meet their targets. The guidelines describe the general approach to translating the Group-wide targets to a local facility level and what steps need to be taken to meet specific targets.

The guidelines will be followed in 2011 by topic-specific tools as appropriate, for example guidance about energy management and tools for benchmarking.

CERTIFICATION

In 2008, the Green Company Initiative was launched and one of the main targets announced was that the adidas Group headquarters in Herzogenaurach, Germany, as well as major locations in North America should be certified according to ISO 14001, the international environmental management system standard. In mid 2009, Herzogenaurach, Canton, Carlsbad, Portland, Montreal and Spartanburg were provided with a comprehensive 10-step-guideline to reach certification as well as an Environmental management manual template.

Based on the guidance, all locations, except the facilities in Herzogenaurach, implemented one joint system which is linked into the global Group headquarter-based system. The Herzogenaurach location was given a respite of one year due to comprehensive construction measures at this site. The 'World of Sports' site in Herzogenaurach is scheduled

to join the Group certificate through certification audits in December 2011.

NORTH AMERICAN ACHIEVEMENT IS STRONG

"We went from utter confusion and ignorance to understanding between the first meeting and the second," says Doug Noonan, Head of Group Corporate Real Estate.

Doug is reflecting on the quick learning needed by the working group that led on getting five North American adidas Group sites certified to the international environmental management system ISO 14001.

ONE SYSTEM

The working group contained the facility managers from the five sites, a consultant, legal counsel and Christine Domoracki, Head of Global Corporate Citizenship for the Reebok brand, who coordinated it all. The team had one year to get all five sites certified to ISO 14001. They decided the best approach was to create one system for all the sites despite the fact that the facilities represented different brands.

"We went for one system because we kept looking at the deadline of being certified by the end of 2010, and we decided it made sense to provide common leadership in North America," says Doug, who was also a member of the working group in his role as the North American management representative for the project.

The team held three two-day meetings in Chicago and every member of the group also travelled to each of the other sites at least once to see how the one system could be made to work at the different sites. In between the meetings there was lots of work to do, not least writing up all the documentation that underpins an ISO 14001 system. Christine says: "Once we got into the system we realised these were things we did every day. These steps were how the facilities run. We were just putting a system to it."

After a lot of hard work the team met the deadline and the sites were registered as ISO 14001 in December 2010. These sites are now part of the global system supervised and managed at headquarters in Herzogenaurach.

LEARNING FROM SUCCESS

Doug is excited about the unintended consequences of the process. "All that documenting means the facility managers now look at their sites in new ways. For example, we realised we didn't have a process for handling chemicals here at Canton. We didn't know what came into the building, where they were stored, nothing. This is an office facility not a chemical plant but still we ought to know and we didn't. Now we have a process, we know how to store the chemicals properly and we know that the people who have to handle the chemicals can do so safely."

The next steps are to "live with the system and perfect it" according to Christine. Doug says that they need to integrate the system more closely with the Green Company targets. He intends to hire an Environment Manager to take the work forward in 2011.

In the meantime they can be proud of achieving certification within a year.

MEASURING OUR OWN PERFORMANCE

REPORTING OUR CARBON EMISSIONS

The adidas Group has reported its carbon emissions to the Carbon Disclosure Project since 2007.

Every year since 2008, we have increased the number of sites included in our reporting. Our total Carbon Disclosure Leadership Index (CDLI) score in 2009 was 53, and we were included in the Textiles, Apparel & Luxury Goods sector.

Our score in 2010 was 68 and this time we were included in the Consumer Discretionary sector.

We explain the improvement with the following additional pieces of information in the 2010 results:

- In 2010 we could communicate defined Targets for 2015 which we had not done in previous years
- Our risk assessment was described more comprehensively
- Our reporting and calculation was also described more comprehensively.

ENERGY AUDITS AT CANTON AND SPARTANBURG

In 2010, we took part in an Environmental Defense Fund programme where an intern worked with us for ten weeks across the summer. The intern audited the energy we used at two of our North American sites – the Reebok site in Canton, Massachusetts and our distribution centre in Spartanburg, South Carolina. The Yale Business School intern analysed how we used energy at both sites, establishing a baseline from which potential improvements could be made.

Her research skills and business administration background allowed the intern to produce a list of 75 projects we could progress to reduce our energy use. Each project had a business case associated with it, which made it easy for us to judge if the investment was worth it or not. Several of these had no costs associated with them at all.

For example, at our Spartanburg facility, there are several miles of conveyor that transport products around the site. The intern observed that there were long periods in the night when no product would travel on a section of conveyor for two hours, when a setback switch would kick in and turn the conveyor off until the next product. By conducting tests varying the setback interval, we discovered that the setback could be reduced to 15 minutes with no impact to the operation. This change did however significantly reduce the site's energy use. There was no cost involved in making the change: it was as simple as changing a setting on the facility's computer system.

There were several other instances where setting back of night lights, or changing set points on heating and cooling also saved energy with no adverse impact on the business. We are still rolling out some of the 75 projects. We estimate that they will help the Spartanburg facility meet all of its 2015 energy reduction target and will get the Canton site 40% of the way there.

DATA MANAGEMENT

During 2010 we developed and implemented a new data reporting tool. The previous tool, which was used in 2009 and 2010 to record data from 24 adidas Group locations, was not properly designed to cover a bigger number of sites participating in the data recording process.

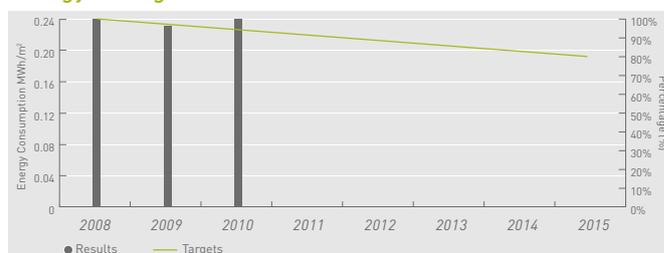
We developed a new web-based tool with the aim of covering at least 80% of our emissions and resource use of our internal operations. The tool has been designed to ensure a consistent quality review of the data collected. Furthermore, the tool calculates the corresponding carbon emissions, but also all summary indicators needed at facility level, regional level as well as Group level.

Additionally, more locations have been included into the reporting and currently around 75 of adidas Group own locations are reporting into this data base. Thereby the target of covering 80% of our own in-house emissions has been reached.

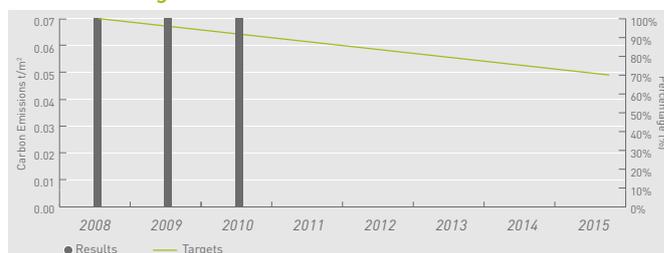
FOLLOW UP ON TARGETS

The results of those sites that were included in the environmental reporting since 2008 were tracked against the 2015 Green Company targets. The charts below show the actual results per year in comparison with the actual linear target towards the 2015 target.

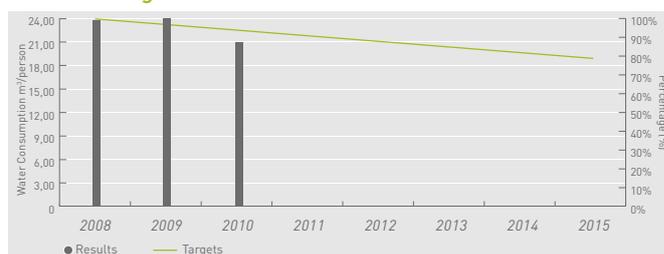
Energy Savings



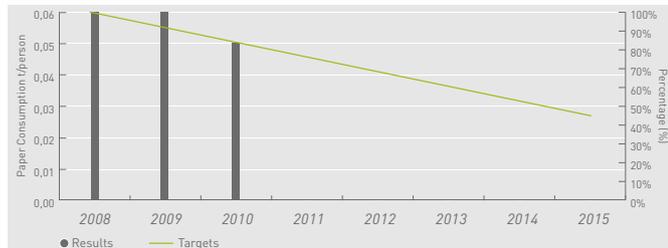
Carbon Savings



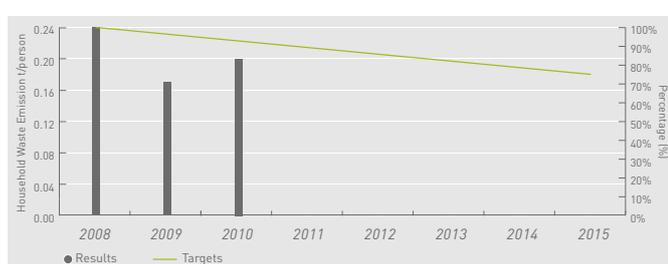
Water Savings



Paper Savings



Household Waste Reduction



The bar charts show that facility management and employees at the respective locations worked successfully towards reaching the 2015 Green Company targets.

- Energy consumption stayed stable, both in terms of energy and carbon per square metre. Several locations have been conducting energy audits and developing detailed action plans that will be implemented throughout 2011. The results of these plans will be seen only in 2011 and 2012.
- Targeted linear reduction for water consumption should have been 5.7%; in reality, 11.8% reduction was achieved, twice as much as anticipated.
- For household waste, the targeted linear decrease towards the 2015 target should have been 7% and we achieved a substantial saving of 16.7% per employee.
- The paper consumption target per employee, set to 20% for 2010, has not been achieved. However, the reduction of paper consumption by 17.7% shows that we are on track towards our linear target for 2015.

While the total results for all locations and types of facilities showed a positive development, there remain areas where individual facility sites will need to improve over the next few years.

A broader summary of Green Company data can be found in our Performance section.

A comprehensive analysis of the Green Company programme and its performance data is supplied in a separate report that is posted on our corporate website.

GREENER COMPUTING

Our Global IT department has continued to make progress on reducing the energy used by the adidas Group's computers. During 2010 the team has pursued several goals:

- Replacement/decommissioning of old power-hungry hardware. More than 40 physical servers were decommissioned and recycled. This equals an annual saving of approximately 400 tonnes of CO₂.
- Server virtualisation – we managed to improve the virtual to physical server ratio compared to 2009. While in 2009 the ratio was 59 physical and 41 virtual, it is now 49 physical and 51 virtual. With 15-20 virtual servers able to run on one physical server, this reduces energy and CO₂ emissions by up to 50%.
- Energy efficient hardware models – we identified more energy efficient server models we can buy to support growing business demands.

We know that if we continue to be innovative and look for opportunities to consolidate, we can further reduce the energy demands of our IT infrastructure. We are working on a solution that will shut down servers when they are not needed and power them on automatically within a virtual environment. Storage virtualisation can transfer the same great benefits of server virtualisation (higher utilisation, hardware consolidation) to the storage environment. And archiving and removing duplications will let us manage and store data in a much more efficient way and moderate storage demands.

Our targets for 2011 are to:

- Decommission more than 40 physical systems and/or virtualise them
- Reduce the percentage of our servers that are physical by at least 11%
- Focus on energy efficient infrastructure solutions.

GREEN TEAMS

Part of the Green Company Initiative is the Green Team concept. Green Teams are dedicated employees who promote environmental initiatives and motivate other employees. Their efforts are vital if we are to meet our Green Company targets.

Green Teams are established in several locations including in Canton, Portland and Mattapoisett in the USA, in Argentina and Panama, in Hong Kong and Thailand, in France, Turkey and Amsterdam, and of course at our headquarters in Germany.

ACHIEVEMENTS IN 2010

Here are some examples for what the Green Teams have achieved in 2010:

In Portland, one-way cups and dishes were a big problem. Now there are reusable mugs for sale at all coffee shops at this location and no one-way dishes available in the kitchens around the buildings. This reduces the amount of waste significantly.

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The Mattapoissett Green Team has started a great recycling and reuse programme with plastic and glass recycling as well as recycling empty toner cartridges and buying remanufactured ones.

In our office in Bangkok, Thailand, where many employees regularly visit factories, the Green Team introduced a carpooling scheme to reduce the number of trips made by car to each particular factory.

Our French colleagues in Landersheim have successfully had solar panels installed to heat the water used in all showers and in the staff restaurant.

In our Istanbul office, the Green Team managed to reduce water consumption by 14%, compared to 2009. They also saved energy by only using those appliances which were really needed.

In Amsterdam, the Green Team worked mainly on the tough task of changing people's habits. They organised special awareness-raising events such as the 'Tour de Commute' month which coincided with the Tour de France and was aimed at getting people to take the bike to work instead of their cars. Altogether, they rode 5,334 km in that month.

These and other locations participated in Earth Day celebrations on April 22 to raise awareness of and to engage people for a clean environment. The Green Teams came up with great ideas to support the spirit of the day. At our headquarters in Germany they organised a paper road and a rubbish mountain to show how much waste we produce. Additionally, old mobile phones were collected and sold to a company which specialises in refurbishing them. The proceeds from this went to a charity.

WHAT TEAM MEMBERS SAY

"A Green Team is a small tactical unit where we can take decisions and actions quickly. I think it should be a key strategic driver for the future of our company," says Benjamin Devillard from France.

And Alissa Leeper from Portland says, "It's great to be a part of a team of volunteers who get things done and take action in their own free time to make small changes that are impactful in a big way for our community and company."

Jenna Meaney, Alissa's team mate adds, "The group has made a big contribution to adidas America. It's wonderful to see how many things have changed since the Green Team was established: additional recycling, using reusable containers and general awareness of eco issues."

"Just watching TV or reading the paper and seeing all this pollution keeps me motivated to improve my own environmental footprint and to try and convince my colleagues," says Tanja Schmidt from Germany. "Through the work in the Green Team I can reach them."

AND WHAT ARE THE CHALLENGES?

"One of the biggest challenges we see is changing the hearts and minds of those who do not want to change. You have to be willing to accept the challenge and work past 'No'," says Ed Musho, also from Portland.

Keeping the motivation high at all times is also a big challenge for Gul Uguryol from the Istanbul team. "But seeing the achieved results keeps me motivated!" she adds.

"adidas is a big company and it is not easy to implement changes quickly," Tanja thinks. "This frustrates people but we should never give up working together if we want to change something!"

AND ARE THERE ANY SPECIAL STRATEGIES FOR SUCCESS?

We try to mix fun and rewards in order to interest our colleagues and be positive rather than pointing a finger at them," says Benjamin. "You have to have faith in people, be passionate about your mission and be creative."

And his colleague Romain Prigent adds, "We have to be patient and persuasive and manage to change habits and the mentality of people."

Jenna agrees: "We need to remember that small changes can make a big difference!"

GLOBAL TRAVEL

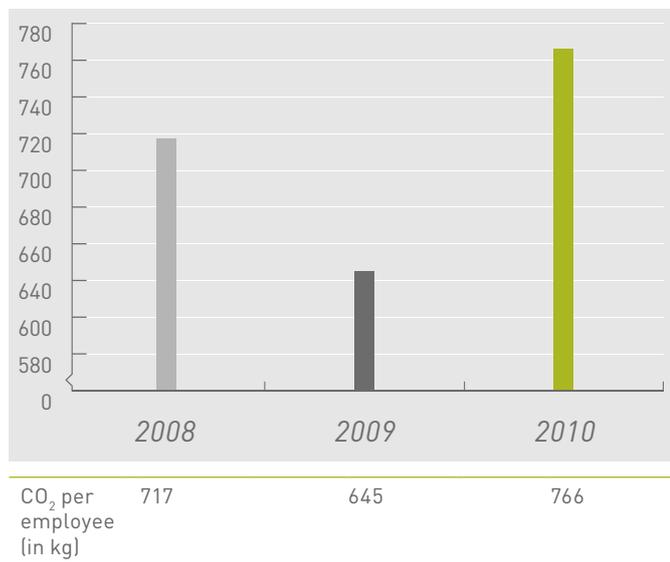
As a global business, with many locations worldwide and a global supplier base, air travel is widely used by adidas Group employees. Since global travel is an important driver of our carbon emissions, this area was included into our Green Company target setting in 2009. The defined goal is to reduce our emissions caused by business travel to 570 kg CO₂ per employee.

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 2010, the absolute amount of carbon dioxide (33,000 metric tonnes) increased by 7,500 metric tonnes compared to 2009 (25,500 metric tonnes). In relative terms the ratio of carbon dioxide emissions per employee in 2010 increased by 19% to 766 kg CO₂ compared to 645 kg CO₂ per employee in 2009.

In 2009, the number of business trips was actually reduced due to the economic downturn and a careful approach to save costs, whereas in 2010, many business trips were undertaken that had previously been scheduled for 2009. Furthermore, the 2010 FIFA World Cup South Africa™ was a common destination for adidas Group employees in 2010 so that business travel activity increased compared to the previous year.

In 2011, we will evaluate possible actions as well as the accuracy of the reported data.

CO₂ per employee (in kg)



SALES

The end of the value chain sees our products sold and eventually become waste at the end of their useful life. The many and varied waste management schemes in place where our products are used make the end-of-life stage a difficult one for us to address although we do engage with local waste managers.

However, we have more control over the sales area and as we increase the number of stores we have a responsibility to address their environmental impacts.

RETAIL ON THE WAY TO GREENER STORES

On our way to greener stores, Global Store Development and Global Retail Marketing undertook an environmental audit in three stores of our Western European division, representative for the majority of our concept portfolio to gain a better understanding of where we could make a significant difference. We found there were five key areas where we could improve the environmental footprint of our stores:

- Build-out of the stores
- Energy and utility use
- Fixtures and fittings materials
- Sales support items
- Store operations and the role of staff.

CORE STORE MANUAL

The new 2010 Core Store Manual includes a separate section on sustainability with an extra focus on environmental aspects, which act as a guidance tool for the local architects when they build our stores. It also shares best practice

from Retail Operation Centres (ROCs) or markets that have already gained some experience in environmental sustainability such as ROC Asia Pacific.

CORE STORE LIGHTING CONCEPT

One key finding of the store audit was that 30-50% of the overall energy consumption of our stores comes from lighting concept on the sales floor, so developing a more energy efficient lighting plan was a priority. The new lighting concept for our Core Stores was launched in 2010 with the updated Core Store concept and will reduce the energy used through lighting by 20-50% depending on the size of the store. This will save up to 25% of our overall energy consumption. And using a more energy efficient lighting plan also results in reduced heat and so saves on the energy used for cooling.

Together with the Store Development team from ROC Western Europe, Global Store Development used the Palladium Core Store in Prague, Czech Republic, as a pilot project. The investment costs for the new lighting concept were already even lower than the previous lighting plan so it proved to be a winning concept from every perspective. As a result, the new lighting concept will be rolled out to all new Core Stores.

FIXTURES AND FITTINGS MATERIALS

Through our ongoing value engineering over the last year we have had some changes in several fixtures and fittings of different concepts for adidas Sports Performance and Originals. These changes also had a positive effect on the environmental performance of our fixture concepts as they helped us to reduce the weight of materials used. This is another case of reducing environmental impact and also saving money. Environmental aspects have now been included into the development and value engineering phase of all new store concepts which should lead to further savings in the future.

SALES SUPPORT ITEMS

Through the store audit we also noticed that we need to look into the different items we use for sales support such as the mannequins, hangers and shoe fillers, as well as bags. The Global Store Development team is currently collaborating with our key supplier and a material research agency to develop an exciting project where an environmentally preferred material is tested for mass production of mannequins for the first time.

STORE OPERATIONS

Our store staff are not only important for making sales they can also help to reduce the environmental impact of our stores by considering how they can cut down on energy use and waste in their daily working life. There are opportunities to use less paper and reuse hangers for example.

With the support of the Global Retail Training team sustainability was made an integral part of our new Retail University Programme, which all our store staff attend.

We are also developing an environmental handbook. We are confident that with these steps we will be able to reduce both our carbon footprint and the waste generated by each store.