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IN THE REAL WORLD PERFORMANCE COUNTS

We are about actions not words. We measure ourselves, our company and our sustainability performance by what we have done. These are stories of actions we have taken to make a change happen, to do something different, to be better than before. Because performance counts on and off the field.



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ABOUT OUR PROGRAMME

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Being a sustainable business is about striking the balance between shareholder expectations and the needs and concerns of our employees, the workers in our supply chain and the environment.

We have been working towards sustainability for many years and recognise that the task before us is a marathon, not a sprint. It is about preparedness and setting the right pace, having both the drive and stamina to make the distance. And most of all, it is about endurance: overcoming setbacks and difficulties, keeping the finishing line always in the forefront of our minds.

It is not easy to run our business sustainably but we know we have to rise to the challenges we face if we are to make progress. Our response to these challenges is rooted in our business values and we have clear Sustainability Principles that we follow.

We actively engage with stakeholders to understand their concerns. These dialogues help us to plan the development of our programme and to manage risks the business faces. The strategy we have developed covers five areas:

- Embedding environmental sustainability across our business
- Achieving social compliance in our supply chain
- Extending our stakeholder engagement
- Creating the best and most productive workplace in the industry
- Making a difference in the communities where we operate.

ABOUT THE REPORT

SCOPE AND BOUNDARIES OF THE REPORT

The adidas Group has been issuing an annual sustainability report since the year 2000. It has become an integral part of our regular corporate disclosure and reporting practice. This online report describes the social and environmental performance of the adidas Group during 2010. It covers all brands in the adidas Group and our own facilities in all the countries where we operate. The report also refers at length to the activities of our suppliers – both those with whom the adidas Group has a direct contractual relationship (our direct supply chain) and those whose contracts are with individual business units, agents or licensees (our indirect supply chain).

The report sets out our goals, strategy and actions we have taken in further shaping the adidas Group sustainability performance. It includes core information about the strategies and programmes targeted at:

- Improving working conditions in our suppliers' factories
- Reducing our environmental impact along the Group's entire value chain
- Securing and promoting the well-being of our global workforce
- Managing our wider social responsibilities as a multinational company.

The report refers back to key targets that were listed in our 2009 sustainability review and assesses our progress in meeting them.

DETERMINING MATERIALITY – HOW WE HAVE CHOSEN WHAT TO REPORT

There is a universe of potential sustainability issues a multinational company might face. To identify the most relevant issues for our business we apply certain filters that help us determine where to focus our capacities and resources. The following categories guide us in determining materiality in our programmes and reporting:

- **Our mission and values:** issues that are rooted in the adidas Group's mission to be a global leader in the sporting goods industry and the corresponding business strategy.
- **Reputational impacts/risks:** issues that may have a reputational impact or may pose a risk to the company in the short, medium, or long term.
- **Legal and regulatory drivers:** issues that are being shaped by existing, emerging or evolving government policy and regulation.
- **Peer-based and industry-wide norms:** sustainability issues or standards that are developed by other companies or are addressed industry-wide and are used as benchmarks for our performance.

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- **Stakeholder concerns and societal trends:** issues that are of high importance to our stakeholders including communities, non-governmental organisations (NGOs) and the general public, or reflect societal and consumer trends.
- **Opportunity for innovation:** areas where we can explore innovative solutions that benefit the environment, our supply chain, customers and other stakeholders to demonstrate sector leadership and create competitive advantage.

Accordingly, the report prioritises social and environmental issues identified as relevant and significant, and describes targets for the next reporting period.

We refer to the G3 Guidelines of the Global Reporting Initiative (GRI) for a steer on what to include in our report. We also refer to the G3 Sector Supplement Apparel and Footwear, although it has yet to become a formal part of the GRI. In each section of the report we make reference to the applicable standards of the G3 Guidelines. For more detail on our use of the GRI, see the GRI Index on page 102.

PRIORITISING TOPICS IN THE REPORT

Compared to the sustainability reviews we issued in 2008 and 2009, where we specifically focused on our progress and achievements, in this year's report we have broadened the scope of our reporting by providing in-depth information about our social and environmental programmes and how they are structured and integrated in the company organisation.

- This year we launched our new Environmental Strategy 2015. It is a detailed and rigorous programme with targets set across the business to help us reduce our overall environmental footprint 15% by 2015. Accordingly, we have further expanded our coverage of our global environmental programmes and initiatives, which we implement both within the adidas Group and in the supply chain.
- A key focus continues to be our global supply chain where we seek to ensure fair, healthy and environmentally sound conditions for the workers who make our products.
- We comprehensively report about the adidas Group's employee and Human Resources programmes targeted to drive employee engagement and to secure a performance culture.
- We also provide a comprehensive description of how we partner and engage with other organisations to drive social and environmental improvements in countries and communities where we and our business partners operate.
- The report includes information covering all brands and divisions of the adidas Group, as well as key facts about our supply chain and our environmental performance.

TARGET AUDIENCE OF OUR REPORT

This report has been written for all of our stakeholders that may have an interest in our reporting. While some of them expect us to be focused on their specific areas of concern, others wish to obtain a broad overview of our work. To satisfy as many interest groups as possible the report aims to provide a complete outline of our work including performance data but also remains fact-based and succinct. In some instances, the reader is directed to other web pages and adidas Group reports for more information.

VERIFICATION

We recognise that some stakeholders want companies to ensure that the content and data disclosed in sustainability reports is independently verified. While we strive to continuously improve our reporting systems for supplier monitoring data, we feel that much of this data – in particular, data on labour conditions – is not always verifiable in a standardised way. Therefore, at this stage, report verification would not add value. We do, however, believe that independent verification of workplace conditions and of the processes and monitoring approaches we adopt in our compliance programme is important. For this reason the report contains information that is subjected to an annual review by the Fair Labor Association. We also refer to data verified when supplier factories or our own facilities were certified to ISO, EMAS and OHSAS standards.

In 2010, five major administration sites (as well as the central Group function of our Green Company programme) were certified in accordance with the ISO 14001 environmental management standard. So any information disclosed about our environmental programmes at these sites has been subject to external auditing.

ABOUT OUR BUSINESS

OUR BUSINESS PROFILE

For over 80 years, the adidas Group has been part of the world of sports on every level, delivering state-of-the-art sports footwear, apparel and accessories. Today, the adidas Group is a global leader in the sporting goods industry, offering a broad portfolio of products available in virtually every country of the world. Our strategy is simple: continuously strengthen our brands and products in order to improve our competitive position and our financial performance.

OUR BRANDS

adidas and Reebok branded products include footwear, apparel and accessories, such as bags and balls. TaylorMade-adidas Golf includes the three brands TaylorMade, adidas Golf and Ashworth. TaylorMade designs, develops and assembles or manufactures high-performance golf clubs, balls and accessories. adidas Golf branded products include footwear, apparel and accessories. Ashworth designs and distributes men's and women's lifestyle sportswear. Rockport predominantly designs and markets leather footwear for men and women. Reebok-CCM Hockey designs, produces and markets hockey equipment such as sticks and skates as well as apparel under the brand names Reebok Hockey and CCM Hockey.

adidas	Footwear, apparel and accessories
Reebok	Footwear, apparel and accessories
TaylorMade-adidas Golf	Golf equipment: metalwoods, irons, putters, golf balls, footwear, apparel and accessories
Rockport	Dress, casual and outdoor footwear, apparel and accessories
Reebok-CCM Hockey	Hockey equipment and apparel

OUR OWN OPERATIONS

The activities of the company and its more than 165 subsidiaries are directed from the Group's headquarters in Herzogenaurach, Germany. Also located here are the headquarters of brand adidas and the strategic business units for Running, Football and Tennis as well as the Research and Development Centre. Additional key corporate units are based in Portland, Oregon in the USA, the home of adidas America Inc. and where the strategic business units Basketball, Adventure and Alternative Sports are based. Reebok headquarters is located in Canton, Massachusetts and TaylorMade-adidas Golf is based in Carlsbad, California. The company also operates creation centres and development departments at other locations around the world, corresponding to the related business activity.

adidas Sourcing Ltd., a fully-owned subsidiary headquartered in Hong Kong, is the worldwide sourcing agent for the adidas Group.

The adidas Group also operates a limited number of own production and assembly sites in Germany (1), Sweden (1), Finland (1), the USA (4), Canada (4), China (1) and Japan (1).

Read more about the Group's major locations on our corporate website at <http://www.adidas-group.com/en/ourgrouplocations/default.aspx>

Read key data about the Group's financial performance on our corporate website at http://www.adidas-group.com/en/investorrelations/financial_data/default.aspx

OUR EMPLOYEES

On December 31, 2010, the adidas Group employed 42,541 people. This represents an increase of 7% from the previous year. adidas Group employees represent a cross-section of cultures, ages and backgrounds. Women account for 48% of our employees. At our headquarters in Herzogenaurach, we have employees from over 50 countries.

See more details about our employees on page 57.

SHARE LISTING

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index. The DAX-30 is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The MSCI World Textiles, Apparel & Luxury Goods Index comprises our Group's major competitors. Our social and environmental efforts are also recognised so that the adidas AG is included in a variety of high-profile sustainability indices like the DJSI World, the FTSE4Good Europe Index and the ASPI Index.

Further information about external recognitions of the Group's sustainability programme can be found on our corporate website at http://www.adidas-group.com/en/sustainability/awards_and_recognition/default.aspx

SUPPLIERS

To minimise production costs, we outsource over 95% of production to independent third-party suppliers, primarily located in Asia. While we provide them with detailed specifications for production and delivery, these suppliers possess expertise in cost-efficient high-volume production of footwear, apparel and accessories. We work with more than 1,200 independent suppliers from around the world who manufacture our products in more than 65 countries. Of all factories, 69% are located in the Asia Pacific region, 17% in the Americas and 14% in Europe, Middle East and Africa (EMEA).

There is a list of our suppliers on our corporate website at http://www.adidas-group.com/en/sustainability/suppliers_and_workers/default.aspx

LICENSEES

For some product segments or markets, the adidas Group has licensing agreements with independent companies that manage the design, development, manufacture and distribution of specific product lines. In 2010, the Group worked with 45 licensees that sourced products from 307 factories in 45 countries.

CHALLENGES, VISION AND GOVERNANCE

THE CHALLENGES WE FACE

The adidas Group is committed to becoming a sustainable company. But there is no 'one size fits all' solution to achieve this.

Every company – depending on the nature of its business – needs to develop its own approach for responding to changes in the economy, society and the environment. So it is for the adidas Group too.

As a global business we face a variety of challenges, as we strive to balance shareholder interests with the needs and concerns of employees, workers and the environment. The following overview summarises how we are responding to these challenges.

Challenge	Response
<p>Being a global business</p> <p>Our brands are visible all over the world, through our presence at major sports events like the Football World Cup or the Olympic Games. This draws attention to the way we do business and the conditions under which our products are made.</p>	<p>Being accountable and open</p> <p>To manage our business on a global scale we set clear standards, rules and procedures that apply to our operations and our supplier partners. We seek to be open about our operations, for example, by disclosing our global factory list to the public or submitting our global supplier compliance programme to evaluation and accreditation by the Fair Labor Association.</p>
<p>Being competitive ...</p> <p>We are required to respond to changing customer demands for a broad range of products. This means that we need a wide variety of suppliers. Ensuring consistent compliance with our social and environmental standards across a broad and complex supply chain is a challenge.</p>	<p>... But not at any price</p> <p>As we have outsourced most of our production and source from a multi-tiered supply chain, the way we manage our suppliers is under scrutiny. The adidas Group Workplace Standards are fundamental to our relationships with our suppliers and are contractual obligations. While we have our own team that assesses how well our suppliers are complying with our supply chain code, we also work with external monitors to complement our measures. We strive to work with business partners who are fully committed to fair, safe and environmentally sound working conditions because we are convinced that it strengthens our – and their – position in the global marketplace.</p>
<p>Being environmentally responsible</p> <p>Our products must be competitive in function and price but also safe. Climate change is on the top of the agenda of governments around the world. Environmental sustainability poses a number of challenges for our product management, innovation and development teams, facility managers, manufacturing partners and sales organisations.</p>	<p>Reducing our footprint</p> <p>Building on our existing environmental programmes, in 2010 we have developed a Group-wide Environmental Strategy that determines targets and areas of actions within every part of our value chain to significantly reduce our environmental footprint by the year 2015.</p>
<p>Being an employer of choice</p> <p>We operate all over the world and have to mirror the global marketplace with a multinational workforce. We know that our people are critical to our success. Our challenge is to recruit, retain and develop this diverse group of employees so that they achieve their full potential.</p>	<p>Managing our people</p> <p>To address these challenges we have a Human Resources strategy in place that has the following pillars:</p> <ul style="list-style-type: none"> • Create a working environment that stimulates team spirit, passion and engagement • Instil a performance culture based upon strong leadership • Be an employer of choice.
<p>Being a good corporate citizen</p> <p>Our business has an impact on communities around the world. We need to understand their local needs to design programmes that make a difference to people's lives.</p>	<p>Supporting local communities</p> <p>We have adopted a largely decentralised and brand-oriented model for community involvement practices, recognising that people in our regional subsidiaries and Group entities best understand the needs of their local communities. Initiatives are managed through the Adi Dassler Fund, the Reebok Corporate Responsibility Programme and the TaylorMade-adidas Golf Charity Programme.</p> <p>At Group level we support our suppliers' communities as well as make contributions to aid organisations that promote sustainable development practices within the industry.</p>

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VISION AND VALUES

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

PERFORMANCE, PASSION, INTEGRITY, DIVERSITY

These are the adidas Group values.

They help us to create brands that our customers believe in and they commit us to playing by the rules that society expects of a responsible company. Unlike sport, society's rules are not always written down.

We discover them by engaging with the people that our business touches, learning above all that companies are expected to be accountable for their actions. So we are committed to reporting publicly on the steps we take to have a more positive impact on society and the planet.

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

It is about setting workplace standards for our suppliers to meet and helping them to ensure fair, safe and healthy conditions in their factories. Importantly, it also means looking after the well-being and careers of our employees – the company's biggest asset – and making a positive contribution to the communities where we operate.

Adhering to all applicable laws, directives and guidelines is a business imperative. But that is not enough. We are continuously striving to improve our performance and our standing in society. We set ourselves targets that stretch us, regularly review our progress and set ourselves new goals.

That is what the world's leading athletes do, and it is what we must do as a global leader in the sporting goods industry.

The Sustainability Statement outlines the guiding framework for becoming a more sustainable company, and informs our individual missions in Social and Environmental Affairs, Environmental Management, Human Resources Management and Community Affairs. These are further detailed in the respective chapters of the report.

Our proactive approach in managing sustainability issues is an inherent part of the Group's Corporate Governance framework and risk management system.

CORPORATE GOVERNANCE

As a company we do not operate in isolation. We are a part of the global economy and society and have to follow various legal rules. We have set ourselves standards of good corporate management to effectively and responsibly manage risks and challenges.

Our actions are determined by the principles of responsible and transparent management and company control. Good corporate governance supports a sustainable increase in value and enhances the confidence placed in our company by our shareholders, business partners, employees and the financial markets. It is thus essential for the Group's long-term success.

We see corporate governance as an ongoing process during which values and principles continue to evolve in accordance with changing requirements.

We have established a corporate governance framework that addresses rights of shareholders, the responsibilities and duties of the Executive Board, including social and environmental considerations, and the Supervisory Board and how they collaborate information and disclosure obligations, and solutions for any conflicts of interest. The governing principles we have established ensure good management and control of the business.

MANAGING RISK

A comprehensive risk management system addresses internal or external risks that may affect the Group's goals, strategies, brand image or financial performance and health.

The Group function Social and Environmental Affairs (SEA) is an integral part of the risk management system and provides the Executive Board with regular updates on social and environmental risks and developments. SEA strategic business plans support the development of business contingency plans and staff advisories for public health and safety issues.

For more detailed information on corporate governance and risk management, see the adidas Group website at http://www.adidas-group.com/en/investorrelations/corporate_governance/risk_management/default.aspx

Special guidance for the organisation that derives from the governance framework includes:

- *Workplace Standards*, the adidas Group's supplier code of conduct (see more in the Suppliers and workers section on page 43)
- Labour Rights Charter, outlining the adidas Group's position on core labour rights within the company (see more in the Employees section on page 57)
- Code of Ethics, defining rules for all employees with respect to legally compliant and ethical behaviour (see more in the Employees section on page 57)
- adidas Group Environmental Policy, outlining the Group's position with respect to sound environmental management and its commitment in continuous improvement of its environmental impact (see more in the Environment section on page 17).

For a company that outsources most of its production and operates a multi-tiered supply chain, it is essential to develop an approach that covers its social and environmental responsibilities both inside and outside the company. In no way can a single corporate unit carry this out. Group Social and Environmental Affairs and Group Human Resources play a critical role in fulfilling our responsibilities in this area.

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SOCIAL AND ENVIRONMENTAL AFFAIRS – ROLES AND TASKS

Group Social and Environmental Affairs (SEA) reports into the General Counsel of the adidas Group and is tasked with:

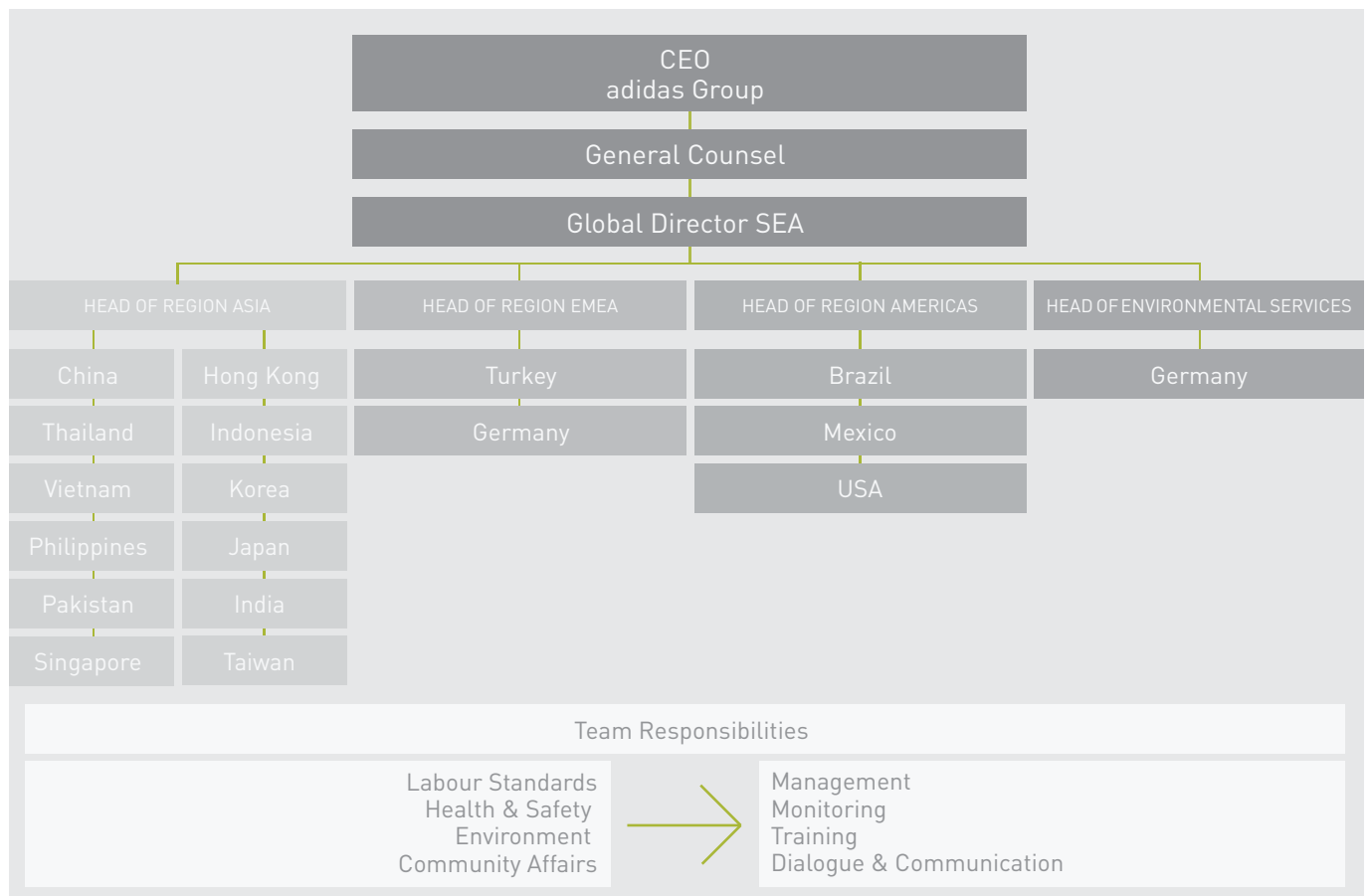
- Ensuring compliance with the *Workplace Standards* within the supply chain
- Leading, promoting and managing the development and implementation of environmental strategies across the Group's value chain
- Extending and maturing the engagement and collaboration with others to drive changes in the industry
- Managing the Group's Community Affairs programme at Group level
- Managing the Group's corporate sustainability communication and reporting.

The SEA team consists of a diverse group of 65 people – engineers, lawyers, HR managers, environmental auditors, and former members of non-governmental organisations (NGOs). The team is organised into three regional teams covering Asia, the Americas and Europe, Middle East and Africa (EMEA), as well as the Group-wide functions of Environmental Services and Community Affairs.

As a cross-cutting function SEA collaborates closely with other global Group functions such as Sourcing, Legal, Facility Management, Human Resources and the Sales organisation but also with Brand Marketing and Product Development. The collaboration of SEA with Sourcing has been particularly important for improving workplace and environmental conditions in the adidas Group's supply chain. Over the years, SEA has established collaborative systems and processes to ensure Sourcing fully considers compliance with workplace standards. In 2010, SEA played a critical role in driving, developing and coordinating the Group-wide Environmental Strategy 2015 (see page 18).

By engaging directly with suppliers, government and other external stakeholders, SEA is informed about social and environmental issues at an early stage. It addresses any potential risks, and health, safety and environmental liabilities, in its monthly report to the Executive Board and Sourcing management. The team is directly involved in developing and updating corporate policies and operating procedures related to social accountability, product safety and compliance with environmental laws and regulations.

SEA team



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GROUP HUMAN RESOURCES

Group Human Resources is a core function within the adidas Group's global organisation. It is led by the Chief Human Resources Officer who directly reports to the CEO. The Global HR organisation manages the following key tasks with:

- HR Business Partner teams who support key functions in all relevant HR matters – Global Brands, Global Sales, Operations, Finance, IT, Legal and HR
- HR Competence Centres who drive talent/succession management and learning, talent acquisition and employer branding as well as rewards, mobility and e-HR
- Focus teams who manage our Company Sports programme and 'Diversity and Inclusion' initiatives at major Group locations.

CEO STATEMENT

IN THE REAL WORLD PERFORMANCE COUNTS

Performing in the real world is all about being aware of the challenges ahead and rising to them, however tough they may be. In recent times our Group proved it can do this. We found a way to manoeuvre through the difficult economic conditions in 2009 and then we have had a successful 2010.

The same applies to managing sustainability: it is about meeting the expectations of our shareholders while managing our social responsibilities and looking after the environment. This is not a simple and straightforward process. To make substantial progress requires thoughtful analysis of the conditions on the ground, careful planning and considered execution.

This is what we did in 2010. We continued our efforts to deliver strong results in our sustainability performance based on an analysis of our business priorities and actions we took after listening to our stakeholders. All our measures aimed to enhance the performance of our company.

2010 PERFORMANCE HIGHLIGHTS

In 2010, we have successfully launched the Group Environmental Strategy 2015 which aims to substantially improve our environmental footprint. It includes ambitious targets for 2015 and beyond.

One of those is to use 100% sustainable "Better Cotton" in our products by 2018. Rather than individual product teams seeking sustainable cotton, it will simply become standard across all our apparel. This demonstrates how a Group-level initiative such as the Environmental Strategy can help drive process and product improvements across all our brands and that is the essence of our Strategy: to embed environmental sustainability in every part of our business.

Our Green Company programme is engaging our staff all around the world and I am delighted that the adidas Group and our five key sites in North America have achieved ISO 14001 certification for their shared environmental management system. It underlines our systematic approach in driving environmental improvements and it is a testament to the teamwork of the people involved at all the locations.

We are now carrying out in-depth environmental assessments of our key suppliers' factories, driving our commitment to the environment through our supply chain. We have continued to mature the uptake of compliance with our Workplace Standards in our business entities that source their own production. We have more than doubled the number of those business entities that have a social compliance report card to 55 this year, demonstrating our commitment to embedding our Standards throughout our business.

Another milestone this year was the Employee Engagement Survey which scored an outstanding participation rate of 90% and gave us valuable input on our strengths as an employer as well as the areas in which we have to improve. Over the course of the next year, these results will be transformed into actions to help the adidas Group to be the best employer to work for.

Our performance results have not gone unnoticed. We were selected to join the Dow Jones Sustainability Index (DJSI) for the eleventh consecutive year and we are considered by the Global Responsible Investment Network to be one of the "Global 100 Most Sustainable Corporations in the World".

We are continuing to raise our game, to set more ambitious goals for the future and to prepare for them.

LOOKING AHEAD

In October we presented the most comprehensive and aligned Strategic Business Plan this Group has ever created: Route 2015. In the next five years, we want to achieve qualitative and sustainable growth by building desirable, leading brands in the consumers' and customers' perception.

We know that we can only follow this route if we are fully committed to managing our business operations in a sustainable way. While we have made big strides in laying the foundations for success in previous years, we must continue to strengthen our systems and processes.

We continue to work with other brands to develop and roll out new ways to focus our monitoring and training efforts so we can make more of a difference improving conditions for workers in our supply chain. We need to see more Green Teams at our facilities, embedding environmental considerations into our daily life so we can be more resource efficient. Performing well on these critical issues will help us in our ambition to be the global leader in the sporting goods industry.

At the adidas Group we know that performance counts and so we will measure progress against our targets and report back next year.

Thank you for your interest in our Sustainability Report.

Herbert Hainer

Chief Executive Officer, adidas Group

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MANAGING SUSTAINABILITY

The adidas Group's social and environmental strategy is rooted in the Group's values – performance, passion, integrity and diversity. It is built on the achievements and learnings from previous years. It takes into account changes in the societal landscape, global trends and responds to our overall business development. It reflects the feedback that we have captured from our stakeholders and sets clear targets we are striving to achieve.

Our strategy defines primary and core business areas where we dedicate our attention, efforts and resources:

- Embedding **environmental sustainability** in all products, processes and services to significantly improve our environmental impact across our value chain and to positively contribute to our business performance.
- Effectively managing business risks and **social compliance in our supply chain** which is expanding, and becoming more complex with multiple relationships and stretched lines of communication and control.
- Extending **our engagement** internally and externally – partnering with others to embed new thinking and better ways of collaboration within our business and along our supply chain. Working together to make a difference.
- Creating the best and most **productive workplace** in the industry by becoming a champion in talent and succession management, a world-class recruiter and a Top 10 employer in every key market in which we operate.
- Making a difference in the **communities** where we operate by supporting programmes that truly meet local needs.

ENVIRONMENTAL SUSTAINABILITY

Building on several earlier environmental initiatives, in 2010 the Group's Executive Board endorsed an Environmental Strategy. To further strengthen our competitive position and our overall business performance, the Strategy aims at integrating environmental thinking into our daily operations.

The Environmental Strategy 2015 aims to substantially improve the Group's environmental footprint across every part of the Group's value chain from innovation and product design via development and manufacturing operations to our own stores and other sales channels. We have set measurable targets to be achieved by 2015 and progress against these targets will be measured on an annual basis.

Read more about the Environmental Strategy 2015 on page 18.

SOCIAL COMPLIANCE IN THE SUPPLY CHAIN

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

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

The following areas are critical engagements in our supply chain strategy:

- Our direct relationships with suppliers, managed by the adidas Group's Global Sourcing organisation. These suppliers account for around 75% of our sourcing business in terms of sourced units.
- Our indirect sourcing relationships with agents and licensees.
- Our indirect sourcing relationships with adidas Group entities which manage their own sourcing arrangements.

Read more about our compliance programme within our supply chain on page 49.

STAKEHOLDER ENGAGEMENT

As a company we do not operate in isolation and we seek feedback from internal and external stakeholders by carefully listening, responding and engaging with them. Our engagements are with people in the company as well as externally including governments, civil society, investors, analysts, customers, and industry alliances. Various parts of the Group's sustainability programme have been developed in close consultation with stakeholders: examples are our corporate reporting and disclosure practices, review and verification of labour issues in supplier factories or addressing systemic issues to governmental bodies.

Internally, we will continue to develop appropriate and innovative ways of embedding sustainability thinking and processes within our organisation. Externally we look for innovative forms of partnerships and collaboration that drive change in the industry, and improve workplace conditions.

Find out more about how we engage stakeholders on page 10.

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OUR EMPLOYEES

We know that our people are crucial to our success. We strive to create a working environment that promotes team spirit, passion, engagement and achievement.

We promote a performance culture based on strong leadership and therefore link employee compensation to Group and individual achievements. We aim to continuously develop our employees with opportunities for career progression, while upholding a culture that celebrates diversity and encourages global mobility.

We also know how important it is to continue to attract and recruit new people to the adidas Group. In this so-called 'war for talent' it is important that we become a world-class recruiter, and this ambition has led us to launch innovative programmes to raise our profile with potential employees. We aim to create a stimulating and attractive work environment as we strive to be a Top 10 employer of choice in the key markets in which we operate.

Read more about our HR programme on page 57.

COMMUNITY AFFAIRS

As a multinational enterprise, the adidas Group is represented in many countries around the world and its business operations impact people's lives in those communities. While there are many possible ways to get involved in aid or community programmes, the challenge is to know the local needs of the communities. We therefore have chosen a largely decentralised and brand-oriented model for community involvement recognising that people in the subsidiaries best understand the needs and cultural sensitivities of their local communities. Brand programmes are managed under the Adi Dassler Fund, the Reebok Corporate Responsibility Programme and the TaylorMade-adidas Golf Charity Programme.

At Group level we continue to support our suppliers' communities as we make contributions to organisations that promote sustainable development practices within the industry.

Read more about our Community Affairs programmes on page 64.

ENGAGING OUR STAKEHOLDERS

OUR STAKEHOLDERS

Our stakeholders are those people or organisations who affect, or are affected by, our operations. Companies do not operate in isolation from society and our stakeholders have a legitimate interest in the way we do business. They are a diverse group and include the following:

- **Employees** of the adidas Group
- **Authorises** government, trade associations, shareholders, Board of Directors
- **Business partners** unions, suppliers, service providers
- **Workers** in our suppliers' factories
- **Opinion-formers** journalists, community members, special interest groups
- **Customers** professional sports people, distributors, retailers, consumer

WAYS WE ENGAGE

We engage with our stakeholders in a number of ways:

- Formal stakeholder consultation meetings (called 'stakeholder dialogues') with workers, union representatives, NGOs and suppliers. Reports of stakeholder dialogue meetings can be downloaded from our corporate website at http://www.adidas-group.com/en/sustainability/stakeholder/reports_of_stakeholder_dialogue_meetings/default.aspx
- Meetings with Socially Responsible Investment (SRI) analysts
- With our employees through internal reporting and induction programmes
- Responding to enquiries from consumers and the media
- Collaborating with other brands in joint initiatives
- Outreach to graduates and the academic community.

OUR APPROACH TO ENGAGING WITH STAKEHOLDERS

Whenever we are approached by our stakeholders, our policy is clear: we actively engage, we listen, we seek to understand their concerns and where it is within our ability, we act.

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

Read about the major stakeholder dialogues which took place in 2010 on page 11.

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2010 ENGAGEMENTS

In 2010, the adidas Group continued to pursue many long-standing engagements with civil society, such as the International Labor Rights Forum, National Labor Committee and the Worker Rights Consortium in the USA, and with local trade unions and NGOs in Bangladesh, Cambodia and Indonesia. Ongoing concerns over the use of forced child labour in Uzbekistan's cotton fields required our close engagement with the Ministry of Foreign Affairs in Germany. In India we reached out to the Karnataka State Government, to call for proper enforcement of the law related to minimum wages, and in Cambodia we asked the government to support freedom of association for striking workers.

The 2010 FIFA World Cup South Africa™ was a focal point for the year, both for adidas as a sponsor and for several of our international stakeholders who voiced their concerns over labour rights in the football industry. Outreach also began with the Play Fair Alliance – a grouping of labour rights activists and unions – on the forthcoming London 2012 Olympic Games.

In the Progress against targets section on page 97 we highlight how our engagements measured against our targets for the year. Here we describe the major stakeholder dialogues which took place around the world in 2010. These engagements are classified as:

- Government outreach
- Sporting events
- Civil society.

GOVERNMENT OUTREACH

WAGE AND FREEDOM OF ASSOCIATION ISSUES IN CAMBODIA

The adidas Group joined four major brands in writing to the Cambodian Government to express our concern over the reported intimidation and harassment of trade union officials who had participated in a national strike to raise wages. Staff from the International Labour Organization's (ILO's) Better Factories programme – which monitors labour conditions in adidas Group supplier factories in Cambodia – provided us with regular updates on the situation and reached out to government, the local manufacturers association and the trade unions to obtain their perspectives.

A full statement, including a copy of the letter to the government, is on our corporate website at http://www.adidas-group.com/en/sustainability/statements/2010/minimum_wages_cambodia_oct_2010.aspx

GOVERNMENT ENFORCEMENT OF MINIMUM WAGES IN INDIA

On 2 March 2009, the State of Karnataka issued a notice increasing the minimum wage for the apparel industry. This was the first increase to workers' basic wages since 2001. The Clothing Manufacturer Association of India filed a petition with the government, disputing the way in which the new minimum wage had been calculated. In response to the petition, the State Government wrote to the local Labour Commissioner requesting that he reviews the figure.

Despite repeated reminders to our suppliers that they were legally bound to pay the new wage, they all refused to do so, arguing that they were awaiting the outcome of the Labour Commissioner's review. After a year without any meaningful result, and despite numerous engagements, the adidas Group wrote to the Minister of Labour highlighting the failure of the government to uphold the law and the minimum wage for workers. On 30 March 2010, the Karnataka Government released a revised minimum wage notification replacing, and reducing, the previously published minimum wage. The adidas Group acted quickly to secure a commitment from all our suppliers to pay the revised minimum wage and to settle any arrears in wages owed to workers, including employees who had already left the employment of the factories since March 2009.

COTTON IN UZBEKISTAN

In 2010, there were ongoing concerns regarding the continued use of government-backed forced child labour during the cotton-picking season in Uzbekistan. We joined an alliance of international investors, brands and non-governmental organisations that urged the Uzbek Government to eradicate this practice and to fully adhere to core conventions of the International Labour Organization. We took several steps in support of the alliance's aims:

- We wrote to the Ministry of Foreign Affairs in Germany and asked them to urge the Uzbek Government to stop this practice, and to collectively work with the ILO on improvement measures. The German Government responded to us confirming that they have raised this issue with the Uzbek Government.
- We have been working with our materials suppliers to support them in their efforts to track the origin of the cotton that is used in our products and to confirm that cotton from Uzbekistan is not knowingly used.
- We have obtained assurances from our organic cotton suppliers that their fibres do come from safe and certified sources. Organic cotton suppliers are formally required to have independent tracking systems in place.
- We have piloted and are in the process of rolling out other approaches and methods for tracing the origin of the cotton we use.

A full statement outlining our position is posted at http://www.adidas-group.com/en/sustainability/assets/environmental_statements/Working_conditions_in_the_cotton_industry_en.pdf

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SPORTING EVENTS

PLAYFAIR CAMPAIGN AND THE LONDON 2012 OLYMPIC GAMES

The Playfair 2012 campaign is coordinated in the UK by the Trades Union Congress (TUC) and Labour Behind the Label (LBL) and involves a number of trade unions and campaigning organisations, including the International Textile, Garment & Leather Workers' Federation (ITGLWF) and the Clean Clothes Campaign (CCC). The campaign calls for workers who are producing sportswear with the Olympic logo to have their rights respected. In particular Playfair 2012 has requested that:

- Contracts between the London organisers and sponsors of the Games, and the suppliers making Olympic goods include obligations to meet internationally recognised labour standards.
- Supplier locations and audit results are disclosed.
- Where workers' rights are violated, there is a procedure to enable workers to make a complaint and for this to be dealt with through the involvement of trade unions and local labour rights organisations.

In the lead-up to the Games, the adidas Group has reached out to TUC, LBL and ITGLWF and held an initial meeting to discuss adidas Group's Olympic production and the expectations of the international labour rights movement. As a local sponsor of the Games, the adidas Group has also maintained regular contact with the London Organising Committee of the Olympic and Paralympic Games (LOCOG), which is responsible for preparing and staging the 2012 Games. We have also met with representatives of the Commission for a Sustainable London 2012, an independent body which is tasked with monitoring and assuring the sustainability of the London 2012 Olympic and Paralympic Games. Building on these meetings, a more formal stakeholder dialogue involving a range of civil society and other interest groups will take place in London in 2011.

INTERNATIONAL LABOR RIGHTS FORUM AND THE FOOTBALL STITCHING INDUSTRY

On 2 June 2010, in the run-up to the 2010 FIFA World Cup South Africa™, the International Labor Rights Forum (ILRF) published a research focused on job security and pay for contract labourers making hand-stitched footballs in Pakistan, among other issues. We provided ILRF with our views on the research and supporting information on pay and conditions in the stitching centres and factories that make adidas ball products in Sialkot. A follow-up meeting was held in Pakistan in October 2010 with the ILRF and the International Textile, Garment & Leather Workers' Federation (ITGLWF) to discuss the research findings. Other buyers, suppliers and the representatives from the Sialkot Chamber of Commerce were also present, as was a representative from the ILO. Members of the Government, however, were absent. At that meeting, the NGOs presented a set of recommendations, and it was agreed that the ILO should take the lead in convening future meetings.

Independently, the ILRF has reviewed publicly available information on the adidas Group's social compliance programme and sought our comments and feedback on their rating of the labour conditions under which adidas Group's equipment and footballs are produced. The ILRF review has been published as a profile on www.Free2Work.org. With a rating of A-, adidas was ranked the highest out of the ten soccer ball companies rated.

As part of our ongoing efforts towards supply chain transparency, earlier in the year the adidas Group published a list of all suppliers making World Cup products, including details of their trade union status at http://www.adidas-group.com/en/sustainability/suppliers_and_workers/default.aspx.

CIVIL SOCIETY

THE LEATHER WORKING GROUP/GREENPEACE CAMPAIGN ON DEFORESTATION

The Leather Working Group is a group of brands, retailers, product manufacturers, leather manufacturers, chemical suppliers and technical experts that was created in 2005 to develop an environmental stewardship protocol specifically for the leather manufacturing industry. The environmental protocol that was developed is updated regularly – see www.leatherworkinggroup.com

Audits are carried out at all tanneries that supply leather to the LWG, and based on the outcome of this evaluation they are rated in Gold, Silver, Bronze, Compliant and Non-Compliant. We have made a commitment not to source from tanneries unless they have reached at least a bronze level.

ESTABLISHING HIDE TRACEABILITY

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. The adidas Group and other companies such as IKEA, Nike, Timberland and New Balance responded to this report by working with Greenpeace and other NGOs to bring about improvements to the overall situation in the Amazon. We have channelled our efforts through the Leather Working Group. Our primary effort was to partner with the cattle and meat industry to develop a traceable and transparent system to provide credible assurances that leather used in adidas Group products is only from cattle raised on legally managed ranches.

The following decisions were made and actions taken:

1. To split the cattle-meat-leather supply chain in two parts, that would be handled separately:
 - The down-stream supply chain from the slaughterhouses back to the farms to be monitored by the meat packers.
 - The down-stream supply chain from the leather suppliers back to the slaughterhouses to be monitored by the tanneries through the audit protocol of the Leather Working Group.

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- Big meat packers have committed to only process animals from farms or fattening farms that comply with a number of requirements. These requirements include a detailed GPS perimeter mapping of the farm, certificates from the Brazilian Government for Environment, protection of indigenous lands and slavery-free certifications. Meat packers declared that, as of November 2010, most farms supplying animals to these big slaughterhouses are complying with the above.
- Tanneries have agreed to mark their hides with a code that will allow them to trace back this hide to the slaughterhouse, which in time would link with the meat packer part (see point 2). This will allow us to trace back any leather used at our factories to the fattening farm.
- Within the LWG protocol a classification for hide traceability was established. We are committed to only buy from tanneries that are able to tell us where their hides are coming from (down to the slaughterhouse). This practice is in place and followed by all our leather suppliers that undergo the LWG audit.

VIEW FROM GREENPEACE

The world's tropical forests are still being destroyed at an alarming rate, causing biodiversity loss and threatening the world's climate, and jeopardising livelihoods of millions of forest dependent peoples.

In the Brazilian Amazon, the world's largest tropical forest, an area approximately twice the size of Germany – 73 million hectares – has already been destroyed, according to the Brazilian Ministry of Environment. Brazilian Government analysis shows that 80% of this area is currently used for cattle ranching, with a standard productivity of less than one animal per hectare (the size of a football field). Deforestation for cattle ranching is the biggest driver of deforestation in the Amazon. In turn, forest loss is responsible for approximately 60% of all Brazilian greenhouse gas (GHG) emissions.

Based on this information, Greenpeace started an investigation into the cattle supply chain in Brazil in order to understand who was behind the destruction. In 2009, following three years of investigations, the 'Slaughtering the Amazon' report was published.

The report linked cattle raised on newly deforested areas, inside Indigenous Lands and Protected Areas, and on farms using slave labour, to supermarkets that buy meat and global brands (such as adidas) that buy leather from slaughterhouses operating in the Amazon. After the release of the report, the slaughterhouses reacted to pressure from their customers by committing to clean up their supply chain, and signed the 'cattle agreement'. Pressure from adidas and other international customers was fundamental to achieving this agreement.

Slaughterhouses operating in the Amazon committed to monitor their suppliers and exclude farms involved in any deforestation after October 2009 (when the agreement was signed), farms inside Indigenous Land and Protected Areas, and farms with slave labour.

To do so, the slaughterhouses have to ensure they know where all of their cattle comes from – which farms and where these farms are located. They must only buy from farms that are registered with the State and not unregistered farms (registration gives farmers an official document that details their properties including boundaries). With this information, slaughterhouses can compare farms with information on new deforestation to see if it occurred within their supplier's farm limits. If so, this farm is excluded from the supply chain.

The slaughterhouses recently declared they are buying only from registered farms, and are monitoring farms to ensure they fulfil their commitments. In July 2010, the slaughterhouses also declared they have excluded farms involved with deforestation, invasion of Indigenous Lands or Protected Areas from their list. However, despite the slaughterhouses' self-declarations on what they are achieving, more than one year after the signing of the agreement, the international market still has no way of guaranteeing the reliability of these statements and has not received any independent evidence of changes the ground in the Amazon.

The market must demand transparency and proof that the slaughterhouses' commitments to products free from deforestation bear up to scrutiny. A credible audit is needed – nice words and assurances are not enough. Until such time as this audit is disclosed, adidas and others cannot say to their customers that their products are deforestation-free.

Pressure from the market, civil society, concerned members of the public and other stakeholders is making a difference. This is reflected in figures released by INPE (the Brazilian National Space Research Institute) that show a drastic decline in deforestation in the Amazon. Around 650,000 hectares of forest was lost between August 2009 and July 2010 – the lowest rate since monitoring began in 1988. However, this is still too much forest to lose and the cattle sector remains a main culprit. It is crucial that international market players, adidas included, ensure that the supply of goods around the world is not at the cost of forests and their customers can be assured, with confidence, that their purchases are deforestation free.

Read the full report at <http://www.greenpeace.org/international/press/reports/slaughtering-the-amazon>

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WORKER RIGHTS CONSORTIUM – FIRE SAFETY IN BANGLADESH FACTORIES

At the beginning of March 2010, the Worker Rights Consortium (WRC) wrote to the adidas Group, as well as US university licensees and other brands, calling for 'industry-wide solutions' to ongoing fire safety issues in factories in Bangladesh. The memo from the WRC had been prompted by the death of 21 workers, with many others seriously injured, following a fire at the Garib & Garib sweater factory in the Gazipur district of Dhaka. Although Garib & Garib did not produce for the adidas Group, we shared a common concern with the WRC regarding the poor state of fire and electric safety in many of the older manufacturing sites in Dhaka.

We provided a comprehensive response to the WRC's call to action and participated in subsequent multi-stakeholder calls. On the ground, we reviewed the conditions in each of the nine factories making Group branded goods in Dhaka at that time and provided additional training to safety officers in those factories. We also strengthened the capabilities of a local NGO, which has increased the frequency of fire safety inspections.

NATIONAL LABOR COMMITTEE REPORT ON THE CHI FUNG FACTORY IN EL SALVADOR

The National Labor Committee (NLC) published a report in early February 2010, alleging several breaches of labour standards and ineffective auditing at the Chi Fung factory in El Salvador, which makes NFL-shirts for Reebok.

The adidas Group learned of the allegations at Chi Fung in late January 2010 and commissioned a respected local member of the civil society to conduct an investigation. A team composed of experts in law, business management and health and safety, started their work on 23 February 2010. They reviewed payroll documents back to 2006, interviewed dozens of workers on and off site, evaluated factory management systems and processes, and conducted a thorough inspection of the production floor's mechanical infrastructure. The preliminary findings were given to us on 15 March 2010. Some of the NLC allegations proved to be true. In all cases of non-compliant activities, corrective actions are underway.

TAKING ACTION

Allegations of breaches in employment rights have been fully addressed. All overtime is being paid correctly and is strictly voluntary. All compensation will be registered with the government, including the incentive programme. Communication channels, one internal and one external, have been implemented to receive employee grievances including complaints of harassment by supervisors. In the instance of health and safety allegations, there are corrective actions in place for bathroom hygiene, the availability of personal protective equipment, electrical wiring infrastructure and ambient ventilation. Improvements have been made in preventative maintenance procedures, and additional staff assigned to repairs. A surveillance camera which had been installed near the production floor bathrooms as a security measure has been moved to another location.

However, the allegation of ineffective auditing is more complex. Previous audits by the adidas Group's Social and Environmental Affairs staff have identified and remediated non-compliant issues at Chi Fung since 2003. One persistent roadblock has been inconsistencies between the findings and enforcement actions from Chi Fung's buyers and the Ministry of Labor Inspectorate. We will continue to engage the El Salvador Government in efforts that promote the efficacy of national regulatory agencies and the enforcement of employment, health and safety laws.

Read our statement on the initial allegations on our corporate website at http://www.adidas-group.com/en/sustainability/statements/2010/nlc_report_chi_fung_may_2010.aspx

CLEAN CLOTHES CAMPAIGN – WORKPLACE CONDITIONS AT THE FACTORIES CHING LUH AND FRAMAS IN CHINA

Factory conditions and worker rights remained a topical subject during 2010, reflecting the mainstream concerns of many of our most vocal stakeholders. In June 2010, the Clean Clothes Campaign (CCC), Germany, published a report on two factories producing adidas Group products in China – one a footwear assembly plant, the other a component supplier. We followed our standard practice by launching an investigation to verify the claims being made and providing CCC with a detailed response to each allegation and issue. The majority of the concerns were focused on working conditions at Ching Luh, a large-scale athletic shoe supplier. Some of the allegations stated in the report were not corroborated, but others were confirmed through worker and management interviews, as well as document reviews. Ching Luh responded positively and took steps to remedy those issues, which we have verified. Improvements were made to hiring practices, the processing of worker leave applications, final payments of wages following a worker's resignation, bonus payments and the rotation of workers handling hazardous chemicals.

OXFAM AUSTRALIA AND INDONESIA

Oxfam Australia has been monitoring worker rights in Indonesia for more than a decade and has regularly communicated and campaigned for improved working conditions in adidas Group suppliers. In Indonesia, Oxfam Australia's principal concerns relate to workers' job security and their inability to exercise their fundamental right of association through trade union membership.

Read more about Oxfam Australia's campaign at <http://www.oxfam.org.au/act/take-action/workers-rights/2010-05-adidas-stop-wearing-us-out>

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Our engagement in 2010 centred on three topics, all of which carried forward dialogues from previous years:

- We responded to calls from Oxfam Australia to 'live up to our promises', regarding support for the recruitment of former trade union officials and others who had lost employment due to factory closures.
- We held meetings and exchanged correspondence with Oxfam Australia on specific factory issues and the infringement of trade union rights, including the injury of workers by police when a picket line was crossed during a strike.
- We have been transparent in sharing information on the weaknesses of recruitment practices at our suppliers.

As one of the fastest-growing sourcing countries in Asia, the adidas Group has witnessed steady progress and improvement in the workplace conditions in Indonesia. Nevertheless, we also acknowledge and accept that our suppliers continue to face challenges as they strive to meet our Standards, as well as international NGO expectations.

In May 2010, we posted a statement responding to Oxfam Australia's concerns on our corporate website at http://www.adidas-group.com/en/sustainability/statements/2010/oxfam_campaign_letter_may_2010.aspx.

One area where we have been collaborating closely with Oxfam Australia and with the ITGLWF has been in the development of a Freedom of Association Protocol for Indonesia. The adidas Group has acted as the lead party in a supplier-brand caucus that has been formed to engage with Indonesia's trade union movement, to develop a basic framework for the exercise of trade union rights in the workplace. After one year of negotiations, agreement was finally reached on a draft protocol to be shared with other brands and suppliers in the sporting goods industry in Indonesia. We are hopeful that this will set an important benchmark for suppliers and that the provisions in the protocol will close the gap in expectations and reduce misunderstandings between factory managers and trade union officials with respect to trade union activities, rights of access and so on, thereby improving the overall industrial relations environment.

COLLABORATIONS AND MEMBERSHIPS

The following table summarises other key collaborations and memberships held by the adidas Group in the area of sustainability. We describe the principal reasons for our ongoing participation in each of these organisations.

In 2010, we decided to join several organisations, including:

- The Global Social Compliance Programme (GSCP) see www.gscpnet.com, which seeks to harmonise industry approaches to environmental and workplace conditions, and
- The Apparel Coalition, a grouping of like-minded brands who are looking to develop common sustainability tools.

Organisation	Website	Type	Member since	Status	Reason for participation
Apparel and Footwear International RSL Management (AFRIM) Working Group	http://www.afirm-group.com/	Industry Association	2004	Founding member and participating company.	Industry-leading group that strives to reduce impact of harmful substances and tracks regulatory compliance.
Better Cotton Initiative (BCI)	http://www.bettercotton.org/	Multi-Stakeholder Organisation	2004	Founding member and participating company.	BCI aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide.
Fair Labor Association (FLA)	http://www.fairlabor.org/	Non-profit organisation	1999	Founding member and participating company; Board seat.	Independent accreditation and oversight of our internal programmes.
Fair Factories Clearinghouse (FFC)	http://www.fairfactories.org/	Non-profit organisation	2006	Founding member (Reebok) and participating company; Board seat.	To promote transparency and share audit findings and remedial action plans across the industry.
Leather Working Group (LWG)	http://www.leatherworkinggroup.com/	Industry Association	2005	Founding Member and participating company.	To improve environmental conditions in the leather supply chain.
Outdoor Industry Association (OIA)	http://www.outdoorindustry.org/	Industry Association	2009	Member and participating company.	To participate in the development of an industry-leading ECO-Index.
European Outdoor Group (EOG)	http://www.europeanoutdoor-group.com/	Industry Association	2009	Member and participating company; interim Vice Chair of the sustainability working group.	To engage with players in the outdoor industry on sustainability matters.
World Business Council for Sustainable Development (WBCSD)	http://www.wbcسد.org/	Industry Association	2001	Member and participating company.	Forum to engage with other global companies concerned with sustainability.
World Federation of the Sporting Goods Industry (WFSGI)	http://www.wfsgl.org/	Industry Association	1985	Founding member and participating company; Chair of CSR Committee.	Representing the sporting goods industry in various venues and to drive alignments among members.

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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:

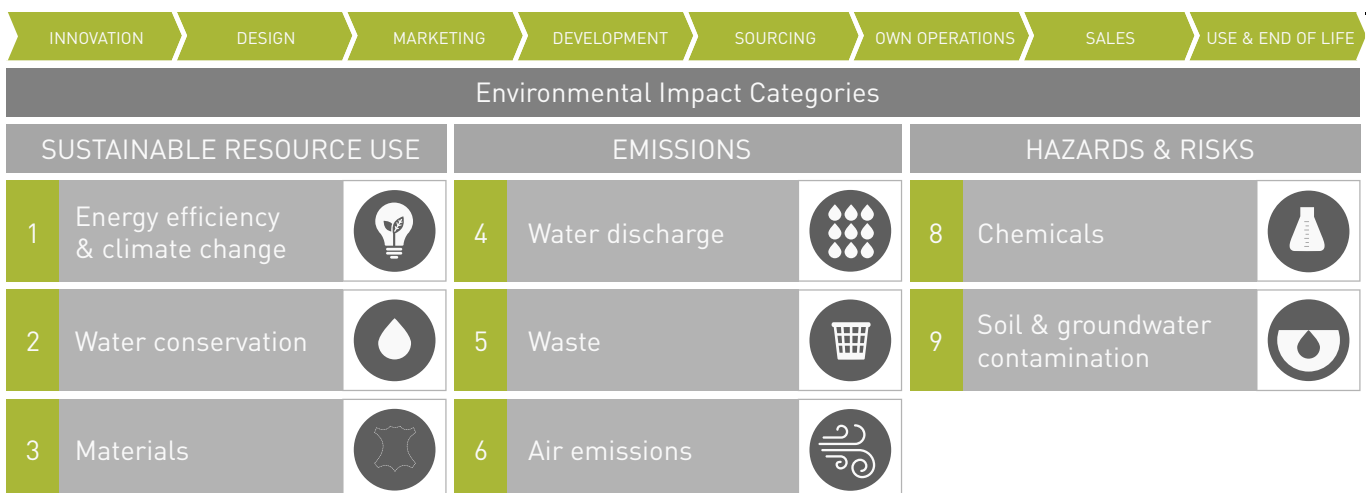
- Save energy and reduce carbon emissions
- Save water
- Reduce the use of raw materials, using more environmentally friendly materials
- Reduce waste
- Reduce toxicity, for example through using less toxic chemicals and through efforts to reduce the pollutants in waste water at supplier factories
- 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.





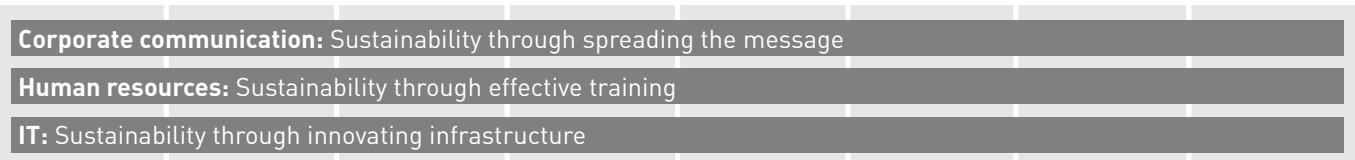
MANAGEMENT PROCESS



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.

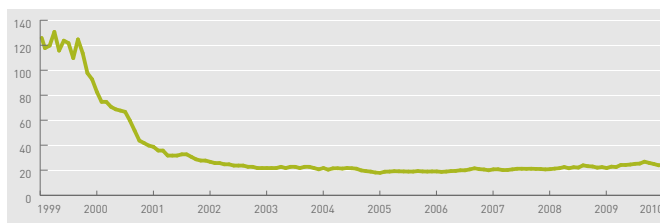
In extending the programme we continued to engage with material scientists to understand the environmental impact of chlorine-based materials. We therefore also eliminated the usage of Polyethylene Chloride in 2003 for having a similar environmental footprint as PVC.

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.

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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/>

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.

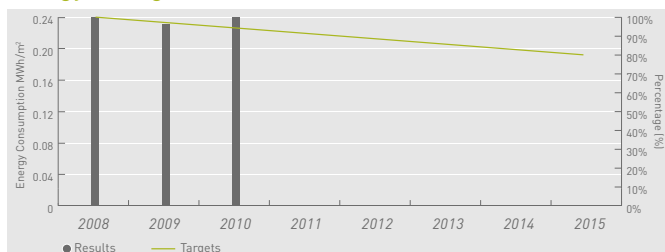
We developed a new web-based tool with the aim of covering at least 80% of our emissions and resource use of our internal operations. The tool has been designed to ensure a consistent quality review of the data collected. Furthermore, the tool calculates the corresponding carbon emissions, but also all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

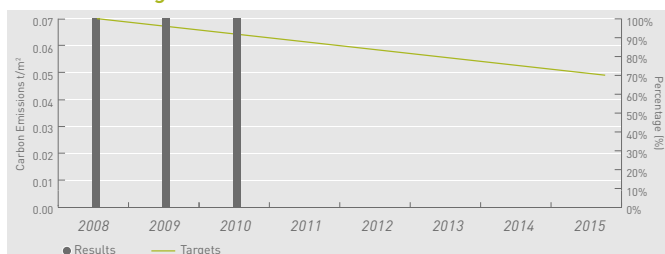
FOLLOW UP ON TARGETS

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.

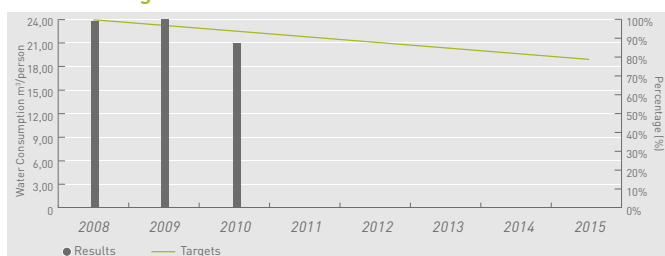
Energy Savings



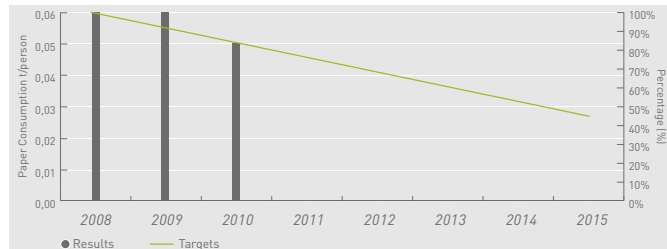
Carbon Savings



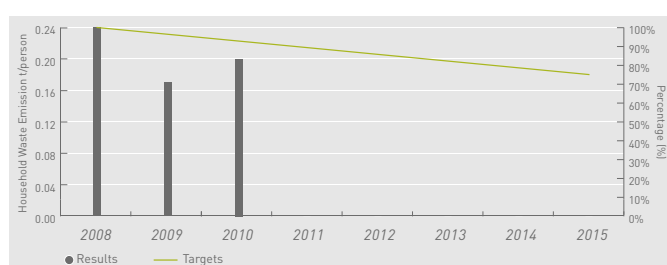
Water Savings



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 Mattapoisett 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

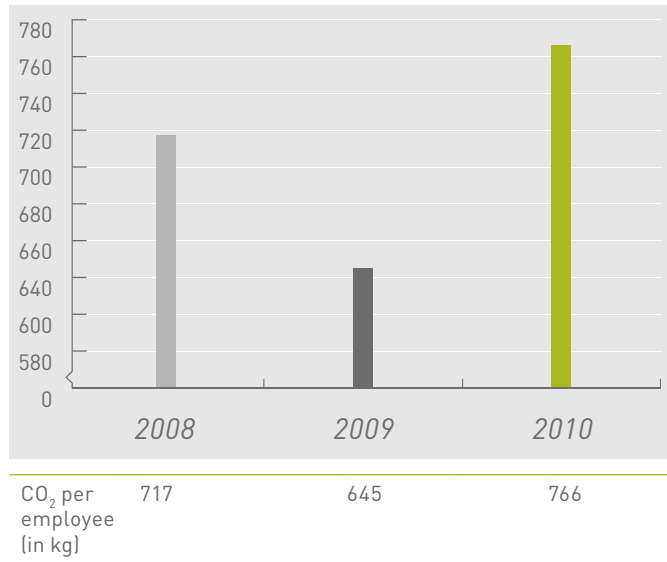
As a global business, with many locations worldwide and a global supplier base, air travel is widely used by adidas Group employees. Since global travel is an important driver of our carbon emissions, this area was included into our Green Company target setting in 2009. The defined goal is to reduce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

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SUPPLIERS

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Workers in our suppliers' factories play a central role in our programme. It was concern for their working conditions and well-being that led us to write our 'Workplace Standards'. Our suppliers must also safeguard their workers' health and safety and ensure environmentally sound factory operations. To explain how we expect our suppliers to live up to our Standards, we have produced a number of supporting guidelines that further define expectations for fair, healthy and safe workplace conditions.

Our supply chain is large, multi-tiered and varied. We have a detailed approach to managing the relationships with our suppliers and we continue to develop approaches for engaging suppliers who are part of indirect sourcing models. Monitoring compliance is carried out by the adidas Group's SEA staff and commissioned third party experts while independent auditors verify compliance or evaluate our Workplace Standards' programmatic activities. We are committed to facilitating workplace improvements and work with others to achieve this, so we continue to invest in training our suppliers and reaching out to stakeholders and third party service providers. We have a process for enforcing compliance with our Standards and an innovative system for rating suppliers. This rating then informs the Sourcing team's decision about whether we continue the business relationship with that supplier.

OUR SUPPLY CHAIN

The adidas Group has outsourced most of its production. We work with more than 1,200 independent factories from around the world that manufacture our products in 69 countries. Many of these are in one of the following five countries: China, India, Indonesia, Thailand and Vietnam.

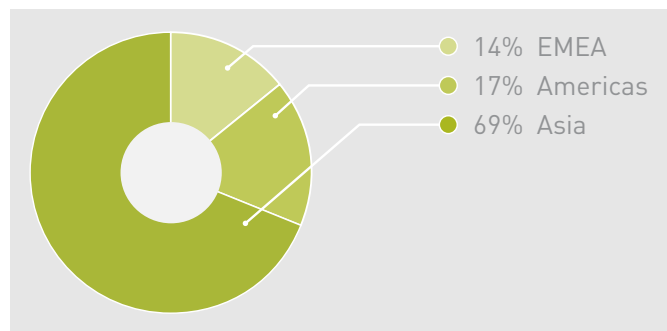
Our supply chain is global and multi-layered, with many different types of business partners, some of whom are directly contracted and others who are not.

In 2010, the top five countries per region by number of supplier sites were:

- The Americas: United States, Brazil, Canada, Mexico and Argentina
- Asia: China, India, Indonesia, Vietnam and Japan
- EMEA: Germany, United Kingdom, Italy, Spain and South Africa/Turkey

Our influence in terms of social and environmental compliance is linked to the strength of our partnerships, and is often proportional to the scale and stability of the orders placed with our suppliers.

Supplier factories by region in 2010



DIFFERENT SOURCING RELATIONSHIPS

DIRECT SOURCING MODEL

The adidas Group holds direct contractual relationships with its core suppliers who are centrally supervised by Global Operations. Global Operations manages product development, commercialisation and distribution and also supervises the manufacture of apparel, footwear and accessories for the adidas, Reebok and TaylorMade-adidas Golf segments. In addition, Global Operations leads our Group's efforts in supply chain optimisation.

These suppliers produce the predominant share – approximately 75% of the total sourcing volume of the Group – and can be characterised as our 'direct supply chain'. There are other parts of our business that have direct sourcing arrangements which lie outside of the central control of Global Operations. These include Rockport footwear, CCM Hockey sticks and TaylorMade clubs.

INDIRECT SOURCING MODEL

The other part of our product volume is sourced by agents or is made under licence. Agents place orders with their preferred suppliers. Licensees may either place orders directly with their suppliers or use agents as intermediaries.

Our indirect supply chain complements our direct sourcing by meeting specific requirements that cannot be serviced through Global Operations.

LOCAL MARKET PRODUCTION

In order to quickly seize short-term opportunities in their local markets, to satisfy a niche market requirement, or in some cases to react to certain trade regulations, adidas Group subsidiaries may also source from local suppliers that are not overseen by Global Operations but do require its authorisation. Local purchases, however, account only for a minor portion of the Group's total sourcing volume.

The multiple sourcing relationships are recorded and tracked through the Fair Factories Clearinghouse (FFC), the adidas Group's primary factory compliance tracking system.

Read more about how we work with the FFC on page 46.

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The adidas Group is one of the very few companies in the industry that has fully disclosed its global supplier list on its corporate website. The list is updated twice a year can be found at http://www.adidas-group.com/en/sustainability/suppliers_and_workers/default.aspx.

TYPES OF SUPPLIERS

Our suppliers fall into five broad categories:

- Main suppliers
- Subcontractors
- Material and other service providers
- Licensees
- Agents.

MAIN SUPPLIERS

These are suppliers that have a direct contractual relationship with the adidas Group for the supply of products, whether for export or domestic market consumption. We call these Tier 1 suppliers. The largest of these have multiple factories and manufacturing sites across several countries.

SUBCONTRACTORS

These are factories that have been subcontracted by our suppliers. Although they have no direct contractual relationship with the adidas Group, we do require them to be compliant with our Workplace Standards before authorising them as subcontractors.

MATERIAL AND OTHER SERVICE PROVIDERS

These suppliers may not have a direct business relationship with the adidas Group, but supply goods and services to our main suppliers. Within this category, there are nominated material suppliers with whom we work to develop specific fabrics and components.

LICENSEES

Independent companies which manage the design, production and distribution of specific products, under licence to the adidas Group. In 2010, the adidas Group worked with 45 licensees whose suppliers sourced products from 307 factories in 45 countries.

AGENTS

Independent companies that act as intermediaries. They determine where products are manufactured, manage the manufacturing processes, and sell finished products to the Group.

Supplier relationships overview



MAJOR TRENDS IN OUR SUPPLY CHAIN IN 2010

In response to the 2009 global economic crisis suppliers significantly reduced their production capacities, only to face pressure when 2010 saw an upswing in demand for athletic footwear and sports apparel. This caused considerable production peaks at many of our suppliers' factories, with associated working hours' issues. The additional hours however also increased workers' pay through overtime premiums.

We see several major trends in our supply chain that have a direct bearing on the scale and focus of our social and environmental programme:

- Growing business with our strategic suppliers producing for the international export market. These suppliers have invested in additional production capacity and operate factory facilities in multiple countries.
- Growth in licensee and agents business as the adidas Group develops new business segments and product lines.
- Growth of athletic footwear production outside of China, as a result of trade restrictions. New factory capacity has been developed in Indonesia and Cambodia, which are highly unionised countries.
- Relocation of suppliers from southern China and coastal areas to inland provinces continues as business partners look for lower fixed operating costs and access to new sources of labour.
- With stakeholders increasingly concerned about primary material sources, including cotton production, there is a growing demand for more transparency along the supply chain and improvements in tracking materials.

WORKPLACE STANDARDS

The Workplace Standards are rules we apply at our own sites and our suppliers' factories to cover health and safety, labour rights and environmental protection. The Standards draw from international law and the International Labour Organization conventions, and follow the model code of conduct of the World Federation of Sporting Goods Industry. We revised the Workplace Standards in 2001 and 2006 in consultation with labour rights groups.

We expect all our suppliers to live up to these Standards. They are a contractual obligation under the manufacturing agreements the adidas Group signs with its main business partners.

Read our Workplace Standards on our corporate website at http://www.adidas-group.com/en/sustainability/suppliers_and_workers/code_of_conduct/default.aspx

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SUPPORTING GUIDELINES

To explain how we expect our suppliers to live up to our Standards, we have produced a number of supporting guidelines that detail our expectations for fair, healthy, safe and environmentally sound workplace conditions. They make the Workplace Standards understandable and practical, provide additional guidance for our suppliers, and help us work together to find effective solutions to workplace problems.

Our guidance materials are:

- Health and Safety Guidelines
- Guidelines on Employment Standards
- Environmental Guidelines/Guide to Best Environmental Practice
- Worker Cooperative Guidelines
- Enforcement Guidelines
- Guidelines on Sustainable Compliance
- Termination Guidelines.

In 2010, we issued revised versions of some of the guidelines following a comprehensive review. Our guidance materials are publicly available in full on our corporate website.

NEW HEALTH AND SAFETY GUIDELINES

The adidas Group's new Health and Safety (H&S) Guidelines have been developed in two parts. The first part describes occupational health and safety fundamentals, and is based on our previous Health, Safety and Environment Guidelines. We have incorporated international best practices and standards such as fire extinguisher coding, exit route requirements and extended the number of banned chemicals. We have also taken the opportunity to clarify areas of uncertainty which have been raised in the past.

The second part of the new H&S Guidelines focuses on 'Technical Application' and brings together previous Guidance Notes and Advisory Notes issued to our suppliers, including such topics as: Personal Protective Equipment (PPE) Requirements, Occupational Hazards Risk Assessment and Ergonomics.

The guideline was distributed in March 2010 after it had been translated into our business partners' key languages.

SECOND EDITION OF THE GUIDELINES ON EMPLOYMENT STANDARDS

Since the launch of the adidas Group's first Employment Guidelines in 1999 there have been many developments on the industrial relations front, as well as increased expectations about our suppliers' own ability to better manage their staff resources. To reflect those changes, we undertook a comprehensive review of our previous guidance and prepared a new set of updated Employment Guidelines. We have termed the new guidelines our second edition.

In the second edition, the key do's and don'ts in relation to the seven employment standards remain the same. In most cases, we have simply updated the case studies to reflect more recent practices in factories, and have provided more relevant sample documentation.

As with the first version of our Employment Guidelines we have sought to build on our rich and varied experiences in tackling worker complaints and remediating specific factory issues. Hence, the guidance seeks to clarify our expectations around some core requirements, such as wage payment, working hours and leave. It also covers the protection of workers against harassment and management retaliation, as well as their fundamental rights, such as the right to strike and privacy issues. We set out our position on some of the more complex and often intractable issues, such as fair wages and migrant labour and the use of employment agencies and middle men which may exploit workers and remove the security of employment. We have also taken the opportunity to integrate guidance on layoffs and redundancy which was first developed in response to the 2008 financial crisis.

NEW ENVIRONMENTAL GUIDELINES

These Guidelines complement the guidance offered in the 'Guide to Best Environmental Practice' (BEP) that was launched in 2005. The BEP, as the title implies, is all about best practices, whereas the Environmental Guidelines describe minimum requirements in terms of managing and reducing the use of resources and materials and ensuring that the resulting waste, discharges and emissions are also minimised and meet regulatory requirements. The Environmental Guidelines are the benchmark for environmental assessments conducted at selected supplier sites.

GROUP-WIDE STANDARD OPERATING PROCEDURES

To ensure adherence of the adidas Group businesses with the Workplace Standards in terms of supplier inspections, selection and authorisation, Standard Operating Procedures are in place that are mandatory to all entities of the adidas Group.

Core policies and procedures that are part of the adidas Group's policy manual include:

- A Factory Approval Policy, which describes the procedures for getting SEA authorisation for all production
- External Monitoring Policy, which outlines requirements for external monitors conducting factory assessments on behalf of adidas Group business entities and licensees
- A Termination Guideline, which describes our approach to ethical termination of suppliers
- The Fair Factories Clearinghouse procedure, which describes the responsibilities for disclosing and maintaining data in the Group's supply chain database.

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MANAGING OUR SUPPLIERS

Beginning with the foundation of our programme – our Workplace Standards – these are the steps we go through to manage our supply chain and improve workplace and environmental conditions:

2010 HIGHLIGHTS

IMPROVING WORKER-MANAGEMENT RELATIONS

In 2010, we continued to improve the management of relationships with workers and employers. We participated in two mature activities with workers and employers in our direct and indirect supply chains. Workers from 400 Chinese factories have access to confidential reporting channels and the outcomes of the hotlines are encouraging. Fifteen more factories joined the management training initiative to learn about Human Resources Management Systems (HRMS), bringing the three-year total to 75 factories in China and Vietnam. Please see the interview and case study for more information about Worker Hotlines on page 50 and the HRMS project on page 46.

There are other key projects that looked at worker-management relations and trade union relations in particular, including developing a freedom of association protocol in Indonesia on page 14. We also funded the ILO translation of industrial relations guidance material in Vietnam.

CLUSTERING OUR SUPPLY CHAIN

Another highlight from 2010 was an improvement in how we monitor supply chain compliance by customising programmatic activities with three new (and redefined) clusters of the supply chain. These clusters stressed more value-added practices by the fair, good and best compliance performers. The highest performing suppliers implemented 'Self-governance' activities, including more sophisticated reporting. Fair, good and best performers participated in the 'Partnership' cluster, focusing on collaboration with multiple buyers in shared factories (such as the Sustainable Compliance Initiative and the Brown Shoe Collaboration), and suppliers' participation in multi-stakeholder initiatives (such as the FLA and Better Work). The poorest performing suppliers are in the 'Risk Management' cluster.

DRIVING ACCOUNTABILITY

2010 saw an increase of adidas Group business entities which are embedding compliance practices in their sourcing and procurement policies. Fifty-five Group entities follow three-year strategic compliance plans and receive annual performance reviews. Monitoring those entities' supply chains was leveraged with more collaborative practices and data sharing through the Fair Factories Clearinghouse.

Read more about this in the Strategic developments section on page 54.

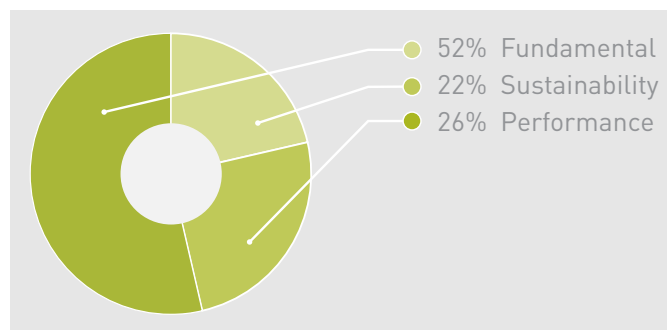
TRAINING SUPPLIERS

In 2010, we continued our intensive efforts to provide training for our suppliers, licensees and employees from the adidas Group's operational departments.

We have three main types of training:

- **Fundamental training:** includes introductory training for the Workplace Standards, Fair Factories Clearinghouse (FFC) data entries, the new factory approval process and the SEA operating guidelines
- **Performance training:** includes detailed training on specific issues on labour, health, safety, and environmental practices, as well as initial assessment monitoring methods
- **Sustainability training:** includes training in the KPI and rating tools, sustainable compliance planning and supplier self-assessment methods.

Supplier trainings



In 2010, 193 training sessions were conducted by the SEA team. Included in this total number are 73 group training sessions where there is more than one supplier participating:

Americas - there were 80 training sessions provided to more than 170 adidas Group staff and suppliers' compliance personnel.

EMEA - there were 14 training sessions for more than 80 adidas Group staff and suppliers' compliance personnel.

Asia - there were 99 training sessions for more than 1,960 internal staff and suppliers' compliance personnel.

Read on for some training initiatives from 2010:

FFC training on page 46.

Human Resources Management Systems training on page 46.

Better Work on page 46.

EHS Academy on page 47.

Occupational Health and Safety Officer programme on page 48.

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FFC TRAINING

Since 2006, the adidas Group has used the Fair Factories Clearinghouse (FFC) platform as the Group's internal compliance database. The FFC platform facilitates the management of compliance data from all adidas Group suppliers producing footwear, apparel and accessories. A key feature of the FFC database is sharing audit data, and the adidas Group has shared audit and monitoring information with other FFC member companies since November 2008. All SEA internal and commissioned external monitoring reports are archived and open to sharing. This has facilitated our work with other brands to develop harmonised corrective action plans and joint auditing activities.

There are clear benefits in collaboration, including:

- A reduced number of compliance assessments which is more efficient for both brands and suppliers
- More streamlined communications between FFC member companies and suppliers
- Increased leverage to drive remediation according to common agreed actions.

All adidas Group business entities are required to disclose supplier data on the FFC prior to the start of production. Bi-annual reviews and maintenance ensure that supplier data is correct and current. Audit reports, findings and performance ratings are regularly uploaded to suppliers' FFC accounts, allowing SEA and Sourcing departments to track progress and corrective actions. Photos, documents and other forms of record-keeping are also uploaded and maintained as verification of compliance activities.

SEA continuously trains the Group's user community in all aspects of the FFC's functions. Selected factories in our supply chains are given FFC training to encourage them to take responsibility for their own compliance. As a result, the FFC system and functions drive detailed, transparent reporting which in turn allows the increasingly effective management of compliance performance in our diverse, global audience of business entities and supply chains.

HUMAN RESOURCES MANAGEMENT SYSTEMS TRAINING

After years auditing in factories, the adidas Group recognised there was a lack of fundamental HR systems in Asia Pacific region factories. The introduction of more sophisticated production set-ups such as Lean manufacturing required more sophisticated HR practices.

COLLABORATING TO CREATE THE TRAINING PROGRAMME

The Human Resources Management Systems (HRMS) approach was initiated in 2006 on a collaborative basis by adidas, Reebok, Nike, Puma, New Balance and Columbia Sportswear. Consultant TÜV Rheinland developed human resources management training materials with the brands and their suppliers. Core elements of the HRMS address job descriptions, recruitment policies, compensation and benefit systems, training and job development systems, target

setting and performance evaluations. At launch, the HRMS process included one year's practical training sessions, milestone setting, presentations and sharing sessions, peer educator development and feedback sessions.

The HRMS was launched in China in 2006 by adidas, Reebok, Nike and Puma working with TÜV Rheinland. That year, four training groups comprising 27 factories participated. During 2008–2009, two additional groups of 33 factories went through the training. The HRMS was launched in Vietnam in 2008 by adidas, New Balance, Columbia and Puma. In the last two years, 15 suppliers have completed the training programmes. The government agency Vietnam Chamber of Commerce and Industry (VCCI) contributed financial support for language translations of the training materials.

MAKING A DIFFERENCE

Suppliers in both target countries commented on the effectiveness of the interactive training approach. The HRMS training has encouraged the development of HR manager networks which share good practices and collaborate on continuous improvement. Many participating suppliers saw increased operational efficiencies once the HRMS was implemented. And the SEA team's key performance indicators reflect significant improvements where suppliers implemented HRMS.

LATEST DEVELOPMENTS

To promote stronger executive management commitment at the factory level, the programme was re-designed in 2008 to include one-day workshops for executive management. That made a notable difference in 2009 and 2010 activities, especially in Vietnam.

In 2011, the HRMS China project will focus on self-training as well as customised training in self-governance practice. In Vietnam, the plan is to gradually turn the project over to the joint IFC-ILO Better Work initiative which is developing a service platform for the apparel industry.

In addition, in 2011, we will ensure the fundamental elements of the HRMS are benchmarked within the Sustainable Compliance Initiative's (SCI) monitoring tool.

BETTER WORK

THE PROGRAMME

Better Work (BW) is a global programme, which is a unique partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC). It unites the expertise of the ILO in labour standards with that of the IFC in private sector development. Launched in February 2007, the programme aims to improve both compliance with labour standards and competitiveness in global supply chains. BW involves the development of both global tools and country-level projects, with a focus on scalable and sustainable solutions that build cooperation between governments, employers' and workers' organisations and international buyers.

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ADIDAS GROUP ENGAGEMENT WITH BETTER WORK

The adidas Group has been involved with BW since the launch of Better Factory Cambodia (BFC), the predecessor of BW in Asia. The project grew out of a trade agreement between the United States and Cambodia. Under the agreement the US promised Cambodia better access to US markets in exchange for improved working conditions in the garment sector. The ILO project was established in 2001 to help the sector make and maintain these improvements.

Since the programme began, all adidas Group garment factories in Cambodia have been monitored by BW on a regular basis. BW has its own training and capacity building programmes to support factory workers and management. The training topics range from ILO core labour standards and workers' rights to human resources management, supervisory skills and occupational safety and health, among others. The training programmes have been quite successful and one that has been particularly popular amongst our suppliers has been the supervisor skill training. A video of it can be seen on at <http://www.youtube.com/watch?v=YQRbrEN1EJY>

OUTSTANDING ISSUES IN CAMBODIA

BFC has been highly successful in promoting Cambodia as a responsible sourcing country, but sourcing from Cambodia has not been without its challenges. In the last few years there has been a rapid growth in the number of trade unions within the apparel sector, with many smaller unions competing for attention from the same pool of workers and from management. With a weak national registration system many of the newly formed unions are not well organised and their operations are not always transparent. In 2010, there was a series of major strikes triggered by trade union demands for a higher minimum wage in Cambodia. BFC played an important role in keeping brands abreast of government views and reporting on progress with the tripartite negotiations. For more information please see our stakeholder engagement on page 11.

SLOW TAKE-UP IN VIETNAM

In June 2009, BW launched its programme in Vietnam, transferring the experience and knowledge from BFC. The adidas Group has supported BW Vietnam, but has faced some challenges in securing the participation of our suppliers. Challenges are that:

- BW Vietnam is a voluntary programme, unlike the government mandated arrangement in Cambodia
- The scope of BW Vietnam is confined to apparel, whereas in Cambodia our suppliers include large footwear and accessory operations
- Perhaps most importantly, the monitoring conducted by the adidas Group's own internal compliance team is free of charge, whereas there is a fee attached to monitoring under BW.

As a result by the end of 2010, only four adidas Group suppliers had joined the BW programme. We are hopeful that more suppliers will sign up for BW-run skills training planned for 2011.

NEXT STEPS

In November 2010, the adidas Group in partnership with H&M and other multinational companies formed a brands' working group to improve buyer engagement and support for the roll-out of BW in Vietnam and prospective BW countries in the region, such as Bangladesh and Indonesia. The working group activities will feed into a BW industry task force that has been established by the ILO and IFC.

We are considering signing up factories in Haiti, Nicaragua and Jordan to be exclusively covered under the BW programme.

Find out more about Better Work at www.betterwork.org

Ms. Vu Thi Hoang Yen, Production Manager at Vinh Hung Co. Ltd., Vietnam:

"I have to say this is the best training I have ever attended. It is useful and applicable for my managerial level and middle management as line supervisor. The knowledge gained from this training is useful for me and my other colleagues in the company."

Mr. Kim Young Woo, Hansoll Vina, Vietnam/Cambodia:

"Hansoll factories in Cambodia had already joined the Better Factories Cambodia programme several years ago according to the Cambodian government's policy; hence we have had an interest in the Better Work Vietnam (BWV) programme as well. The BWV programme started due to the success of BFC, and we joined with the persuasion of adidas and other brands. The benefit is that for Hansoll factories that joined BWV, brands are now accepting ILO audit reports as a substitute for their own audits."

EHS ACADEMY

The recruitment and retention of qualified occupational health and safety staff has been an ongoing challenge for our suppliers, especially in those countries where there is a lack of trained professionals. To address this concern, in 2006, the adidas Group launched the Safety Officer Programme, both mandating that suppliers retain safety personnel and also providing the necessary training to build their internal capacity. The results however were mixed. Although there were short-term improvements to workplace conditions, the factory-appointed safety officers used their newly acquired qualifications to find better paying employment in other industries. Faced with the high turnover in safety officers, it became apparent that the adidas Group-led training was not sustainable and a more institutional approach was needed; one that would build capabilities at an industry level.

FORMING THE ACADEMY

In 2007, the International Sustainable Community (ISC) – a US-based development NGO – approached the adidas Group, General Electric (GE) and a number of other global companies, with the idea of creating an Environment, Health and Safety (EHS) Academy, to expand the pool of qualified EHS managers in southern China. The initiative had the backing of USAID and the GE Foundation. A partnership was formed with Lingnan (University) College's Business Faculty in Guangzhou, who offered to host the EHS Academy.

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In 2009, the Academy received official endorsement from the Guangdong Bureau of Labour and Social Security and is now developing a professional, government-sanctioned EHS certification.

THE ADIDAS GROUP'S CONTRIBUTION

From the outset, the Academy drew on adidas Group's industry leadership in supplier-focused health and safety training and our extensive knowledge and experience in working with suppliers in southern China. One of the major contributions made by the adidas Group to the programme was the sharing of our health and safety training modules and our subsequent work with the ISC/EHS Academy team to refine these materials into the EHS Academy's core curriculum. We continue to be deeply involved as a key partner of the EHS Academy and a member of the Academy's Steering Committee.

DEVELOPMENTS IN 2010

Since the launch of the Guangzhou-based EHS Academy, a second facility was opened in Jiangsu Province in 2010 to cope with the demand for building the capacity of EHS managers in northern China. The Jiangsu Academy has focused in particular on environmental aspects and energy management. Building on the lessons learned from the setting-up of the two EHS Academies in China, the adidas Group has been liaising closely with ISC over the prospect of establishing a similar training centre in other sourcing countries in Southeast Asia.

OCCUPATIONAL HEALTH AND SAFETY OFFICER (OHSO) PROGRAMME

The adidas Group's Social and Environmental Affairs (SEA) department launched a Safety Officer programme in 2006 to support internal health and safety within the supplier base in Asia Pacific. Over the past four years that programme has continued to mature, integrating additional practices and requirements and building on the lessons learnt in the delivery and uptake of the training by our suppliers. In October 2010, we launched a new and upgraded Occupational Health and Safety Officer (OHSO) programme to strengthen the technical capability of the safety teams within our key business partner's factories.

COURSE DESIGN

The new OHSO initiative has been designed as a three-year programme and is aimed at the occupational health and safety practitioner or other key individuals in a factory who are responsible for delivering health and safety in the workplace. With due consideration to the various types of manufacturing facility in the supply chain, a standard OHSO Guideline document was developed in which the minimum number of qualified OHSO personnel required by factory size (defined by worker numbers) and pre-qualification requirements are stipulated, and an outline of the individual courses provided. It also caters for different levels of knowledge and reflects the required participation from different management levels (from basic committee, to coordinator, to management level) to help ensure the flow of knowledge and encourage discussion between the different members within the same factory.

The courses are categorised in one of three modules, with topics ranging from Fire Safety to First Aid, Communications to Chemical Management. These courses include topical elements drawn from our revised and updated Health and Safety Guidelines which were launched in April 2010, as well as more technical aspects such as Crisis Management. The training materials have been developed by our own in-house technical specialists and translated into key local languages to help both trainer and trainees.

GETTING PEOPLE ON THE COURSE

As some countries have their own formal safety officer training and recognition schemes, SEA reviews each applicant, to assess the level and extent of training that is appropriate for them.

At the end of December 2010, we had over 250 trainees, representing 174 suppliers, in Asia Pacific attending the Module II – OHS Sustainability and Management, with another 150 trainees to participate in the second round of the first course topic in Q1 2011.

MONITORING COMPLIANCE

Over the past ten years, we have continually refined our methods, tools and techniques to monitor and promote social compliance in our supply chain.

We have adjusted our methodologies and tools to the different sourcing relationships the adidas Group has in place with supplier factories. The two models, direct sourcing and indirect sourcing are summarised below.

Approach	Sourcing model	
	Direct supply chain	Indirect supply chain
Goal	Self-governance	Accountability and risk management
Factory Assessments/ Monitoring conducted by	adidas Group SEA team	External monitors commissioned by SEA
Assessment tools applied	Strategic monitoring tools	Performance assessments
	Compliance plans	Compliance plans
Subject of rating	Individual supplier factory	Business entity responsible for sourcing relationship
Rating tool	SEA KPI	Compliance scorecard

MONITORING OUR DIRECT SUPPLY CHAIN

The strategy applied to our direct suppliers is based on a long-term vision of self-governance in our supply chain where suppliers take ownership of their compliance programme. To achieve this, we need to act both as assessors and advisors – assessing management commitment to compliance and the effectiveness of the programme, and providing help and support to suppliers to ensure success in the long term. We promote effective human resources, health, safety and environmental management systems as an effective way to internalise continuous improvement. Strategy development and execution must be in the hands of qualified, committed and capable middle managers who are supported and empowered by senior management. The Lean manufacturing initiative and SEA activities strive to be collaborative and ensure that suppliers establish systems that support fair, healthy and safe work conditions and deliver improved efficiency and productivity.

Factory inspections are conducted by members of the SEA team. By applying innovative monitoring practices they assess risks and identify root causes of non-compliances. This approach evaluates the effectiveness of factories' compliance systems and in turn leads to a more precise evaluation of training needs.

Factories are required to develop strategic compliance plans (SCP) in which they outline their strategies to meet our Standards. The plans include targets, programmatic actions, planned investments and timelines.

Factory performance is measured annually through a key performance indicator (KPI) which is linked to our Sourcing organisation management and tracking systems.

MONITORING OUR INDIRECT SUPPLY CHAIN

While the major product volumes are sourced through our direct supply chain, some adidas Group business entities follow their own sourcing arrangements. Normally these business units do not establish direct supplier relationships but source products through intermediaries such as agents. We also develop new market opportunities for certain product categories through agreements with licensees who independently manage production.

Business entities are obliged to commission external audit firms to carry out initial assessments in their supplier factories. Business entities or licensees choose external monitors from a list drawn up by the adidas Group.

We have developed detailed guidance so external monitors can conduct assessments in a consistent way. Where these assessments identify the need for remediation processes, they are overseen by the SEA team.

Business entities and licensees are required to submit an SCP to SEA on a regular basis. Similarly to our direct suppliers, these plans outline their strategies, programmes and action steps to ensure compliance in their supply chains. The compliance plans help us track and evaluate the commitment and effectiveness of our business entities' management in ensuring sound compliance practices. SEA then reviews annual progress against the SCP, measures the results, and issues a Business Entity Report Card. Find more information in the Strategic developments section on page 54.

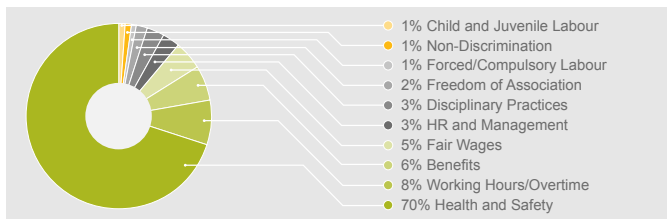
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RECORDING NON-COMPLIANCES

All inspection records including factory audit reports, assessment results and remediation plans are centrally stored in the Fair Factories Clearinghouse database, which has been specifically designed as a sharing platform. We share our findings and develop common agreed action plans with other brands in order to reduce audit fatigue for our suppliers, to standardise and harmonise remediation efforts and to create leverage to drive sustainable compliance.

The following graph illustrates the common non-compliances in our supply chain. The reported non-compliances are dominated by health and safety issues, largely as a result of Initial Assessments identifying and requiring the remediation of occupational health and safety practices to meet our minimum requirements. This results in a high frequency of non-compliance in what can be viewed as safety fundamentals, such as the presence and storage of chemicals in the workplace, fire safety and electrical and mechanical safety

Non-compliances at our existing suppliers by issue type



The ten most occurring health & safety issues are:

1. Chemical Storage
2. Hazardous Chemicals in Production
3. Architectural Considerations: Emergency Exits & Aisles
4. Management Systems for Safety & Health
5. Emergency Preparedness
6. Electricity & Electrical Hazards
7. Machinery & Proactive Equipment
8. Fire Safety: Fire Extinguisher, Hose Reel & Hydrant
9. Housekeeping
10. First Aid

WORKER HOTLINES Q&A

More than two years ago, the adidas Group engaged independent Chinese NGOs to act as contact points for workers employed in the adidas Group supply chain. China Labour Support Network (CLSN) launched their hotline in 2008, and Handshake – a newly formed NGO in southern China – launched the second hotline in 2010. Workers from more than 400 employers (including directly and indirectly sourced factories) have access to these hotlines.

Derek Wang is a Senior SEA Compliance Manager based in our local office in Guangzhou, China, and he looks after the worker hotlines. Here he explains the importance of the hotlines for understanding the scope of non-compliances and helping workers.

Q: How do you feel worker hotlines help the adidas Group to protect the rights of workers?

A: The hotlines provide us with an opportunity to have the workers equipped with the knowledge of the law and health and safety so that they are aware of their rights and the right way to protect themselves from risks in the workplace. We can intervene when there are conflicts between the workers and management. The hotlines create a platform for workers to discuss solutions before pursuing legal action against a factory. We also guide the factory management with remediation plans to improve the internal grievance systems for handling individual cases, to mitigate the risk of conflicts and to prevent reoccurrence.

Q: How do you safeguard the workers against retaliation when they bring grievances forward to the hotline?

A: A confidential agreement was signed with the service providers. Workers' privacy must be protected. Workers can choose either anonymous reporting or to leave their details with the hotline service provider. When publicly reporting complaints, we remove specific details to protect the complainant.

Q: Can you list the most frequent grievances brought forward by the workers?

A: More than 60% are labour rights infringements such as excessive working hours, wage payment and overtime compensation, labour disputes etc. But workers also call up to share their personal issues, the break-up of relationships, homesickness and loneliness.

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Q: How can we be sure the hotline numbers are actually posted in the factories? Additionally, is there any other means of advertising that there is such a number to call?

A: We think that posting the hotline number is not necessarily a true indicator of good social and environmental performance on the part of the factory management. It is better to do a physical inspection and interview workers about their knowledge or use of the hotlines. Tracking the frequency of calls is another important indicator.

We advertise the hotline numbers by posting the phone numbers inside the factory, the dormitories or other areas within the compound and our business cards have the numbers on, too. In cases where we find management preventing the workers from using the hotline, we train employers and employees on hotline process and practice, and adjust the factory's KPI rating if they are not as open and transparent as we wish.

Q: Are there any other grievance channels for the workers to use?

A: We post SEA team email and postal addresses. The factories should maintain suggestion boxes, internal newsletters and communication notice boards. And there's always an opportunity for workers to raise issues with us during our audit interviews with them.

Q: In 2009, Juliana So from CLSN said that the hotline number in China has succeeded because of the commitment and partnership of CLSN and SEA field staff to resolve hard-to fix problems. What's your view on that?

A: Yes, some tough cases were resolved but there are relatively few lawsuits brought by workers in the adidas Group supply chain. The intention of the hotlines is not to prevent lawsuits, but to minimise grievances and urge the factory to abide by the law. But as we know, sometimes arbitration is the only way to resolve a conflict.

We have also seen cases where workers follow a lawsuit when they are not satisfied with internal compensation or settlements. This is particularly true for cases of physical injury. After recent legislation on tort liability law was introduced, workers can now claim civil rights as well as employment rights.

Q: Juliana So also said that another success story is the early interventions which reduce the need for legal actions between workers and factories, as well as providing workers with basic rights information and guidance.

A: It takes a long time to go through a lawsuit procedure. Most workers can't afford the time off or the lawyer's fee, so few of them pursue legal action. In the event where workers have decided to take legal action, the hotline's access to information and guidance on rights helped the litigating workers prepare their case and put them in a better position to negotiation with their employers.

Q: What improvement is needed from the hotline providers?

A: I find it critical to establish the workers' confidence in the hotline service, particularly for those who are calling in for the first time. Staff stability and turnover at the hotline centre is a challenge. Training is constantly needed to maintain acceptable qualities of service. It might be a good idea to have a standardised communications script for the hotline staff, too.

Q: What is the future of worker hotlines? What is the best scenario?

A: We would like to see additional services provided to build capacity for problem-solving, and expand the work that brings the complainant and the management together to solve problems. Our own internal SEA staff need more training to improve how we follow up incoming hotline grievances. More promotion of the hotline services is critical to increase uptake by workers and management.

VERIFYING COMPLIANCE

The adidas Group has played a pivotal role in the maturation of the Fair Labor Association (FLA), a tripartite organisation of companies, universities and NGOs dedicated to the sustainable improvement of workplace conditions.

Through the FLA, we seek to verify the efficacy of our programme activities and to publicly report those activities to stakeholders. As a participant in the FLA, the adidas Group commits to:

- Uphold the FLA's code of conduct and standards
- An extensive internal monitoring of our supply chains
- External monitoring and evaluation by independent monitors
- Remediate and prevent instances of non-compliance
- Participate in the FLA's third-party complaint system
- Public reporting.

The FLA accredited the adidas Group's compliance programme in 2005, and re-accredited the programme in 2008. The next review and accreditation cycle is scheduled for 2011.

For the past nine years FLA-accredited independent monitors have conducted monitoring visits to suppliers of the adidas Group. In 2010, FLA monitoring exercises included four monitoring audits and one external verification visit. Additionally, the adidas Group participated in FLA-sponsored activities dealing with fair wages, the Prepare Project in Bangladesh which develops worker-management communication mechanisms and the Sustainable Compliance Initiative and monitoring methodology.

More information can be found in the Performance section on page 72.

Read more about the FLA's monitoring activities on their website at http://www.fairlabor.org/what_we_do_public_reporting_b3.html

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ENFORCEMENT

The Enforcement Guidelines cover the principles of enforcement of the Workplace Standards, and those sanctions or remedies we will apply where the Standards are breached. Such sanctions or remedies include:

- Termination of the manufacturing agreement – in situations of severe or repeated non-compliance
- Stop-work notices – in life-threatening situations or where the manufacturing process is likely to have significant negative consequences for the environment
- Third-party investigations – where persistent or repeated violations of the Workplace Standards or local laws have become a matter of public interest
- Warning letters – in cases of ongoing and serious non-compliance
- Reviewing orders
- Commissioning of special projects – to remedy particular compliance problems.

TWO TYPES OF NON-COMPLIANCE

Breaches of the Workplace Standards are categorised into **zero tolerance** points and **threshold issues**. Zero tolerance includes prison labour, serious, life-threatening health and safety conditions and repeated or systematic abuse. Any finding or reported finding of a zero tolerance elicits an immediate and urgent engagement with a supplier. If the zero tolerance is verified, then the Enforcement Guidelines call for the supplier's disqualification from the adidas Group's supply chain.

Threshold compliance issues include serious employment issues, serious health, safety or environmental issues and any combination of the two. The Enforcement Guidelines for threshold issues can disqualify a new supplier from production or lead to enforcement actions with existing suppliers.

WARNING LETTER SYSTEM

We strongly believe in a partnership approach, and where a supplier is performing poorly in terms of Workplace Standards compliance, we will work closely with them to find solutions. However, where we find ongoing and serious non-compliances and a lack of commitment on the part of the management to address the issues, we will, when appropriate, issue a formal warning letter.

For threshold compliance issues, three warning letters will usually result in an immediate recommendation to terminate. In very serious cases or in cases of zero tolerance level non-compliance, a single 'stop work' letter will be issued advising the offending supplier that SEA has recommended the business relationship be terminated. Our Sourcing, Business Unit and Legal departments would then follow up with a formal notification to end the business relationship.

In 2010, issuing warning letters was the most common enforcement practice followed. No 'stop work' notices were issued.

Third party investigations were initiated in Central America to address the illegal discharge of workers, insufficient compensation and breaches to the freedom of association. In at least one case, these investigations were done at a

factory where we no longer had a business relationship, so warning letters would not have been an effective sanction. The investigations provided transparency and verification that the requisite corrective actions were taken.

See the tables showing numbers of warning letters, terminations and rejections on the Enforcement data page in the Performance section on page 84.

RATING SUPPLIERS

The SEA Key Performance Indicator (KPI) is a rating tool to evaluate our direct suppliers' social compliance resources, capability and performance in a comprehensive way.

The SEA KPI comprises six fundamental elements of social compliance that are described as Units of Measure (UoM):

- 1. Measuring management commitment and responsiveness** to a strategic compliance plan. This planning document defines each unit of measure from the supplier KPI so there is a direct linkage between 12-month compliance activities and opportunities for improvement identified during SEA monitoring. Additionally, the plan spells out details for employee retention, compliance-related investment, relationships with third parties and local government, crisis management and project development on critical compliance issues.
- 2. Measuring supplier management systems for HR and HSE** includes an evaluation of certifications for environment and health and safety, development of HR and HSE systems, retention of qualified professionals for those management systems and internal audit assessments of labour and HSE practices.
- 3. Measuring worker-management communication and industrial relations** focuses on the factory's ability to resolve disputes, respect forms of worker representation, develop effective grievance procedures and promote sustainable worker-management communication. There is an evaluation of the communication committee's effectiveness and sustainability and the training needs assessment used by the factory to develop worker and management training.
- 4. Measuring the delivery and effectiveness of internal training for factory staff** focuses on the process for a training needs assessment, the scheduling and execution of the training programme and the budget allocated for training. Trainers are evaluated for their skill, knowledge and experience. Factory records for training and the protocols for reporting these activities are also reviewed.
- 5. Measuring transparency in communication and reporting** focuses on pro-active factory reporting of self-assessment audits and action plan progress. There are additional benchmarks for determining if workers are coached, verification of document authenticity and communication of the Workplace Standards to the workforce and subcontractors.
- 6. Measurements for compliance activities** that focus on the factory's management response to findings of non-compliance, remediation or enforcement actions.

The factory UoM scores create a KPI cumulative score that falls in one of the following performance bands:

Grade	KPI score band	Performance description
1C	0-29%	There are numerous severe non-compliance issues. There are no compliance management and compliance practices in place. The factory has been given notice that business will be terminated unless there is immediate improvement.
2C	30-59%	There are some non-compliance issues and no compliance management systems. However, there are some effective compliance practices being delivered.
3C	60-79%	There are minor non-compliance issues. The factory has compliance management systems and some effective compliance practices in place.
4C	80-89%	Generally there are no non-compliance issues. The factory has compliance management systems in place, and most of the components are effective.
5C	90-100%	There are no non-compliance issues and all of the factory's management systems and practices are well delivered and effective.

These KPI ratings were used to inform the clusters approach we have developed this year (see overleaf).

The Performance section on page 82 contains the KPIs of our active suppliers and how these have developed over the last three years.

A separate Environmental KPI was piloted with selected factories in Asia during 2010. This KPI is described in the Environment section on page 33.

SOURCING DECISIONS

ALIGNMENT WITH SOURCING MANAGEMENT AND TRACKING TOOLS

The Global Apparel Strategic Alliance (GASA) is an ongoing programme aimed at building a world-class sports apparel supply base that is capable of meeting our business needs. GASA has been built on the principle of continuous improvement and rewards suppliers for their performance and fit with Global Apparel Sourcing's needs.

Embedded within GASA is a core requirement for qualifying Tier 1 suppliers to meet a minimum SEA Compliance KPI score of 60%. This is only one of a number of basic expectations established by GASA for qualifying suppliers; others include product availability, price and quality. GASA has also incorporated forward-looking strategic targets for the sustainability performance of our suppliers.

FIRST MILESTONES

It began in 2006 by communicating to the supply base a set of milestone targets, with an emphasis on operational results such as delivery performance and production capacity. Since then the milestones have evolved to cover more process excellence criteria and capabilities which are deemed to be essential to support speed, agility and connectivity with our brands and subsidiaries.

INVOLVING SUPPLIERS

To engage all key stakeholders in the setting of milestones, GASA established an Advisory Board which has met regularly since 2009 to formulate the blueprints for future milestones. The Board is made up of senior sourcing managers, brand representatives and other internal departments who work closely with the apparel supply chain, such as Continuous Improvement and Social and Environmental Affairs (SEA). In an effort to foster a genuine partnership with the supply base, the Board also comprises senior executives from our Tier 1 garment manufacturers and Tier 2 material suppliers.

FROM APPAREL TO FOOTWEAR

Building on the approach first adopted by the Apparel Sourcing team, in late 2009 the Global Footwear division launched its strategic initiative – the Footwear Advanced Capability Track Program, or FACT. As with GASA, FACT is a vehicle for establishing and communicating future capability needs to our Tier 1 and Tier 2 suppliers through the setting of milestones and mid- and long-term goals. It drives the development of a supply base with innovative and industry-leading capabilities to deliver adidas Group requirements now and for the future.

FACT is also seen as a transparent tool to qualify and segment the footwear supply chain. It aims to develop future potential with respect to such aspects as competitiveness, continuous improvement, speed/agility, connectivity, and sustainability to shape the future of the footwear supply chain as well as continue to deliver basic supplier performance around four core supply chain capabilities: quality, delivery, costs and SEA compliance.

Similarly to its apparel counterpart, the Global Footwear team formed an Advisory Board to help setting the vision for the future, develop a strategic roadmap and regularly review and update FACT milestones. The Board includes Footwear Sourcing management, key internal stakeholders such as brand representatives, Continuous Improvement, Social and Environmental Affairs (SEA) as well as senior executives from selected Tier 1 footwear manufacturers and Tier 2 material suppliers. The Board meets bi-annually.

To ensure consistency across the sourcing business, the sustainability milestones adopted for GASA and FACT are closely aligned and linked with the Group's 2015 Environmental Sourcing Strategy, which has identified specific energy saving, water and waste reduction targets, as well as SEA's strategic compliance model which promotes the development of internal systems and management capacity to achieve supplier self-governance. See Managing our suppliers on page 45.

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2010 OUTCOMES

In 2010, the selected milestones for delivering sustainability under GASA and FACT included:

- The suppliers' acceptance and review of environmental best practice guidelines
- Progress against implementing ISO 14001 and OSHAS 18000 management systems
- Preparation of environmental metrics to create a baseline of environmental performance data
- The completion of effective internal compliance audits.

By integrating basic compliance and long-term sustainability into the sourcing management tools and performance measurement systems, our key business partners are able to understand how their social compliance score is one factor in determining our ongoing business relationship together. They can see how they rate against each other, and this transparency and integration with sourcing decisions is fundamental to the success of our efforts to drive improvements in workplace conditions.

STRATEGIC DEVELOPMENTS

THREE CLUSTERS

To better use resources of our SEA team and achieve more effective and sustainable compliance outcomes, we spent 2010 fine-tuning our strategic approach to specific levels of supplier performance. We have identified three clusters of supply chain profile that are based on a factory's KPI compliance rating:

- The **Risk Management** cluster includes those factories scoring at 1C or 2C – about 67% of our supply chain
- The **Partnership** cluster includes 3C factories – about 25% of our supply chain
- The **Self-governance** cluster is composed of 4C and 5C factories – about 8% of our supply chain.

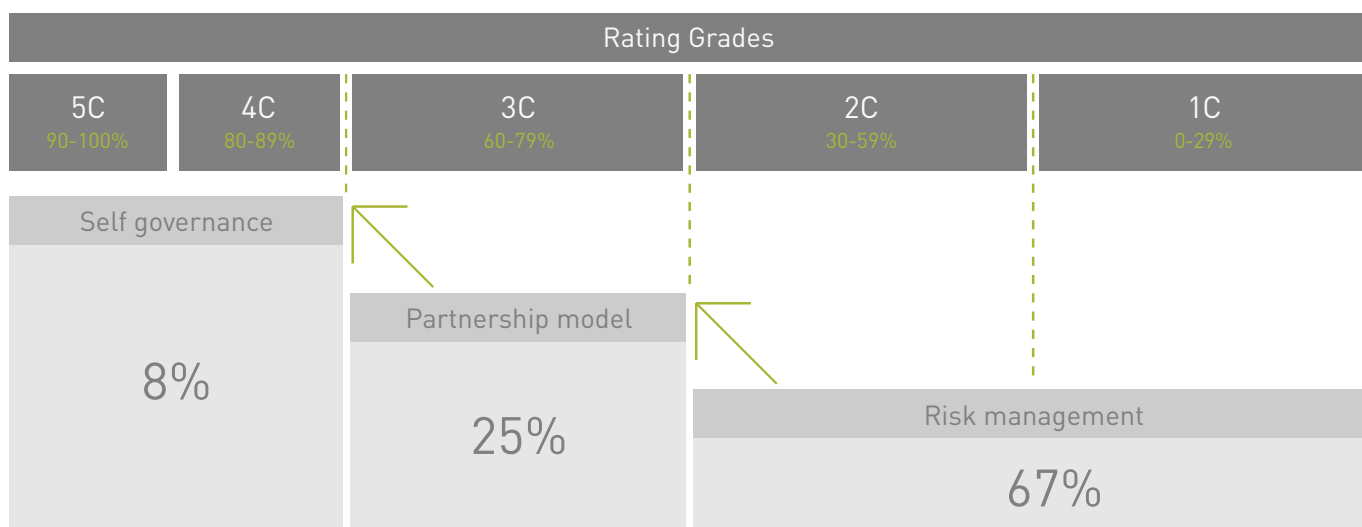
TAILORED APPROACHES

In the Risk Management cluster, factories have made little or no progress improving performance against the KPI units of measure. The compliance activities, if they are executed, are generally ineffective or weak. In 2010, we have focused our monitoring on identifying and managing threshold and zero tolerance compliance issues. The future outlook for suppliers in this cluster includes dedicated attempts to transition them to the partnership cluster or identify exit strategies for the lowest performers who do not improve their performance.

In the Partnership cluster, factories have shown acceptable compliance performance. Our approach here is on collaborative monitoring activities with other brands and multi-stakeholder initiatives. Noteworthy in 2010 was the rollout of harmonised corrective action plans, where all buyers from a factory agree to one set of remediation activities. The future outlook for suppliers in this cluster is a strong capacity-building programme to improve compliance performance and further harmonised auditing activities with other companies and multi-stakeholder initiatives.

Factories in the Self-governance cluster manage their own compliance activities in a verifiable and transparent manner. These suppliers have all shown a strong commitment to compliance and are guided by three-year Strategic Compliance Plans. They have effective management systems in place for employment and health and safety, and employ a capable compliance organisation. They promote good industrial relations and employer-employee communications as well as train their employees in sustainable compliance policy and practice. They embrace a transparency mindset. Notable 2010 self-governance activities included factory participation in the ILO's Better Work programme and as FLA participating companies.

Three compliance performance clusters of our supply chain (2010)



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OTHER OUTCOMES THIS YEAR

- In 2010, we started to link our Human Resources Management Systems approach with the emerging audit methodology for the Sustainable Compliance Initiative (SCI). The SCI focuses monitoring on the stages of the employment life cycle, from recruitment through to leaving employment.
- We issued 55 Business Entity Report Cards this year, more than double the previous year's number. This reflects our commitment to embed SEA and sustainability policies and practices in the business entities of the adidas Group. The activities that informed the Report Cards show an extension of our monitoring coverage of the indirect supply chain and the Report Cards themselves track and measure the success of the business entities in sourcing responsibly.
- The Strategic Compliance Plan (SCP), a rolling three-year roadmap for compliance activities, was simplified and expanded to more of the supply chain this year. At the end of 2010, there were more than 330 suppliers working on SBPs. 85% of these suppliers are in China, Indonesia, Thailand and Vietnam. This not only increased the integrity of the Key Performance Indicator scores (factory ratings) but helped guide collaboration activities with other buyers in shared factories.
- We increased collaboration with other brands in shared factories and focused more attention on harmonising or creating common corrective action plans, specifically in Brazil, Indonesia, and Mexico. In China, we led a brown shoe industry partnership with nine other global brands to harmonise our guidance to Stella, one of the world's largest shoe manufacturers, so they could deliver one set of corrective actions to satisfy all their major customers.
- Supporting the direct field work were numerous engagements with governments to more rigorously enforce their national laws or trade agreements, especially in El Salvador, Indonesia, USA, Honduras, Madagascar, Mexico, and increased support from the commercial and business units of the Group to communicate and enforce SEA expectations and compliance.

Read more about our engagement with stakeholders on page 11.

SHARING COMPLIANCE INFORMATION

Here Selcuk Buyukozer, SEA programme operations manager in the Americas region, discusses sharing supplier compliance information and collaborating with other brands.

Q: How do you manage the compliance performance data of your supply chain?

A: We have been using the Fair Factories Clearinghouse (FFC) as our compliance database since 2006. All the factories are added to this system by our Sourcing colleagues and the factories are audited either by our team or by an authorised External Monitoring (EM) company. All these audit reports are archived in the FFC.

Q: How do you share compliance data and reports, and with who?

A: The FFC developed a new feature in 2008, enabling its member companies to share information regarding factory audit reports, corrective action plans and other related documents. Besides the adidas Group, there are major US retailers and brands like Wal-Mart, Nike, Levi's and Timberland using the FFC sharing platform. We started sharing audit information in November 2008, and we have been sharing our audits in the system with all the other FFC members since then.

Q: What are the benefits of sharing compliance data with other companies?

A: Some of the major ones are that suppliers receive more consistent code of conduct communication from FFC member companies and fewer audits are needed, saving resources for both companies and suppliers.

Q: Is there any compliance information that you do not share?

A: Yes. We do not share:

- Any information regarding worker names and other confidential information that can be harmful to workers
- Pricing and sanctions, production volumes, sales forecasts
- Factory ratings, compliance approval and designations
- Any other competitive information.

Q: What does it mean to collaborate on supply chain compliance?

A: For the compliance world, I can define collaboration as partnership activities among brands to improve the workplace conditions in shared factories. Collaboration can happen in many different areas such as sharing audit reports, conducting joint audits, working together on remediation and capacity building.

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Q: What does the adidas Group actually do to promote collaboration on compliance?

A: We believe that collaboration is a step forward from just sharing audit information. We prefer to develop harmonised Corrective Action Plans (CAP) for a factory working together with the other brands and the factory itself. The FFC provides a very effective structure for that. With the involvement of the factory, CAPs from different brands can be combined in the FFC and a harmonised CAP can be developed.

Q: What is the benefit of a harmonised Corrective Action Plan?

A: First of all, the factories do not need to respond to different CAPs anymore. By reporting their remedial actions into the harmonised CAP, factories will be able to fulfil all the brands' CAP requirements.

Going forward, brands might also choose to do audits consecutively and update the harmonised CAP. That will again avoid multiple audits and CAPs done at the same time identifying similar issues.

Collaboration is also very beneficial for the brands because we are using our resources in a smarter way.

Q: What else would you like to say about collaboration and compliance data sharing?

A: In addition to the audits, we are also evaluating the compliance performance with the Key Performance Indicator (KPI) scorecard. As a result of the KPI assessment, the factory gets a score out of hundred. Factories with a score of 80% and higher are managed through our new Self-governance model (read more on page 54 in the Strategic developments section).

These factories already have established human resources and health and safety management systems and have internal audit programmes. We decided not to audit these factories any more but to focus on evaluating and improving their self-governance performance. By doing that, we are able to prioritise our team's time and effort to support those factories which scored less than 30%.

We are also ready to collaborate with organisations who have credible compliance programmes such as the Fair Labor Association or multi-stakeholder initiatives such as Better Work.

IMPROVING COMPLIANCE PERFORMANCE IN INDIA

The following case study looks at our 2010 efforts to improve performance with the lowest scoring suppliers (1C) in our Indian supply chain.

In the past few years, India has enjoyed strong economic growth. Over that period the adidas Group has increased its sourcing activities in India, for the international export market but even more so to fulfil domestic demand.

CHALLENGE TO IMPROVE COMPLIANCE LEVELS

We have faced an ongoing challenge to upgrade the compliance performance of our suppliers in India. Some of the challenges arise because too few suppliers appreciate the importance of sound compliance practices for their operation, nor do they recognise them as a competitive

advantage in their industry. The slow pace of improvement in workplace conditions shown by the majority of the suppliers there has become a real concern for us. It is supported by the fact that the numbers of suppliers with the lowest compliance KPI rating of 1C in India are higher in proportion compared to other countries in the region.

DEVISING A PROGRAMME WITH SOURCING

These challenges prompted us to develop an approach based on partnership, transparency and establishing mutual trust. Supported by our Sourcing organisation we devised a 15-month improvement programme which was launched in September 2010 and will be implemented in several stages through 2011.

The short-term goal of this programme is to ensure all suppliers will reach at minimum a 2C compliance rating by the end of 2011. The longer-term goal is to establish a firm foundation of partnership working and build the capacity of the suppliers so that they can continuously improve their compliance performance in a sustainable way.

The compliance improvement programme is structured as follows:

1. PREPARATION STAGE
 - Supplier summits: a high-level briefing about the programme for the suppliers' top management and the local sourcing management
 - Suppliers are to develop comprehensive action plans to address chronic non-compliance issues and upgrade their overall compliance management system
 - SEA staff to provide consultation for each supplier on their action plan.
2. IMPLEMENTATION STAGE
 - Suppliers are to execute the action plans as per the agreed timeline
 - Progress Pulse-check: KPI assessment will be done to measure the progress in December 2010/January 2011
 - SEA is to monitor the progress of the implementation, provide technical advice as needed and engage external consultants should there be a need for additional resources to support factory improvement.
3. MEASUREMENT AND EVALUATION STAGE
 - Suppliers are to execute the action plans as per the agreed timeline
 - Ongoing consultation with SEA on the progress of factories' action plans
 - Final evaluation – KPI assessment will be conducted by the end of 2011 in all factories.

We strongly believe that direct collaboration between SEA, our Sourcing organisation and suppliers is the most effective way to deliver a sustainable compliance model at the factory level. It fosters a stronger partnership with our suppliers and provides them with the necessary support and encouragement to improve workplace conditions.

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We know that our people are crucial to our success. Becoming the global leader in the sporting goods industry depends on the potential, dedication, knowledge and performance of our employees and the excellence of our leaders. Therefore, we foster a corporate culture based on our values of performance, passion, integrity and diversity as we are convinced this is crucial to stimulate innovation, team spirit and engagement. We aim to continuously develop our employees and make opportunities for career progression transparent. Our performance culture is based on strong leadership where achievement gets rewarded.

We have a set of Labour Rights Principles we abide by as an employer and similarly we expect our more than 42,000 employees to adhere to the Employee Code of Conduct. We aim to make the workplace safe for our employees and we encourage them to share their views and participate in decision-making through our Works Councils.

AN EMPLOYER OF CHOICE

Our ambition is to be the employer of choice both for our current and future employees because this will lead to business success.

We need to evaluate our performance in achieving this goal which is why we introduced formal employee engagement surveys in 2008. We believe that employee satisfaction drives commitment, commitment drives engagement, and engagement drives business performance. Consequently, we have defined engagement as one of our Group's key performance indicators for measuring our efforts to sustain a 'performance culture'.

GROUP-WIDE ENGAGEMENT SURVEY

In 2010 we conducted the first Group-wide engagement survey. We achieved an outstanding participation rate of 90% and an engagement score which places us close to the upper quartile of highest performing organisations in respect to engagement. Compared to 2008 we were able to increase our engagement score significantly. This score was underpinned by a high level of confidence in our senior leaders, clarity of strategic direction as well as an open and constructive work climate. Areas for further improvement identified by employees included career development and opportunity support, availability of IT tools and performance recognition. Our senior leaders are responsible for and committed to increasing the engagement scores. As in previous years, based on the feedback received, 'Result-to-Action teams' will be established to drive initiatives to enhance the Group's performance in the respective areas of weakness.

INTERNAL COMMUNICATION ACTIVITIES TO DRIVE EMPLOYEE ENGAGEMENT

We believe that a robust internal communication platform is essential for driving employee engagement and fostering open collaboration within our organisation.

The Group's intranet has been transformed into blogs allowing teams to communicate quickly and enabling employees to comment and discuss current topics. Our new Group-wide 'Idea Forum' allows employees to make suggestions, gain recognition for doing so and contribute to their implementation.

We also have a web-based scheme - 'Ask the Management' - that allows employees to post questions to senior management. And more of our main locations are hosting 'All-employee meetings', where senior management address topics of interest and answer questions. There were more than ten such meetings organised across all brands, Group functions and regions in 2010.

We encourage employees to use any or all of these channels to voice their concerns, questions or suggestions. The more feedback we receive, the more we are able to improve our practices and be a better employer.

DEVELOPING EMPLOYEES

To reach their personal best, our Group's employees are offered training to build on their strengths, improve their skills and overcome their own challenges. In this process, joining individual aspirations to our organisational needs is the highest priority. Our 'Competency Model' defines a set of competencies to ensure consistent and transparent performance, talent and succession management. We focus our efforts on three key success drivers: Performance Management, Talent Management and Succession Management.

Performance Management: Our global PEP (Performance Evaluation and Planning) tool enables us to measure all our employees against the required competencies of their job level and their performance, but also to set individual business targets and plan appropriate training activities as necessary. We offer targeted training (behavioural and managerial training) for individuals at all levels of the organisation. PEP is used in all business units of the adidas Group and the online PEP has a coverage of 71%. The target for 2011 is to reach an online coverage of 97% Group-wide.

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Talent Management: With specifically designed talent management tools, we identify employees at all levels of our Group who have the potential to become future leaders in our organisation. In order to prepare employees for more complex future roles, they participate in targeted development programmes for various levels within the organisation:

- **Executive Development Programme:** A global adidas Group programme (cross-brand and cross-functional) for employees who show potential for the Executive level. The programme is centrally managed and executed.
- **Management Development Programme:** A global adidas Group programme which is executed regionally. This programme is tailored for employees from different functional areas and brands who show potential for management.
- **People Manager Development Programme:** A global adidas Group programme which is executed locally. The programme targets employees at a team leader level who show potential for their next career step.
- **Business Management Programme:** A two-year international cross-functional and cross-brand programme aiming at attracting professionals with MBA degrees and three to five years' work experience to prepare them for future management positions within our Group. At year-end 2010, six employees were participating in the BMP globally (2009: 5).
- **Functional Trainee Programme:** A 12- to 18-month programme giving graduates with international backgrounds and excellent educational credentials the opportunity to start a functional career with the adidas Group. The programme comprises six three-month assignments in varying departments. At least one of these assignments takes place abroad. At year-end 2010, we employed 36 participants in this global programme (2009: 39).

Our development programmes are complemented by apprenticeship and internship programmes. The adidas Group apprenticeship offers young people who want to join our Group straight out of school the opportunity to gain business experience in a three-year rotation programme. The programme includes vocational training in retail, industrial management and IT as well as integrated study programmes. At the end of 2010, we employed 55 apprentices in Germany (2009: 58).

Our global internship programme gives students three to six months work experience within the adidas Group. For 'best-of-class' interns, we continued our 'ReBounce' programme to foster potential future employment. At the end of 2010, we employed 320 interns in Germany (2009: 331).

Succession Management: We have a Group-wide succession management process in place that helps us identify succession risks as well as develop designated or potential successors for future management positions. All positions from Director level are discussed regularly by senior management. The succession management process is supported by a system which stores position and employee data related to performance, potential, career aspirations, mobility, etc. This system is applied in 71% of the adidas Group business units. The target for 2011 is to reach a Group-wide online coverage of 94%.

REWARDING EMPLOYEES

PERFORMANCE-DRIVEN REMUNERATION SYSTEM

We are committed to rewarding our employees with compensation and benefit programmes that are competitive in the marketplace. The cornerstone of our rewards programme is our Global Salary Management System which is used as a basis to set the value of employees' positions and salaries in a market-driven and performance-oriented way.

In addition to a fixed base salary, we also offer our employees various variable compensation components.

Bonus programme: In order to allow our employees to participate in the Group's success and to reward them for their target achievement, we have implemented a global bonus programme under the name 'aim 2 score'. This programme combines individual performance (measured in the Performance Evaluation and Planning process) and corporate performance (actual financial results measured against Group, brand, channel, division and/or business unit targets).

Profit sharing: For employees at our Group headquarters and our other locations in Germany who do not participate in the bonus programme, we have introduced a profit sharing programme called 'Champions Bonus'.

Additional compensation components: For senior management and Executive Board members we offer Long-Term Incentive Programmes (LTIP). Other benefits include our 401-K pension plans in the USA and the adidas Group pension plan for our employees in Germany. In 2010, 2,060 employees participated in the latter, which represents 58% of all eligible employees.

Other Group subsidiaries also grant a variety of additional benefits to employees depending on locally defined practices and country-specific norms.

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CREATING AN ATTRACTIVE WORK ENVIRONMENT

We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees. Our work-life balance programme includes family-oriented services, flexible work time and place, people development and leadership competence related to work-life balance.

In addition, we offer our employees a wide range of sports activities at our major sites. Employees in Herzogenaurach, Portland and Canton and at other subsidiaries have access to a company gym.

Our Company Sports department in Herzogenaurach also organises various sports activities such as mountain biking, kayaking or ski tours. Special events such as a one-week sports camp for employees' children, trans-alpine mountain bike tours and the annual Berlin Marathon weekend (with a suitable training programme prior to the event) are also available. In 2010, the Company Sports department in Germany offered about 225 courses and more than 40 events which were attended by more than 3,600 participants (2009: more than 3,000).

HEALTH AND SAFETY

Every employee must have a safe working environment. Nothing less is acceptable. This is valid for every kind of workplace, including machine workplaces in production areas, home office workplaces for administration functions and workplaces in our stores. As a global Group, our operations have to comply with a wide range of different legal and cultural imperatives. Naturally, practices and procedures will vary from one facility to another depending on the structure of the facility, but the core requirements remain the same.

The adidas Group's health and safety management focuses on the following core areas:

- Workplace health and safety at the sites
- Travel security
- Major incident response including precautionary measures related to communicable diseases
- HIV/AIDS Policy.

WORKPLACE HEALTH AND SAFETY AT SITES

Corporate Guidelines for Health and Safety are in place which are used by our administrative offices, distribution centres and production sites. They include core standards for workplace health and safety which complement local legal regulatory requirements. In addition, our larger administration facilities and the Group's small number of production sites have comprehensive risk, health, safety and environmental management systems coordinated by local facility management.

Read more about the Group's environmental management systems and programmes on page 36.

MANAGING WORKPLACE HEALTH AND SAFETY AT MAJOR SITES IN GERMANY

Under German labour safety law, employees at our headquarters in Herzogenaurach and other locations in Germany must receive annual training on workplace health hazards and safety measures. The adidas Group intranet offers mandatory online courses on emergency procedures and fire safety measures as well as guidelines for office and computer ergonomics.

There is regular health and safety training at our production sites in Germany in collaboration with the Textile and Clothing Trade Association.

Every two years, a Safety Day takes place at all German locations. The day is organised by the Labour Safety Committee together with the police, the trade association, the health insurance and local businesses.

To respond appropriately to the number of reported accidents on the way to or from work, further training courses were offered to adidas Group employees in 2010. Training was conducted by an expert in the safe use of motor vehicles. The main parts of this instruction covered a visual check of the vehicle before setting off, dangers when driving in traffic, defensive driving, correct behaviour on the road and how to secure loads safely.

FIRST AID TRAINING

During the past year, much time was invested into first aid training. At the Scheinfeld location, the company paramedics from Herzogenaurach, Scheinfeld and Uffenheim underwent further training and were challenged with an exercise involving a realistic accident scenario.

Technological progress is also taken into consideration. The adidas Group ensures that security and industrial safety staff in Herzogenaurach, Scheinfeld and Uffenheim are trained on defibrillators and that such equipment is also made available at various locations. The employees who were already trained in the use of defibrillators received further important training in the safe use of an Automated External Defibrillator in 2010.

CHECKING WORKPLACE HEALTH AND SAFETY IN RETAIL STORES

With the increasing number of retail stores run by the adidas Group, workplace health and safety in stores plays an important role. Industrial experts conducted store inspections and checked ladders, shelves and lighting. They also checked to see that the emergency escape route plan was prominently displayed along with information about fire protection regulations as well as other workplace safety matters.

Statistics about workplace health and safety can be found in the Performance section on page 72.

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TRAVEL SECURITY

The adidas Group is a global business and people are constantly travelling between various places around the world. To ensure utmost travel security the adidas Group runs a Medical and Security Assistance Programme with a third party to service expatriates and adidas Group employees on business-related travel.

The purpose of the Medical and Security Assistance Programme is to make business travel easier and safer and to help when medical, health or security related problems arise while people are travelling, either in or out of their home country. Employees obtain pre-travel services including information regarding immunisation recommendations, travel medicine clinics, passports and visas, local medical facilities, and special security precautions about their destination. Destination services include telephone medical and security advice, worldwide medical and dental referrals, medication replacement, prescription transfer and medical and security evacuation.

The service provider has 24-hour Alarm Centres which are staffed with security advisors and physicians who are trained in emergency and travel medicine. They also have a network of medical clinics globally that provide an international standard of care.

MAJOR INCIDENT RESPONSE

The Group-wide Major Incident Response Policy sets out procedures as well as clear definitions, responsibilities, actions and the internal and external communications needed to handle such incidents effectively. With the policy's help under the lead of Group Human Resources, the Group's Incident Response Team takes the appropriate action to minimise risks for our employees and our business at any time anywhere in the world.

HIV/AIDS POLICY

The adidas Group runs a Group-wide HIV/AIDS policy which is available to all employees via the company's intranet site. The policy is based on guidance from the International Labour Organization (ILO) and contains:

- General guidance on HIV/AIDS
- An employee guide
- Guidelines for HR managers on workplace care and support.

RIGHTS AND RULES

As a company managing more than 42,000 employees, the adidas Group has established standards and rules that specify the Group's responsibilities towards its global workforce. These are defined in the adidas Group Labour Rights Principles. In turn, employees must comply with the Employee Code of Conduct, which explains their duty to ensure ethical business behaviour.

LABOUR RIGHTS PRINCIPLES

The Labour Rights Principles demonstrate the Group's commitment to the United Nations Universal Declaration of Human Rights and are the guiding framework for several Group level policies that put our commitment into day-to-day practice. These policies are related to issues such as employee recruitment, development, equal opportunities and compensation and benefits.

Read more at <http://www.adidas-group.com/en/sustainability/employees/default.aspx>

ADIDAS GROUP EMPLOYEE CODE OF CONDUCT

Integrity is one of the core values of the adidas Group. All employees are expected to act with fairness and responsibility as well as in compliance with relevant laws and regulations while carrying out their tasks. In order to maintain good corporate governance, we therefore adopted a Code of Conduct as part of our internal Global Policy Manual.

The Code is the cornerstone of ethical work behaviour for our employees. It defines binding rules with respect to legally compliant and ethical behaviour towards other employees, business partners and third parties, for handling information – in particular insider information – as well as for dealing with financial matters.

See the full text of the Employee Code of Conduct at http://www.adidas-group.com/en/investorrelations/corporate_governance/codeofconduct/default.aspx

The Code of Conduct is supported with mandatory online training available in ten languages. This ongoing training is aimed at raising awareness of ethical and social behaviour as well as promoting compliance with data protection requirements and other policies.

COMPLAINTS AND NON-COMPLIANCES

To track complaints or cases of non-compliances, we have established a network of compliance managers worldwide, and the Works Council at our headquarters is also involved. In 2010 we installed a new hotline for our business operations in China and have further expanded the number of compliance managers from 10 to 30.

A whistle-blowing system assures that employees can submit complaints anonymously.

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Analysing the number and nature of entries submitted in 2010, nearly 80% of all cases related to general complaints about employee-manager relations. The Human Resources department is used to addressing these issues. In all other cases employees were seeking advice on dealing with specific issues.

ENSURING DATA PROTECTION

Ensuring privacy around data is also an important aspect of the Group's compliance programme. Our data protection system aims to ensure personal information is handled, stored and processed according to applicable laws and internal policies globally. Online training on the 'Do's and Don'ts' is provided to all employees and special training is given to departments that manage sensitive data, such as marketing departments.

EMPLOYEE INVOLVEMENT

Employee empowerment and participation play an important role in managing employee relations within the adidas Group. Our employees are free to join organisations of their choice to represent them, consistent with local organising laws. These organisations may, if recognised as the appropriate agent, engage in collective bargaining according to the applicable legal regulations.

EMPLOYEE REPRESENTATIVES AT SUPERVISORY BOARD

The Group has established Works Councils at adidas in Germany and other European subsidiaries. The members of the Works Councils are elected by the workforce.

Currently, three representatives of the German Works Council are also members of the Supervisory Board. The Supervisory Board advises and supervises the Executive Board in the management of the adidas Group. It is involved in all decisions of fundamental importance to the Group and is responsible for appointing and dismissing members of the Executive Board. This so-called 'co-determination' structure is mandatory under German law.

WORKS COUNCIL GERMANY

In 2010, elections took place for the local Works Councils at all German locations: Scheinfeld (production and warehouse), Uffenheim (warehouse) and Herzogenaurach (headquarters and German subsidiary). Two out of those three Works Councils increased the number of their members in keeping with the growing number of employees.

The Works Council offers an intranet platform to post questions anonymously. Questions addressed in 2010 mainly referred to HR tools, remuneration, equal treatment of employees and basic information on the elections.

CENTRAL WORKS COUNCIL

This Works Council represents all our sites in Germany, including our headquarters in Herzogenaurach. Elections for this Council took place based on the results of the elections of the local Works Councils.

In 2010, the Central Works Council was actively involved in a range of staff-related projects. Depending on the type and subject, the Works Council played a critical role in exercising its development, support, feedback, consultation and approval function. The Works Council paid special attention to the following initiatives:

- Implementation and alignment of revised remuneration structures
- Revision of bonus schemes for management levels and implementation of bonus schemes for professional levels
- Implementation of work-life accounts (long-term accounts) to optimise life-time working hour flexibility.

EUROPEAN WORKS COUNCIL

The European Works Council (EWC) currently consists of eight delegates from six European countries. Germany, as the country with the largest number of employees, has three delegates on the Council. The fruitful collaboration between the European and headquarters Works Council and the Group Social and Environmental Affairs (SEA) team continued in 2010.

In 2010, at the annual EWC summit, the main topics discussed included:

- HR tools implemented and HR projects run at European locations
- Updates on risk management and data protection
- Review of updates provided by Group SEA on 2009/10 social and environmental programmes and initiatives
- Update on the Code of Conduct and review of cases of non-compliance
- Revision of the Company Agreement on the Establishment of the European Works Council, according to the new EU guidelines
- Concepts to facilitate EWC participation of non-EU locations.

WORKS COUNCIL ENGAGEMENTS IN 2010

Works Council representatives participated in various local and international stakeholder meetings as well as in several conferences and seminars where the general topic was Corporate Social Responsibility (CSR).

Works Council members also regularly meet representatives of the Hans-Böckler Foundation (affiliated to the German Trade Union Federation) to discuss general CSR-related topics, exchange information and experiences and share best practice.

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VIEW FROM THE WORKS COUNCIL

Here Sabine Bauer, Chairwoman of both the Central Works Council in Germany and the European Works Council, gives her views on the social and environmental programme at the adidas Group and how the issues affect employees.

Q: First of all, do you think it is important to have a social and environmental programme?

A: I would say it is **essential** to have this programme. Employees are more and more aware about these issues all the time – they want to know what kind of social and environmental engagement the company has. They don't want to work for a company where something fishy is going on.

Q: One part of the Environmental Strategy is the Green Teams programme. Is that a good way to engage employees?

A: In my opinion, it is a good start. I think if people can focus on what matters to them then they have an emotional attachment to that issue, and they can be authentic ambassadors for tackling that issue and motivating others to take action.

Q: The HR team's watchword is 'engagement drives performance'. How successfully does the company engage and manage its employees?

A: The company has a very good framework and tools. When it comes to implementing those or living it in a sustainable way, we have some areas where it works well and others where there is still room for improvement.

Q: Employees seem very dedicated to the adidas Group. But is there a risk that this can be exploited?

A: In theory, dedication and enthusiasm of the individual can always be exploited, either by managers or by the individuals themselves. Therefore, it is indispensable to have regulations and the appropriate tools in place, and to create and keep working conditions and recognition tools that grant a healthy, sustainable working environment.

Q: We have a multinational business. Does the company deal with that well?

A: The areas and departments that are the most successful are the ones that think about the other person's culture, respect it and learn from it. This is visible to a large extent and serves as a role model. Of course, this is an area of continuous improvement activities. Our diversity is a tremendous strength.

Q: What about gender issues? Are there still pay discrepancies for example?

A: There are still some areas where women have not reached the same level of respect and grade as their male colleagues. And there is certainly also room for improvement regarding the top management positions, meaning a better balance. Related topics are part-time working and parental leave; both deserve more recognition as something valuable. We do have some women working part-time in senior positions but we could have more. People should be valued for what they contribute to the business and not the hours they put in. That would be a huge step forward.

Q: Turning to community involvement, do you see lots of opportunities for employees to participate?

A: We do have a good base but we should promote it a little better. You need a variety of ways that people can get involved. Education and helping children may not be an area that suits everyone. But everybody has something to offer, I'm sure, so diversity plays an important role here also.

Q: How much attention is paid to corporate responsibility at the Supervisory Board?

A: There have always been regular updates on initiatives, projects and results. Going forward, I would encourage an even deeper involvement to keep track with the ever-changing and growing demands.

Q: How would you enhance the corporate responsibility programme at the adidas Group?

A: First of all, I would like to see employee representation at a global level – a Global Works Council – which would be a platform for employees everywhere to exchange information and best practice.

Secondly, if there were more people doing CR as their daily job, then it would have a higher profile internally. If the issue got more attention, that would drive more engagement. And with more engagement you usually get better input and better results. Everything follows from there.

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The adidas Group has been actively supporting communities for many years. Our commitment and strategy is rooted in the Group's core value 'Integrity', expressing that we are honest, open, ethical and fair. People trust us to adhere to our word.

This value has become visible through various programmes like the ongoing support from brand adidas in building SOS children villages, Reebok's track record in supporting human rights groups around the world or TaylorMade-adidas Golf's long-standing programme supporting golf charities.

GROUP PROGRAMMES

With the establishment of the Group's Social and Environmental Affairs team in the late 1990s, additional programmes were designed and put in place to complement brand initiatives and target those countries and regions where the company has major sourcing operations.

To help select projects that respond to local needs we have set up an efficient network made up of local business entities to exchange best practice and ensure mutual support. This network is managed by the Community Affairs function in the Social and Environmental Affairs team. A further key task of Community Affairs is the global management of disaster relief efforts and the management of reporting mechanisms so we can analyse needs, evaluate the impact of our work and report on our initiatives.

BRAND PROGRAMMES

Across all brands and regions our programmes are built on three complementary pillars: Community Involvement, Employee Involvement and Corporate Giving, determined by local cultural, economic and social factors.

At brand level, our programmes are aligned to the brands' missions:

THE ADI DASSLER FUND

The Adi Dassler Fund supports organisations that connect children with coaches and programmes to teach life skills in addition to sport. These organisations use sport to teach self-confidence, respect and teamwork that can break down barriers and help change people's lives. The fund receives assistance from the adidas brand and its employees around the world.

CORPORATE RESPONSIBILITY AT REEBOK

Commitment to Corporate Responsibility (CR) is an important legacy and hallmark of the Reebok brand. Reebok has established a new CR platform designed to address barriers to fitness around the world based on a new focus on 'Access to Fitness'.

TAYLORMADE-ADIDAS GOLF

TaylorMade-adidas Golf's (TMaG) community relations strategy aims to promote brand awareness through partnerships with non-profit organisations, while improving the quality of life for the people and the programmes these agencies represent. TMaG supports local charitable organisations that champion youth, golf and those less fortunate in all ages.

GROUP PROGRAMMES

KIDS SPORTS FUN DAY AT ADIDAS GROUP HEADQUARTERS

Evolving from collaboration between Community Affairs and Human Resources, the apprentices at the adidas Group HQ have been given the opportunity to organise a charitable event every year since 2006.

The aim of this venture is to allow underprivileged children from the region to take part in an exciting sports day at the company's headquarters and to give the apprentices the opportunity to plan and implement a project by themselves.

The Kids Sports Fun Day 2010 had a lot to offer for the kids – from a bouncy castle to sumo wrestling with heavy sumo suits, a chance for the kids to create their own adidas T-shirt, a magician and much more.

Here is what people involved had to say about the event:

SALLY HÖVENER AND SEBASTIAN SCHIELE, APPRENTICES:

"At the beginning of our project we weren't aware how much time and patience organising such an event would require. And to be completely honest, at first we underestimated the extent of the project. There was no way we could have succeeded without the regular meetings to update each other which was essential. Personally, what we learned from the event was that you need to work together as a team if you want such a demanding project to become reality."

KLAUS STAEDTLER VON PRZYBORSKI, KIDS SUPERVISOR:

"The kids and their supervisors had an unforgettable day at adidas. And when the kids got back home they told their parents how much they enjoyed the day. It was perfectly organised by the apprentices which probably wasn't easy given that the agenda was quite packed and they had about 30 screaming kids to deal with. We would love to come back next year!"

JELA GÖTTING, HEAD OF HR EMERGING EMPLOYEES:

"Every year the organisation of the Kids Sports Fun Day poses a great challenge to the apprentices who are in their second year of their apprenticeship at adidas. They have to come up with a detailed plan for the project including administering the budget and of course the actual execution of the event. And every year there is always one condition: make this year's Kids Sports Fun Day at least as good and successful as the one which took place the year before."

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JENS MAY, PROJECT MANAGEMENT TRAINER:
“It sounds like an easy thing to do but it is quite a complex event that required project management skills from a responsible team. From organising the games and the entertainment to catering and on-site safety and security whilst considering budget and timing the team did a great job. The apprentices can be proud of what they have accomplished and the kids have had a day to remember.”

RELIEF EFFORTS

Natural or other disasters can strike at any moment, anywhere in the world. As a global company, it is especially important to us to do something in the line of relief efforts and work together with humanitarian aid organisations and others to bring supplies – including our products – into affected areas. But not just the company donates money and other items for people in need in these areas, but also our employees are very generous when it comes to organising donation drives amongst themselves. In 2010, the adidas Group provided financial aid and product donations to international aid organisations to support victims affected by the earthquakes in China and Haiti and floods in Pakistan.

SAVE THE CHILDREN ON PARTNERING WITH THE ADIDAS GROUP

“In the past two decades, the total number of natural disasters has quadrupled. Globally, in an average year, natural disasters affect the lives of 250 million people and kill 66,000 people. In 2010, 20 million people were affected by the devastating earthquake in Haiti and the vast flooding in Pakistan alone – half of whom were children.

Save the Children was founded more than 90 years ago to help children and their families in Germany after World War I – our first emergency response. Eglantyne Jebb, our founder, said in 1928: ‘The world’s children stand in urgent need of better protection, because it is they who today pay the heaviest price for our short-sighted economic policies, our political blunders, our wars.’ In 2010, it is our mission to deliver immediate and lasting improvements to children’s lives in more than 120 countries worldwide.

The adidas Group has been supporting Save the Children in emergencies since 2008, when the cyclone Nargis hit Myanmar and led to our – until then – largest emergency operation. With the agriculture and fishing industries along with homes and schools destroyed, 2.4 million people were affected in the delta region. Through being prepared and the coordinated action with our partners, we were able to reach a quarter of all affected children.

In the same year, 28 million people in India were affected by severe flooding, mostly in the regions of Bihar and Orissa. Again, adidas’ quick donation helped us in our immediate response. For example, Child-Friendly Spaces were established which provided children with protected environments in which they participated in organised activities to play, socialise, learn, and express themselves as they slowly rebuilt their lives. Lastly, the adidas Group has also provided a financial contribution towards our emergency response after the heavy monsoon in Pakistan.

Long-term and trusted partners like adidas help us to act quicker and thus save even more children’s lives when disasters happen. Save the Children says a huge ‘Thank you’. You really help us in making a difference!”

LUFTFAHRT OHNE GRENZEN E.V./WINGS OF HELP ON PARTNERING WITH THE ADIDAS GROUP

Frank Franke, CEO Wings of Help and the adidas Group:

“Air traffic today has become the heartbeat of the globalised world: more than 2.5 billion people take to the air every single year and it offers the fastest and most efficient way of transporting relief goods into natural disaster areas.

The above facts not only serve to emphasise the significance of the industry around the world; they also show that the industry has real potential to support those in need.

The basic idea of Luftfahrt ohne Grenzen e.V./Wings of Help is simple and very efficient: we use available air transport capacity to bring aid resources to places all around the world – even to the most remote locations in the furthest corners of the earth.

During the last four years, the adidas Group and Wings of Help have transported relief goods to a:

- Home for blind and deaf children, Romania
- Refugee camp for Ethiopian people, Israel
- Home for blind and deaf children, Russia
- Home for AIDS infected children, South Africa.

Together we have also responded to natural disasters such as:

- Earthquake, Peru
- Cyclone ‘Sidr’, Bangladesh
- Cyclone ‘Nargis’, Myanmar
- Cyclones ‘Ike’, ‘Hanna’, ‘Gustav’, ‘Fay’, Haiti
- Flooding, Pakistan

Most recently the adidas Group’s involvement in humanitarian action was demonstrated during the disastrous Pakistan flooding in 2010. Through our partnership Wings of Help transported clothing, shoes and medical devices into the disaster-affected areas in Pakistan.

For 2011 Wings of Help is very happy to continue the close collaboration with the adidas Group.”

PROJECTS IN SUPPLIER COUNTRIES

QUALITY EDUCATION FOR ALL: SUDHAAR, PAKISTAN

For more than 30 years, the adidas Group has sourced footballs from Pakistan.

Sialkot is the centre of the football stitching industry in Pakistan, which has in the past employed under-age workers. To discourage this, an industry-wide initiative – supported by the International Labour Organization, FIFA and UNICEF – resulted in an independent and self-governing committee to monitor the prohibition of child labour.

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To address the issues causing child labour – which are poverty, unemployment and a lack of education – standards of education and access to schooling have had to be improved in rural communities in the area. That is what the local NGO Sudhaar has done with its Education and School Infrastructure Programme, which the adidas Group has fully funded since 2002.

PROGRAMME IMPACT

Since 2002, the adidas Group support has brought many bright smiles to the faces of no less than 20,990 children enrolled in 125 schools located in four union councils in Sialkot district. About 20% of the children came from football stitcher families.

Children are realising that they are important as individuals, that people care for their welfare and that there is value in being at school. The adidas Group project may have made huge school improvements in terms of infrastructure facilities and teacher skills through various training sessions, greater engagement of school councils etc. But by far its major contribution has been in giving hope and enthusiasm to children simply by making chances for self-expression available to them through various small interventions. Here is what a former football stitcher boy had to say:

“I was so proud to be elected as a group captain,” exclaimed ten year-old Muhammad Asif, Grade 4, and former football stitcher. “It gave me a wonderful opportunity to learn leadership skills and awareness of my responsibilities leading to my contribution in making my school a better place for all the children.”

Miss Shaheen Kokab, a head teacher at a girls primary school said “I have been working as a head teacher since 1985, but it was the adidas project which enabled me to learn School Leadership and Management Skills. I was able to work with the school council members to bring numerous improvements to our school. We have registered an 18% increase in enrolment and our retention has increased by over 40% since last year”.

ADIDAS PROGRAMMES

Here we profile two of 2010's brand adidas initiatives where sport is used to help young people learn life skills.

SOCIAL RESPONSIBILITY COMMITTEE AT ADIDAS CENTRAL AMERICA & CARIBBEAN (C&C)

Headquartered in Panama City, Panama, adidas C&C oversees more than 27 countries in Central America, the Caribbean, Venezuela, Ecuador and Colombia. Early 2010, adidas C&C officially formed the Social Responsibility Committee under the Championship Culture Committee Concept. The goals of this committee are to promote adidas as an organisation involved proactively with important local social causes, provide support to charitable organisations through fundraising activities, and engage adidas employees in sticking to the adidas values and being part of social activities.

In keeping with the 2010 FIFA World Cup South Africa™, adidas made a donation of UMU bandanas to a prominent local organisation for children, called Casa Esperanza. All children ranging from 5 to 16 years old who belong to Casa Esperanza received a yellow UMU to show their support for the Nelson Mandela Foundation. adidas employees spent a day with the children to interact, play with games, and present gifts.

Another highlight of the year was an alliance with the Foundation of Social Actions. Committee members teamed up with the famous international organisation Success for Kids (SFK). Under the slogan 'One World, Every Child', SFK operates in many countries including USA, UK, Mexico and Panama. SFK is dedicated to empowering at-risk children and adolescents around the world to become resilient productive citizens. Through various learning and development programmes in Panama, adidas C&C is helping to improve the lives of children. At adidas C&C, employee volunteers spend several hours a week putting together classroom materials for local schoolchildren. Others make a contribution to the SFK's funds.

ADIDAS AND AMERICA SCORES TEAM UP TO HELP KIDS SUCCEED THROUGH FOOTBALL

Since 1999 adidas US has been a supporting partner of America SCORES. America SCORES is the nation's largest after school soccer (football), literacy, and service-learning programme serving more than 6,000 youth in 14 urban, low-income communities. Using the world's most popular sport as a foundation, America SCORES programmes inspire youth to lead healthy lifestyles, be engaged students, and become agents of change in their communities.

ADDRESSING ILLITERACY AND OBESITY

America SCORES addresses some of the most significant needs facing the USA's urban youth: illiteracy and obesity. Their programmes use football as a building block for teaching creative writing, leadership skills, and teamwork to at-risk youth. To become an America SCORES team member, participants must commit to literacy workshops every other day after school. The workshops help students express their life experiences through poetry. On days they are not writing these poet-athletes practice football and learn how to translate their teamwork skills from the football field to the classroom and into their communities helping them grow into engaged, active citizens.

adidas provides football products for kids and coaches, leadership on the America SCORES National Board of Directors, sponsorship of special events, such as their annual Poetry Slam, and adidas athlete involvement.

PROVIDING FUNDS TO MEET LOCAL NEEDS

In addition to creative writing and football, America SCORES teaches their team members about community service. To augment their community service learning curriculum, adidas provided financial grants via the 'Make the World a Better Place' contest. America SCORES programmes were invited to submit their ideas for a project that would positively impact their community, address a real need, demonstrate creativity in problem-solving, involve the entire team and engage adidas volunteers.

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Winning programmes were awarded a \$5,000 grant for their 'Better World' projects.

The kids from America SCORES programmes in Dallas, Texas and Chicago, Illinois joined teachers, community members and adidas volunteers to renovate existing football fields that had become too dangerous for kids to play on. The results were two newly refurbished fields that now provide safe, accessible and appropriate places for kids from the local schools and nearby community to play football.

adidas values the partnership with America SCORES and will continue to support them in their efforts to help even more kids enrich their lives and their communities using the sport of football as a foundation for learning and contributing positively to the world around them.

ADI DASSLER FUND

Here are examples of initiatives and projects that were supported in 2010 by the Adi Dassler Fund through adidas employees volunteering their time.

ASSOCIAÇÃO DE INTERESSE A HUMANIDADE (AAIH), BRAZIL

AAIH is a neighbourhood association taking care of over 500 children and youth, involving them in sports and educational activities. It is located close to the adidas warehouse in Embü, a suburb of São Paulo.

Please find more information at <http://twitter.com/AIHHUMANIDADE>

COACHING FOR HOPE, UK

Coaching for Hope organises courses where professional football coaches from the UK train local youth workers in west and southern Africa to Football Association standards. At the same time, the local coaches learn how to deliver HIV sessions to young people in their communities. So far over 30,000 children have benefited from football and HIV awareness sessions and 700 coaches have been through the courses.

Please find more information at <http://www.coachingforhope.org/>

DIAMBARS, SENEGAL

Diambars is a school in Saly, Senegal that teaches football and life skills. Founded in 2003 by French professional football players Jimmy Adjovi-Boco, Saer Seck, Bernard Lama and Patrick Vieira, the school's objective is to make learning as enjoyable as playing football. Ultimately, the goal is to educate not only great footballers, but also role models and leaders who are ready to take responsibility within their communities.

Please find more information at <http://diambars.org>

DIAMBARS ATTITUDE, FRANCE

In this after-school sport and life skills programme adidas employees help 50 kids with their homework and transmit their passion for sport. The kids from 12 to 14 years old were selected with schools and/or local social organisations from Strasbourg. They all face difficulties either at school, privately or socially.

LOS POTREROS, ARGENTINA

In 2007, adidas Argentina started to regenerate Potrerros – areas of common land – in low-income neighbourhoods around the country. By the end of 2009, 12 Potrerros had been reclaimed.

HOPE WORLDWIDE, SOUTHEAST ASIA

Across several Southeast Asian countries (Singapore, Philippines, Thailand, Indonesia and Malaysia) adidas helps drive social change by supporting organisations that connects children with coaches who teach life values in addition to sport.

Please find more information at <http://www.hopeww.org/NetCommunity/SSLPage.aspx?pid=191>

KIDSCAN STANDTALL, NEW ZEALAND

Founded in 2005, KidsCan StandTall Charitable Trust is a national charity delivering targeted programmes which remove the physical barriers preventing children from low socio-economic backgrounds getting the most out of their education. So far more than 39,000 children in 183 schools across New Zealand have been helped.

Please find more information at <http://www.kidscan.org.nz/>

JUMP SPACE, UK AND IRELAND

Based in Stockport, Jump Space supports primarily disabled people and their families in and around this area, providing meaningful opportunities for disabled people to take part in sport and physical activity.

Please see their facebook page for more information at <http://www.facebook.com/pages/Jump-Space/110609545639841>

MIDNIGHT PROJECT, SWITZERLAND

In the last ten years, this non-profit organisation has opened gyms in almost 100 cities. Along with football and basketball the Midnight Project offers different sports for teenage boys and girls every Saturday evening. Open Sundays help younger kids find a place to play on weekends. Over 275,000 kids have participated to date.

Please find more information at <http://www.mb-network.ch/content/>

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NEHEMIA, ALBANIA

The humanitarian aid foundation NEHEMIA started its work in Albania in 1991, just after the collapse of communism. Ever since it has supported the country's development in many different ways, one of them being through education and sports.

Please find more information at <http://www.nehemia-al.org/HOME.start.0.html?&L=1>

OPERATION BREAKTHROUGH, HONG KONG

This charity introduces sports and related activities, together with positive interaction with role models, to disadvantaged teenagers and first time offenders.

Please find more information at <http://www.breakthrough.hk/>.

RIGHT TO PLAY, CHINA

Soon after the devastating Wenchuan earthquake hit in 2008, the adidas Group China and its employees donated money and products to earthquake relief efforts. We also established a partnership with the leading international children's non-profit organisation Right To Play in September 2009 to implement a long-term development programme for children in Ningqiang County, Shaanxi Province, which was one of the counties hit by the earthquake. The programme focuses on using sport and play-based activities to work towards the holistic development of children.

Please find more information at <http://www.righttoplay.com/canada/our-impact/Pages/Countries/china.aspx>

SCORE, SOUTH AFRICA

SCORE is an African-based Sport for Development non-profit-organisation that uses sport to empower individuals and build stronger, healthier communities. Sports administration and coaching courses include life skills and leadership components that extend beyond the sports field to strengthen community structures and meet broader community development needs.

Please find more information at <http://www.score.org.za>

SPECIAL OLYMPICS, ITALY

Special Olympics uses sport to celebrate the abilities and accomplishments of people with intellectual disabilities.

SPIEL- UND LERNSTUBEN ERLANGEN-BRUCK, GERMANY

Located near the adidas Group Headquarters are the 'Spiel- und Lernstuben' of Erlangen-Bruck, a place for underprivileged children to gather. These children often come from single-parent homes, where alcohol, violence and drugs can be a part of daily life.

TSIMBA CHILDREN HOME AND MWANGAZA VISIONARY SCHOOL, KENYA

Tsimba Children Home is a small orphanage in Kwale near Mombasa, Kenya. adidas employees financially support 10 of the 17 children living in the home.

Mwangaza Visionary School's mission is to transform the community through education, providing a good learning environment physically and mentally.

Read more on Tsimba Children Home at <http://www.kenyahilfe.de/>

and Mwangaza Visionary School at <http://www.mwangazaschool.org/>

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REEBOK PROGRAMMES

A NEW FOCUS: ACCESS TO FITNESS

Corporate Responsibility (CR) and human rights has been an important legacy of the Reebok brand. This legacy led us to make the bold statement in 2010 that we believe that 'Access to Fitness' is a human right, accompanied by a new CR platform designed to address barriers to fitness around the world.

Reebok's heritage in human rights is extensive, going back to 1988. After sponsoring the Amnesty International Human Rights tour, Reebok pioneered the creation of workplace standards in our factories and supply chains and recognised young pioneers and activists with the Reebok Human Rights award.

Today, as part of the adidas Group, each brand's Workplace Standards for the supply chain are centrally developed and monitored by the adidas Group's Social and Environmental Affairs team (SEA).

EMPLOYEE ENGAGEMENT

When looking to expand upon our legacy and extend our corporate responsibility platform, we decided to embark on a comprehensive internal evaluation that would tap into one of the brand's strongest assets – our employees.

Through numerous employee focus group sessions, senior management meetings, ongoing working groups and an extensive online global survey, we engaged employees at every level to help shape the future direction of Reebok's Corporate Responsibility platform.

Two constant themes of the assessment were the strong connection that our employees have to our human rights heritage and the desire to use and leverage the power of Reebok's core competencies and focus on fitness to address these issues. The dedication to this process by so many employees revealed a passionate commitment to our CR legacy and giving back.

DEVisING THE NEW CR PLATFORM

In the context of fitness, we found that there are barriers to fitness, both in the developing and developed world. These barriers directly impact the individual, the family and the community in which they live.

Based on our assessment and research we want to make a statement that goes beyond the usual physical connection to fitness. As a brand, we believe that fitness affects the body, the mind and even the community at large. We believe that healthy people make healthy communities and that access to fitness is not a privilege, nor is it an indulgence, but a human right...and access to fitness can change the world by improving the human condition.

Based on these beliefs, Reebok developed a new CR platform that will strive to address barriers to fitness through four areas:

- Social innovation – using our core competencies to find solutions that offer significant social impact
- Strategic philanthropy – financial support that builds capacity
- Research and advocacy – information to support initiatives
- Business innovation – creating products that may provide solutions.

Our initial efforts to address these issues include a pilot programme in both the developing and the developed world.

PILOT PROGRAMMES

In the developing world, we will address a very basic need. An estimated 300 million people do not have shoes, which can be a major barrier to fitness and health and we are exploring solutions to this crisis. Our first effort is a pilot programme with the goal of building a social business that will give people access to shoes. By addressing this issue, we believe that we can give people their first step towards fitness, a healthy life and dignity.

In the developed world, youth today are facing more and more barriers to fitness, which may have harmful effects on their health for their entire lifetime. Given severe health related epidemics, inclusion of fitness in kids' daily lives is now more critical than ever.

Therefore, we are working to create a movement, with a functional fitness programme that is not only effective but fun and will teach life-long fitness habits. We will be at the forefront of educating parents, educators, and children on the importance of childhood fitness.

Our pilot programme will bring physical activity to as many children as possible, with a before-school programme designed to get kids moving and boost academic performance, overall confidence and well-being. A programme that will transform bodies, revitalise minds and ultimately reshape society.

READY FOR THE CHALLENGES AHEAD

Twenty years ago Reebok pioneered corporate awareness of human rights, so we realise that there is a great deal of work ahead of us. These pilot programmes are the first step on a long journey to bring fitness to the world.

As a brand, Reebok is committed to a whole new movement to provide access to fitness, in an effort to help improve the human condition and bring fitness to all. We understand that by making this new statement we are taking on a whole new challenge in human rights, but we are excited about the future and meeting this challenge.

As well as the new CR platform, Reebok contributes to the community in other ways.

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THE REEBOK FOUNDATION

The Reebok Foundation focuses its philanthropy in communities where Reebok offices are located, with special emphasis on the Greater Boston area. The Foundation promotes social and economic equality by funding non-profit organisations that support underserved groups and help empower youth to fulfil their potential and lead healthy, happy and active lives.

THE REEBOK COMMUNITY RELATIONS PROGRAMME

The Reebok Community Relations activity is intended to maintain and strengthen the reputation of Reebok as a good corporate citizen by participating and supporting community and philanthropic causes primarily in Boston and Canton, Massachusetts.

TAYLORMADE-ADIDAS GOLF PROGRAMMES

CHARITABLE CONTRIBUTIONS PROGRAMME

In 2001, TaylorMade-adidas Golf (TMaG) established the Charitable Contributions Programme in response to the thousands of donation requests received annually from non-profit organisations in communities throughout the United States. The programme provides product donations to qualified charities, as well as offering TMaG products for sale at a significant discount.

Since the programme was launched, TaylorMade-adidas Golf is proud to have supported hundreds of organisations through these partnerships, enabling them to increase profits generated from their fundraising events and surpass their goals. This has helped these organisations to better provide the critical services needed by those who rely on them for assistance.

COMMUNITY CONNECTIONS PROGRAMME

In July 2009, Community Connections was launched at TaylorMade. It is an all-volunteer group of employees interested in getting involved and donating their time to help out in the local community. Their goal has been to select four community events each year and encourage employees to participate by volunteering some of their personal time to plan and implement TaylorMade's involvement.

COMMUNITY AND CHARITY OPPORTUNITIES PROGRAMME

TaylorMade's Community and Charity Opportunities programme was launched in July 2009 to enable employees to share information with each other and become involved in community and charity events important to them. Through the Community and Charity Opportunities homepage on the TaylorMade intranet, as well as the Community Connections programme, employees have been able to publicise these causes with instructions on how employees can make donations or volunteer their time to help. Through this initiative, TaylorMade employees will continue to support many causes important to their co-workers in the years ahead. The 2010 combined projects included:

CLEANING UP LOCAL BEACHES:

Hosted by the San Diego Coastkeeper and Surfrider Foundation, TaylorMade volunteers joined forces with other members of the community in July and August to remove rubbish and clean up around Tamarack Beach in Carlsbad and at the South Carlsbad State Beach campground.

DONATING SHOES:

TaylorMade employees came together in June 2010 by cleaning out their closets and donating their 'gently worn' shoes to Soles4Souls, a charity that collects gently worn shoes and monies for distribution to those in need. Drop boxes were placed throughout the company headquarters and close to 500 pairs of shoes were collected for various locations around the world, including Haiti to help the victims of the devastating earthquake that struck their country on January 12, 2010.

RENOVATING THE NEW HAVEN YOUTH AND FAMILY SERVICES CAMPUS:

New Haven Youth and Family Services is a residential care facility for at-risk boys between the ages of 12 and 17 in the community of Vista in North San Diego County. In March 2010, 185 TaylorMade employees spent the day renovating the centre, including rebuilding decks, painting and landscaping. TaylorMade provided an estimated monetary value of \$18,000 of in-kind donations of building supplies and landscaping materials, as well as 1,445 employee volunteer hours.

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PERFORMANCE

At the adidas Group we know that performance counts. Measuring our performance helps us assess our progress towards our goals and publishing our social and environmental performance here helps our stakeholders hold us to account.

Every year we make an effort to improve the way we report our performance. We ask ourselves what we can report that would be useful to stakeholders and how we can present it clearly.

This year we have once again strengthened our performance reporting. We have added more environmental data from more of our own sites, many of which are reporting for the first time this year – 67 sites are reporting this year, up from 24 last year. These include administration sites, our own production facilities and distribution centres.

The reporting of our suppliers' performance has been improved by providing more commentary and context for the numbers, for example about the KPI supplier ratings and the warning letters we have issued.

We have used a feature where readers can 'show/hide more detail' this year in our performance reporting. We hope this strikes a balance between providing a quick understanding of key figures while still offering the detail on individual datasets for those who want it. We are keen to hear what report users think about this and other elements of our performance data; please let us know by emailing sustainability@adidas-Group.com.

SUPPLY CHAIN

NUMBER OF SUPPLIER FACTORIES

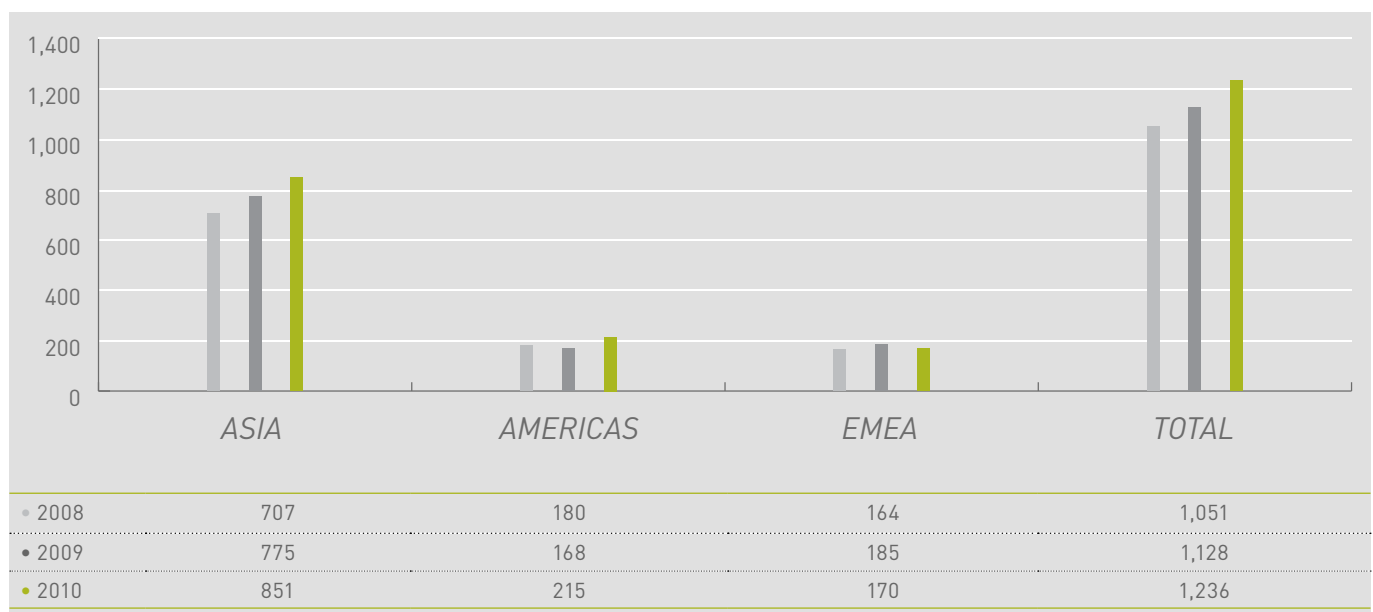
In the course of any calendar year there is a notable movement of factories, as suppliers are added or removed, because business entities are created, bought or sold by the adidas Group, or intermediaries, such as agents, are hired or their services are terminated. The data we are reporting here is a snapshot in time, a static point capturing the situation at the end of 12 months of these movements. Data is presented on a year-on-year basis, as at the 31st December.

In 2010, we worked with 1,236 independent factories (excluding factories of our licensees) who manufacture adidas Group products in 69 countries. 69% of the factories are located in the Asia Pacific region, 17% in the Americas and 14% in Europe, Middle East and Africa (EMEA). Over one quarter, or exactly 27%, of all these factories are in China.

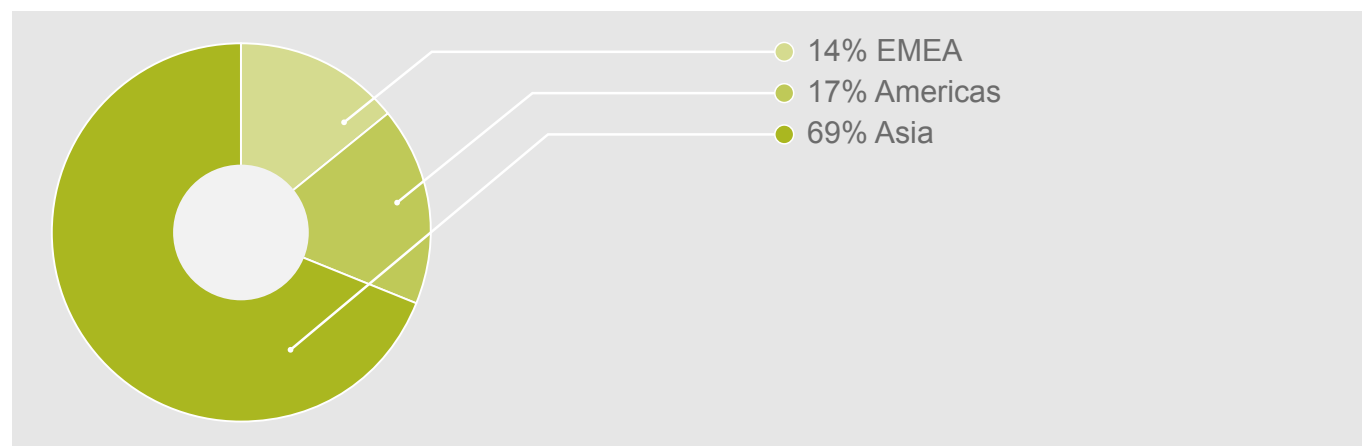
The total number of supplier factories is higher than the number reported in 2008 or in 2009. The reasons for this are:

1. Improved supply chain disclosure by business entities, such that suppliers that may have already been part of our supply chain have now been declared, registered and approved.
2. A change in the number of business entities within the adidas Group.
3. Increased use of secondary manufacturing locations by suppliers, especially in China.

Number of supplier factories (excluding own factories and licensee factories)



Suppliers factories by region in 2010 (excluding own factories and licensee factories)



FACTORIES BY COUNTRY

Compared with year-on-year data for 2009, there was a notable increase in factory numbers in Brazil, Cambodia, China, India, Indonesia and Vietnam. The reasons for these increases are multi-various, as explained below.

The trend in Brazil is not the result of new factories being added to the supply chain, but improved compliance by business entities leading to fuller disclosure of manufacturing locations. In Asia, Cambodia, Indonesia and Vietnam have grown, partly in response to operating costs in China, but also due to trade restrictions forcing China based footwear suppliers to invest in other countries. In the case of India, improved transparency has added to the number of factories being disclosed and in China, additional factories have been added as suppliers have built secondary facilities to access labour in more remote locations, but they have also retained their existing coastal manufacturing facilities as development and management hubs.

There has also been a marked decline in the number of factories in certain countries around the world. Notable examples include Australia and New Zealand where there has been a consolidated sourcing approach with increased dependence on foreign imports and hence a reduced local supply chain. In South Africa the supply chain also shrank, post the 2010 FIFA World Cup South Africa™.

NUMBER OF SUPPLIER FACTORIES PER COUNTRY¹

Asia

Country	Total number of factories		
	2008	2009	2010
Australia	9	10	3
Bangladesh	8	9	6
Cambodia	9	8	16
China	268	308	337
Hong Kong	3	2	3
India	59	77	99
Indonesia	50	64	79
Japan	62	63	59
Korea	61	52	44
Laos	-	-	1
Macao	1	2	1
Madagascar	1	2	2
Malaysia	10	7	6
Mauritius	-	1	1
New Zealand	4	5	1
Pakistan	7	8	13
Philippines	17	17	17
Singapore	1	1	1
Sri Lanka	11	8	7
Taiwan	28	27	35
Thailand	35	41	45
Vietnam	63	63	76
Total Asia	707	775	851

NUMBER OF SUPPLIER FACTORIES PER COUNTRY¹

EMEA

Country	Total number of factories		
	2008	2009	2010
Albania	1	-	-
Belarus	1	1	1
Bosnia and Herzegovina	1	1	1
Bulgaria	1	1	1
Czech Republic	3	3	3
Denmark	-	1	1
Egypt	2	3	2
Finland	-	1	1
France	3	3	3
Germany	13	19	23
Greece	5	4	3
Hungary	-	-	1
Israel	1	2	1
Italy	23	24	18
Jordan	-	1	1
Latvia	1	-	-
Lesotho	1	2	3
Lithuania	1	2	2
Macedonia	1	1	1
Moldova	1	1	1
Poland	3	8	9
Portugal	8	9	9
Romania	1	3	1
Russia	10	7	4
Slovakia	1	-	1
Slovenia	1	3	4
South Africa	18	19	13
Spain	16	15	15
Swaziland	1	2	2
Sweden	5	7	7
Switzerland	1	1	2
Tunisia	3	3	1
Turkey	22	16	13
Ukraine	2	2	2
United Kingdom	13	19	20
Zimbabwe	-	1	-
Total EMEA	164	185	170

Americas

Country	Total number of factories		
	2008	2009	2010
Argentina	9	13	19
Brazil	27	27	50
Canada	38	32	29
Chile	1	1	1
Colombia	3	2	3
Costa Rica	2	2	-
Dominican Republic	1	1	1
El Salvador	8	3	4
Guatemala	3	3	4
Honduras	7	5	6
Mexico	17	12	19
Nicaragua	1	1	3
Paraguay	1	1	1
Peru	4	4	4
United States	58	61	71
Total Americas	180	168	215

Global

Country	Total number of factories		
	2008	2009	2010
Total Asia	707	775	851
Total Americas	180	168	215
Total EMEA	164	185	170
Total Global	1,051	1,128	1,236

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

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ADIDAS GROUP LICENSEES

In 2010, the adidas Group worked with 45 licensees whose suppliers manufactured products in 307 factories in 45 countries.

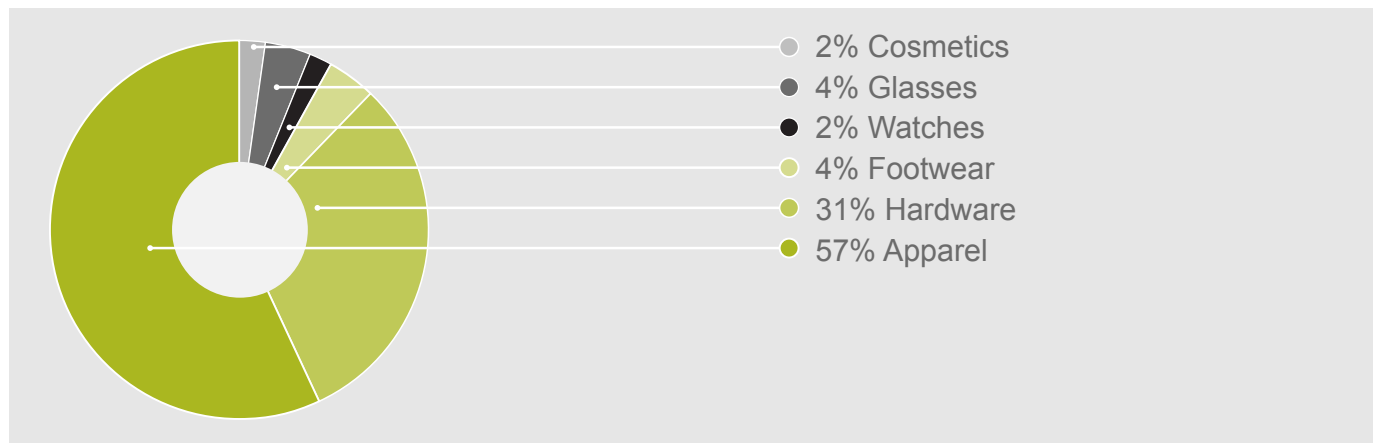
The total number of licensee factories is higher than the number reported in 2009 due to improved supply chain disclosure by licensees and the increased number of licensees. In some cases the factories producing for certain licensees, such as in the field of cosmetics, are very stable being highly capitalised and specialised manufacturing facilities. A large proportion of the licensees are however apparel producers and as with the adidas Group's own direct sourcing arrangements licensees see expansion and contraction of the numbers of factories throughout the course of a year. For this reason, the data we are reporting here is a snapshot in time, a static point capturing the situation at the end of 12 months of these movements.

ADIDAS GROUP LICENSEES

	2008	2009	2010
Licensees	40	41	45
Factories producing for licensees ¹	247	288	307
Production countries	42	44	45

¹ This might include factories which produce both, for the adidas Group directly as well as for licensees/agents.

adidas and Reebok licensees divided by product range in 2010

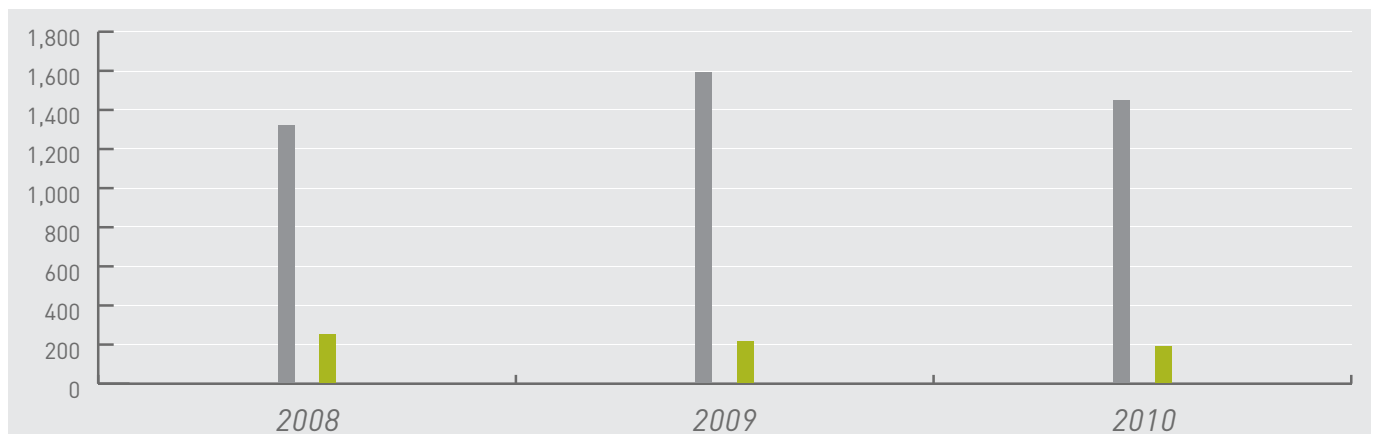


AUDITS AND TRAINING

NUMBER OF FACTORY AUDITS/VISITS AND TRAINING SESSIONS

During 2010, 1,451 factory visits (including 1,350 factory audits) involving management and worker interviews, document review, facility inspections and training sessions took place at different levels in our supply chain. The SEA team conducted 193 training sessions and workshops for suppliers, licensees, workers and adidas Group employees.

Number of factory audits/visits and trainings*



• Factory audits/visits	1,323	1,592	1,451
• Trainings	251	216	193

* Including multiple audits/visits in the same factory conducted by the adidas Group SEA team and external monitors, but excluding FLA audits. Including audits in licensee factories; visits involving management and worker interviews, document review, facility inspections and trainings on-site.

NUMBER OF TRAINING SESSIONS DIVIDED BY REGION AND TYPE

For 2010, the total number of training sessions conducted by SEA was lower than in the previous two years. The number of fundamental and performance training sessions was reduced, whereas sustainability training sessions increased slightly. Although the total number is lower, the number of participants has remained almost the same.

Reasons for this were:

1. There were less individual but more group (ie. more than one supplier) training sessions undertaken that offer both higher efficiencies but also the added advantage of cross-learning and best practice sharing among suppliers.
2. Due to longer term and more mature business relationships, the need for more sophisticated and advanced trainings (sustainability training sessions) was achieved.

NUMBER OF TRAINING SESSIONS DIVIDED BY REGION AND TYPE¹

Region	Type and number of training											
	Fundamental ²			Performance ³			Sustainability ⁴			Total		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010 ⁵
Asia	80	47	33	68	48	33	11	32	33	159	127	99
Americas	51	53	55	11	13	18	4	1	7	66	67	80
EMEA	24	19	12	0	0	0	2	3	2	26	22	14
Total	155	119	100	79	61	51	17	36	42	251	216	193⁶

¹ Trainings conducted for suppliers, workers, licensees, agents and adidas Group employees.

² Fundamental training covers: Workplace Standards & SEA introduction; FFC training; SEA policies & SOPs.

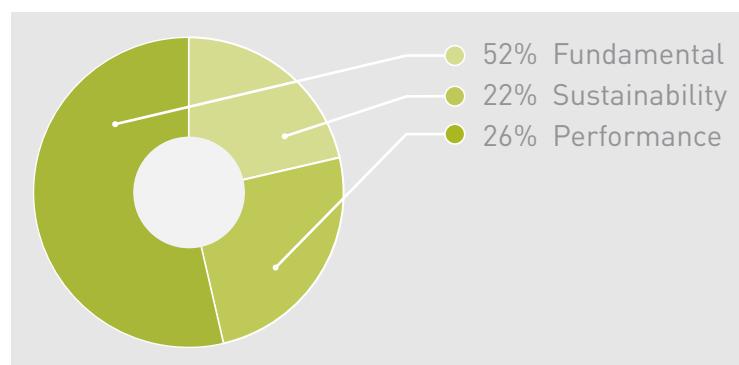
³ Performance training covers: Specific labour, health, safety and environmental issues.

⁴ Sustainability training covers: Sustainable compliance guideline & KPI improvement; Factory Self-Audits (factory internal audits).

⁵ In 2010, more than 2,200 people participated in these trainings.

⁶ Including 73 group training sessions, i.e. trainings with participation of more than one supplier, business entity or licensee.

Suppliers trainings by type in 2010



NUMBER OF AUDITS DIVIDED BY REGION AND TYPE

In 2010, the SEA team conducted 1,350 social compliance audits (including external monitoring audits). The total number of Initial Assessments – this first approval stage for new entry factories – and Performance Audits for our established suppliers was fewer than in 2009. In addition to these audits, suppliers' sites were the subject of multiple other visits by compliance staff to discuss specific remedial issues, to follow up project work or conduct training sessions.

Completing a high volume of Initial Assessments remained a challenge in 2010, particularly in Asia where new factories were proposed in more remote locations and a wide range of countries. There was a total of 447 Initial Assessments, of which 79.4% were in Asia, with China accounting for 33.8% of all assessments conducted. Overall 20.8% of candidate factories were rejected either out rightly, or for failure to remediate threshold issues in a timely manner. See also data on Termination and Rejections.

Audits conducted by external monitors were commissioned by adidas Group entities, including licensees with indirect sourcing models.

In total, there was audit coverage of 58% of all active suppliers. The audit coverage of all active suppliers in region Asia was 74%, with countries like China, India, Indonesia, Thailand and Vietnam showing more than 80% audit coverage.

NUMBER OF AUDITS DIVIDED BY REGION AND TYPE

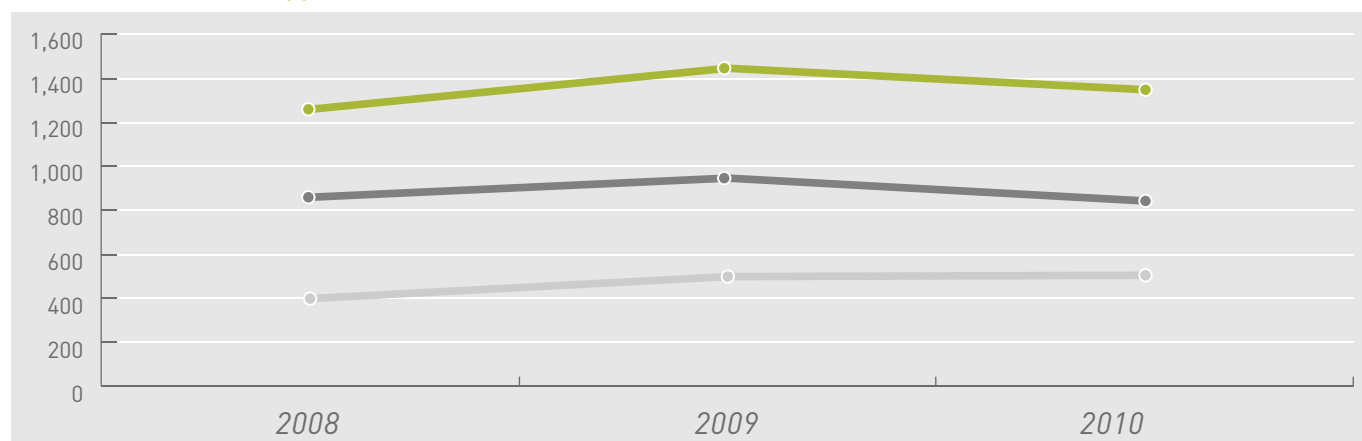
Region	Type and number of audit								
	Initial Assessment ¹			Performance Audit ²			Total		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Asia	515	406	354	496	853	788	1,050	1,261	1,142
Americas	70	49	59	65	63	78	141	112	137
EMEA	41	28	34	28	47	37	70	75	71
Total³	626	483	447	589	963	903	1,261	1,448	1,350

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

² Audits conducted in approved supplier factories.

³ Includes audits done in licensee factories. In addition, there was a considerable number of full environmental assessments conducted for selected suppliers in Asia.

Number of audits in supplier factories



• SEA Team	861	948	844
• External Monitor	400	500	506
• Total	1,261	1,448	1,350

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INITIAL ASSESSMENTS BY COUNTRY

Asia

Bangladesh	7
Cambodia	15
China	151
India	68
Indonesia	23
Japan	1
Korea	15
Laos	1
Madagascar	1
Malaysia	1
Pakistan	13
Philippines	6
Sri Lanka	5
Taiwan	8
Thailand	10
Vietnam	30
Asia Total	355

EMEA

Belarus	3
Egypt	7
Israel	1
Jordan	2
Kenya	1
Russia	6
South Africa	4
Turkey	8
Ukraine	1
EMEA Total	33

Americas

Argentina	6
Brazil	10
Colombia	1
Costa Rica	3
Dominican Republic	5
El Salvador	3
Guatemala	6
Honduras	1
Mexico	18
Nicaragua	5
Peru	1
Americas Total	59

NUMBER OF AUDITS CONDUCTED IN LICENSEE FACTORIES

The progress increase in audits from 181 in 2008 to 276 in 2010 reflects the increased participation of licensees in the SEA approved external monitoring system as well as an increased level of audit uploads to the FFC platform and subsequent audit maintenance.

The lower number of Initial Assessments and higher level of Performance Audits indicates a fewer number of new entries to the supply chain, and more in-depth compliance work being undertaken with existing suppliers.

NUMBER OF AUDITS CONDUCTED IN LICENSEE FACTORIES¹

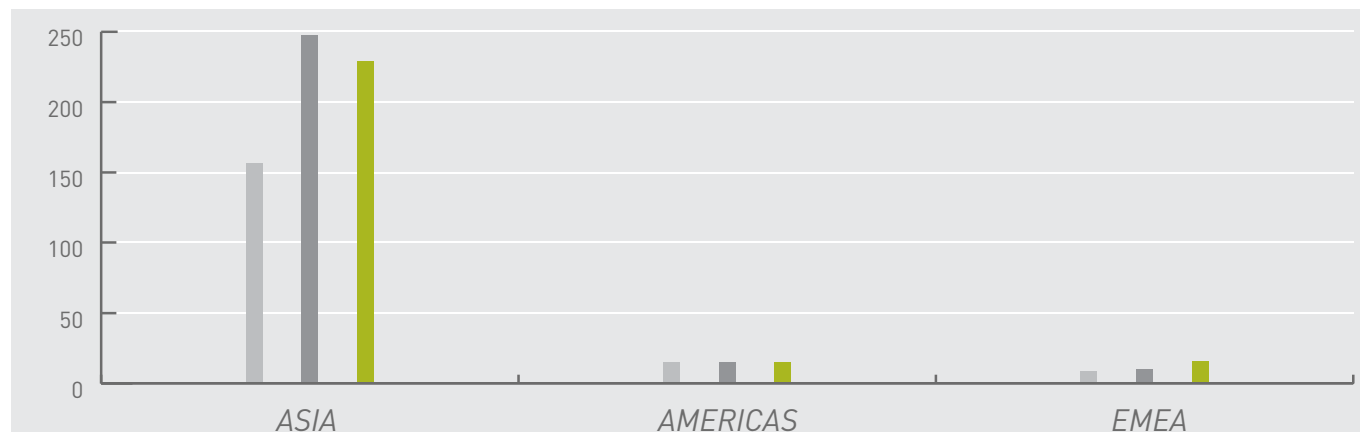
Region	Type and number of audit								
	Initial Assessment ²			Performance Audit ³			Total		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Asia	106	97	58	44	151	171	157	248	229
Americas	13	7	13	2	8	18	15	15	31
EMEA	3	5	6	6	5	10	9	10	16
Total	122	109	77	52	164	199	181	273	276

¹ This might include factories which produce both, for the adidas Group directly as well as for licensees/agents. In addition, there was a considerable number of full environmental assessments conducted for selected suppliers in Asia.

² Every new factory has to pass an Initial Assessment to prove compliance with the Workplace Standards prior to order placement.

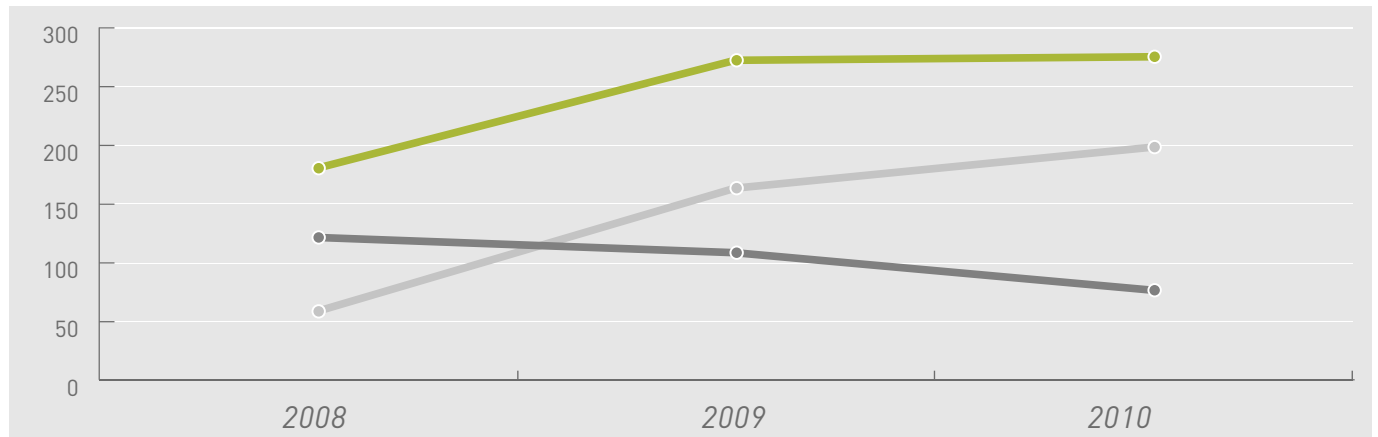
³ Audits conducted in approved factories.

Number of audits in licensee factories by region



• 2008	157	15	9
• 2009	248	15	10
• 2010	229	31	16

Number of audits in licensee factories by audit type



• IA	122	109	77
• PA	59	164	199
• Total	181	273	276

KEY PERFORMANCE INDICATOR (KPI) ASSESSMENT AND C-RATING

We audit our suppliers against our Standards and rate them according to their performance. We use an innovative way to rate the supplier on its ability to deliver fair, healthy and environmentally sound workplace conditions in an effective manner. The following table shows the average audit score by unit of measure for those active core suppliers that were rated against the six units of measure in the KPI to date. Each unit of measure is scored out of 100 percent.

In general, new factories that become part of our supply chain get low KPI scores which negatively affect the overall average KPI score. Relatively stable scores indicate that existing suppliers received higher KPI scores in 2010 compared to the previous years.

KPI ASSESSMENT AND C-RATING

KPI Unit of Measure – Average score in %	2008	2009	2010
Management commitment and responsiveness	40.12	43.43	43.61
Management systems	48.74	47.59	48.81
Worker-management communication and industrial relations	65.44	64.04	64.86
Compliance training for workers and management	58.80	59.25	58.49
Transparency in communication and reporting	71.79	70.46	70.29
Compliance performance	59.04	57.63	58.17
KPI Cumulative Score	47.79	47.41	47.28

In 2010, we have adjusted our C-Rating system for factory assessment raising the bar for factory performance and increasing the 2C threshold to an average score of 30 percent or more. The revised clustering for our C-ratings is shown below.

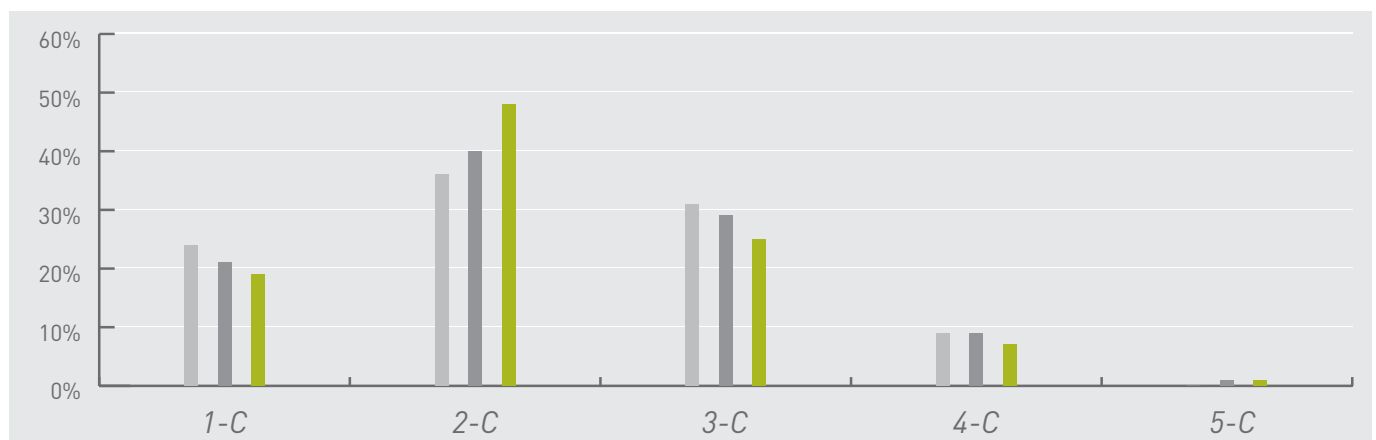
KPI score (%)	New C-rating
0-29	1C
30-59	2C
60-79	3C
80-89	4C
90-100	5C

The bar graph shows comparable data for the past three years using the new rating classification. The number of factories that were subject of KPI assessments in each specific year is indicated in the footnote.

In 2010, SEA increased the issuance of warning letters to non-performing suppliers, where serious and ongoing issues were not resolved despite close engagement. A warning letter immediately downgrades a factory's KPI score, hence the increased number of 2C suppliers overall. There was some improvement of poorly performing 1C suppliers, which also contributed to an increase in the number of factories graded 2C, as did new entry suppliers that are normally rated 2C after the close out of threshold issues.

The total number of 3C and 4C factories increased, but in percentage terms this is masked by the number of new factories that received an initial KPI score in the 2C range.

Percentage of KPI-assessed factories by C-rating*



• 2008	24%	36%	31%	9%	0%
• 2009	21%	40%	29%	9%	1%
• 2010	19%	48%	25%	7%	1%

* Number of factories which were subject of KPI assessments: 2008 (128), 2009 (347) and 2010 (547).

INDEPENDENT FLA AUDITS

Since joining the FLA in 1999, more than 250 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers. The number of conventional independent monitoring visits conducted by FLA accredited monitors has gone down because more of the conventional IEM requirements of the FLA have been redirected to an engagement in value-added FLA projects focused on reducing and eliminating chronic non-compliance issues or improving monitoring methodologies.

In 2010, FLA activities included four independent external monitoring visits. Four factories participated in FLA 3.0 exercises and one factory received an external verification visit. Seven factories participated in FLA special projects in Asia, EMEA and Central America. These so-called re-directed audits are FLA participating company engagements in specific project work that addresses resolution of chronic compliance issues in the global workplace and the development of new auditing tools and methodologies, such as the Sustainable Compliance Initiative, which will standardise labour, health and safety monitoring across a number of participating brands. Re-directs are substituted for independent external monitoring visits to factories. This substitution option is only available to FLA-accredited programmes. The term derives from the 're-direction' of IEM fees to financially support specific project work by the FLA to address chronic compliance issues.

INDEPENDENT FLA AUDITS¹

FLA Year	Period	No. of audits
4th ²	Jan – Dec 2005	30
5th	Jan – Dec 2006	43
6th	Jan – Dec 2007	15
7th	Jan – Dec 2008	19
8th	Jan – Dec 2009	16
9th	Jan – Dec 2010	16

¹ As part of the FLA membership; the numbers include Independent External Verification audits.

² Including audits conducted for Reebok before it was acquired by the adidas Group in 2006.

ENFORCEMENT

WARNING LETTERS

Warning letters are an essential part of our enforcement efforts and are triggered when we find ongoing serious non-compliance issues that need to be addressed by our suppliers. In 2010, we issued a total of 50 warning letters across twelve countries.

The largest number of warning letters continued to be issued in Asia, where nearly 70% of all supplier factories are located. Compared to the previous two years, the number of first warning letters has increased considerably which automatically results in a higher number of total warning letters issued to suppliers. The increased number of first warning letters reflects SEA's overall efforts in 2010 at raising the bar on supplier performance, with reduced tolerance for ongoing non-compliances. It also reflects pressures within the supply chain, due to capacity constraints that resulted in a higher frequency of excessive working hours' cases across Asia. It is difficult to generalise as to the grounds for a warning letter, as this may be issued based on a single non-conformance which is unresolved, or multiple breaches of our Standards. The range of issues that resulted in warning letters in 2010 included poor management commitment, excessive working hours, falsified time and payment records, underpayment of wages, non-payment of back-wages, inadequate social security, medical insurances or other benefits, poor electrical, fire or chemical safety, insufficient training to workers, supervisors and managers, poor communication and transparency problems.

The reduction in warning letters 2 and 3 shows that suppliers are reacting to the first warning letter and correcting the identified threshold, non-compliant issues more expediently.

NUMBER OF WARNING LETTERS ISSUED TO ADIDAS GROUP SUPPLIERS*

Country	1st warning			2nd warning			3rd and final warning -> recommended termination			Total warning letters		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Argentina	-	1	-	-	-	-	-	-	-	-	1	-
Bangladesh	1	1	1	-	-	-	-	-	-	1	1	1
Brazil	1	-	-	-	-	-	-	-	-	1	-	-
Cambodia	1	1	2	-	-	-	-	-	-	1	1	2
China	11	10	18	1	2	-	-	-	1	12	12	19
Guatemala	-	1	-	-	-	-	-	-	-	-	1	-
India	3	7	9	1	2	1	-	-	-	4	9	10
Indonesia	1	2	4	1	-	1	-	-	-	2	2	5
Korea	1	-	1	-	-	-	-	-	-	1	-	1
Mexico	1	-	2	-	-	-	1	-	-	2	-	2
Pakistan	-	-	1	-	-	-	-	-	-	-	-	1
Peru	-	1	1	-	-	-	-	-	-	-	1	1
Philippines	2	4	-	-	-	-	-	-	-	2	4	-
Sri Lanka	-	-	1	-	-	-	-	-	-	-	-	1
Syrian Arab Republic	-	-	1	-	-	-	-	-	-	-	-	1
Thailand	2	1	-	1	-	-	-	-	-	3	1	-
Turkey	1	-	-	1	-	-	-	-	-	2	-	-
Vietnam	6	5	6	-	-	-	-	-	-	6	5	6
Total	31	34	47	5	4	2	1	-	1	37	38	50

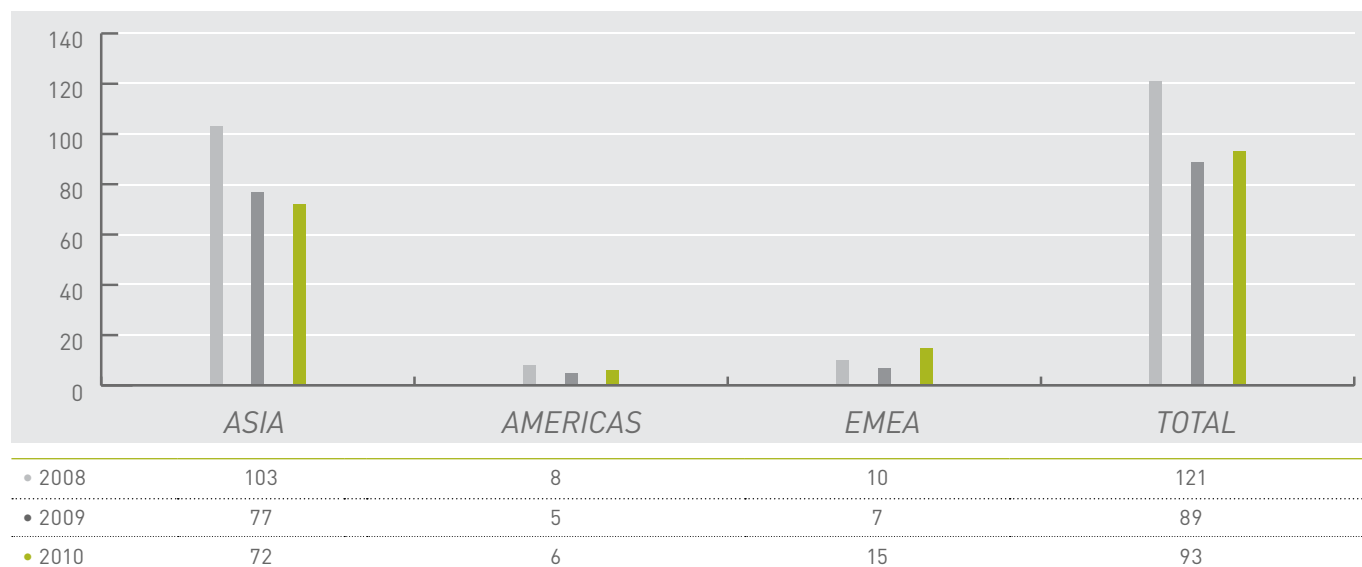
* Including warning letters issued by licensees and agents. But excluding warnings to main suppliers for the non-disclosure of subcontractors, which is issued either directly through business entities, or by the adidas Group legal department where there is a breach of contract obligations under a manufacturing agreement.

TERMINATIONS AND REJECTIONS

We work closely with our suppliers to help them improve their performance. However, in the past where we have faced situations of severe or repeat non-compliance we have terminated our business relationship with suppliers. In 2010, we did not terminate agreements with any supplier for compliance reasons.

We also work closely with Global Operations and other business entities to pre-screen potential new suppliers. Our so-called Initial Assessments are uncovering threshold or zero tolerance issues. A total of 447 Initial Assessments (pre production audits) were conducted in 2010, and 93 of them resulted in a rejection. This means 20.8% of potential new supplier factories were rejected for threshold or zero-tolerance non-compliance issues. The number of factories rejected on the first visit was greater still, but suppliers who have threshold issues (that is, serious but remediable non-compliances) are given three months to remediate those issues prior to re-auditing for final SEA acceptance. As in previous years, China dominates the number of new supplier Initial Assessments and corresponding rejection rates are high. In India, newly disclosed or proposed suppliers were also subject to rigorous assessments and due to weak remedial efforts resulting in a high rejection rate.

Rejections by region after IA due to compliance problems



NUMBER OF BUSINESS RELATIONSHIP TERMINATIONS/REJECTIONS AFTER INITIAL ASSESSMENT DUE TO COMPLIANCE PROBLEMS

Asia

Country	No. of terminations			No. of rejections after IA		
	2008	2009	2010	2008	2009	2010
Bangladesh	-	1	-	4	6	3
Cambodia	-	-	-	5	3	5
China	-	7	-	54	49	43
India	-	-	-	12	1	13
Indonesia	-	-	-	2	4	1
Korea	-	-	-	1	2	-
Laos	-	-	-	1	-	-
Malaysia	-	-	-	-	1	-
Pakistan	-	-	-	5	-	2
Sri Lanka	-	-	-	-	2	-
Taiwan	-	-	-	1	-	-
Thailand	-	-	-	3	1	2
Vietnam	1	-	-	15	8	3

Americas

Country	No. of terminations			No. of rejections after IA		
	2008	2009	2010	2008	2009	2010
Brazil	-	1	-	-	1	1
Canada	-	-	-	1	2	-
Dominican Republic	-	-	-	-	-	1
El Salvador	-	-	-	-	1	-
Guatemala	-	-	-	-	-	4
Mexico	1	-	-	6	1	-
Peru	-	-	-	1	-	-

EMEA

Country	No. of terminations			No. of rejections after IA		
	2008	2009	2010	2008	2009	2010
Albania	-	-	-	1	-	-
Belarus	-	-	-	-	-	1
Egypt	-	-	-	1	3	3
Israel	-	-	-	1	-	-
Jordan	-	-	-	1	1	2
Russia	-	-	-	-	-	3
South Africa	-	-	-	2	2	-
Turkey	-	-	-	3	-	5
Ukraine	-	-	-	-	-	1
Zimbabwe	-	-	-	1	1	-

Global

	No. of terminations			No. of rejections after IA		
	2008	2009	2010	2008	2009	2010
Global	2	9	0	121	89	93

ENVIRONMENT

CERTIFICATIONS OBTAINED BY ATHLETIC FOOTWEAR SUPPLIER SITES PRODUCING FOR THE INTERNATIONAL MARKET

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

In 2010, we worked with 24 athletic footwear suppliers who are certified in accordance with the international environmental management standard ISO 14001 and the workplace health and safety management standard OHSAS 18001. These suppliers produced around 83% of the adidas Group's global athletic footwear sourcing volume.

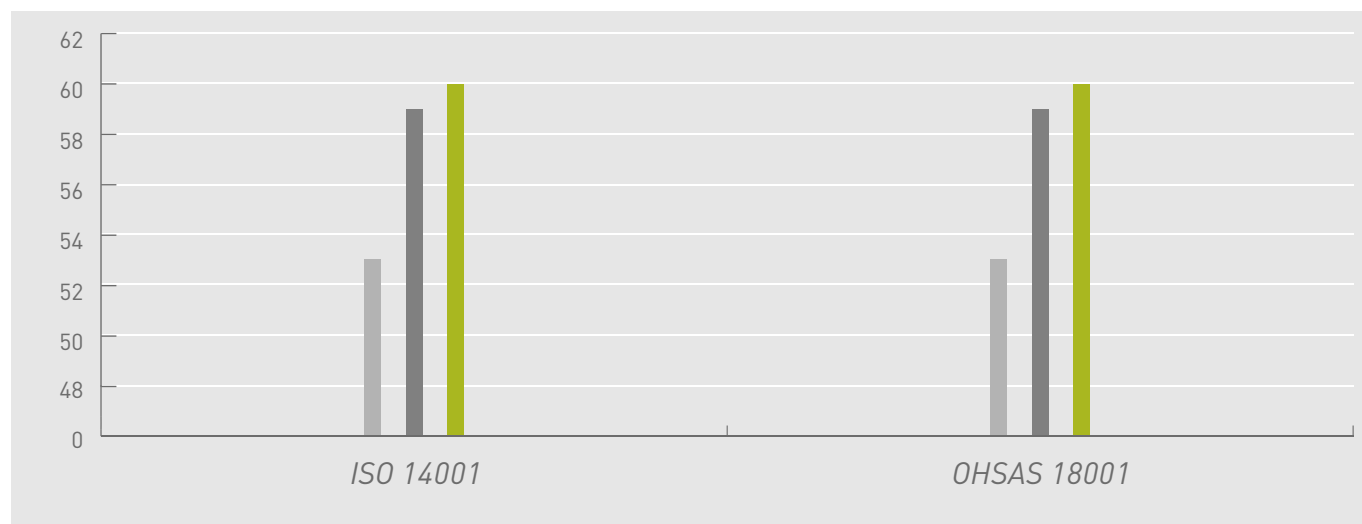
Certifications obtained by athletic footwear supplier sites producing for the international market¹

Country	Number of FW suppliers			ISO 14001			OHSAS 18001		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Argentina	1	2	1	-	-	-	-	-	-
Brazil	2	2	2	-	-	-	-	-	-
Cambodia	-	-	1	-	-	-	-	-	-
China	11	7	14	9	7	10	9	7	10
Germany	1	1	1	1	1	1	1	1	1
India	1	1	1	-	1	1	-	1	1
Indonesia	8	6	9	4	3	4	4	3	4
Italy ²	1	1	1	-	-	-	-	-	-
Philippines	1	1	-	-	-	-	-	-	-
Thailand	1	1	-	-	-	-	-	-	-
Vietnam	11	10	10	6	7	8	6	7	8
TOTAL	38	32	40	20	19	24	20	19	24

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

² Health and Safety Management System in place that is regularly inspected by local authorities.

CERTIFICATION OF ATHLETIC FOOTWEAR SUPPLIERS PRODUCING FOR THE INTERNATIONAL EXPORT MARKET IN %



• 2008	53%	53%
• 2009	59%	59%
• 2010	60%	60%

FREIGHT TYPES USED TO SHIP ADIDAS PRODUCTS

In 2010, we saw a considerable increase in air freight shipment for apparel products from 4% to 8%. Air freight transport was driven and heavily influenced by a major global sports event, the 2010 FIFA World Cup South Africa™. Selected time sensitive products had to be transported via air freight to meet customer requests.

FREIGHT TYPES USED TO SHIP ADIDAS PRODUCTS¹

% of products shipped		2008	2009	2010
Apparel	Truck	17	14	15
	Sea freight	77	81	76
	Air freight	6	4	8
	Sea and air freight	1	1	1
Hardware ²	Truck	2	1	2
	Sea freight	96	97	95
	Air freight	2	2	3
	Sea and air freight	0	0	0
Footwear	Truck	2	2	1
	Sea freight	96	97	97
	Air freight	2	1	2
	Sea and air freight	0	0	0

¹ Figures expressed as a percentage of the total number of products transported

² Accessories and gear

GREEN COMPANY DATA

The adidas Group operates more than 300 offices, manufacturing sites and distribution centres worldwide; they vary in size and structure. Some of the sites are owned by the Group, others are leased or rented.

In the first phase of the Green Company Initiative roll-out in 2008 and 2009, 24 major sites were included and reported environmental key data.

These sites included Group and brand headquarters, our own production facilities and some distribution centres, representing a significant proportion of the total environmental footprint of the Group's own operations.

In 2010, a significantly higher number of locations (67) was included in the Green Company reporting, aiming at covering around 80% of the Group's total emissions. Those locations were included in the reporting and account for approximately 80% of the total occupied and built-upon area. The actual selection of reporting entities was based upon the inclusion of all main headquarter locations with more than 2,000 square metres, all manufacturing entities, as well as all distribution centres with more than 3,000 square metres.

In order to facilitate the reporting of all these sites - nearly 2/3 of them are new reporters in 2010 - new web-based data recording and reporting tool was developed that provides automatic plausibility and comment controls, as well as statistical analysis and reporting functions.

DATA REPORTING - ALL SITES

The table on the next page shows a consolidated overview of data reported by all locations for the calendar year of 2010. Since the majority of these locations are first time reporters in 2010, a trend analysis for this group is not possible. Many of the locations that reported their data for the first time in 2010 have not yet analysed their savings potential. Therefore they will be informed regularly about the targets and implementation guidelines, as well as supported in defining their programmes for 2011. All locations will also be updated regularly and briefed about best practice examples.

Environmental data 2010 for all locations reporting Group-wide:
administration offices, production sites and distribution centres

	Total energy consumption (MWh)	Total carbon emissions (tonne)	Total water consumption (m³)	Total household waste (tonne)	Total paper consumption (tonne)
Administration offices					
Region EMEA (total)	44,000	12,500	56,500	320	110
Region AMERICAS (total)	37,800	16,400	93,200	950	150
Region ASIA (total)	8,100	4,300	15,500	90	80
Administration offices (total)	89,900	33,200	165,200	1,360	340
Own production sites					
Region EMEA (total)	11,100	900	4,700	150	20
Region AMERICAS (total)	33,500	10,400	40,600	660	320
Region ASIA (total)	700	400	2,400	3	3
Own production sites (total)	45,300	11,700	47,700	810	340
Distribution centres					
Region EMEA (total)	23,100	8,100	24,600	230	470
Region AMERICAS (total)	62,800	22,100	71,600	860	200
Region ASIA (total)	6,000	3,700	46,600	150	40
Distribution centres (total)	91,900	33,900	142,800	1,240	710
TOTAL	227,100	78,800	355,700	3,410	1,390

	Total organic solvents (kg)	Total waste water (m³)	Number of employees	Number of workplace accidents	Number of lost days due to accidents
Administration offices					
Region EMEA (total)	190	32,200	6,353	30	353
Region AMERICAS (total)	8,430	n.r.	3,216	10	870
Region ASIA (total)	n.r.	n.r.	2,195	2	65
Administration offices (total)	8,620	32,200	11,764	42	1,288
Own production sites					
Region EMEA (total)	16,050	4,700	370	12	94
Region AMERICAS (total)	12,060	n.r.	1,767	73	834
Region ASIA (total)	n.r.	n.r.	270	0	0
Own production sites (total)	28,110	4,700	2,407	85	928
Distribution centres					
Region EMEA (total)	100	9,500	1,216	26	306
Region AMERICAS (total)	120	32,000	2,454	84	2,557
Region ASIA (total)	n.r.	1,600	1,390	4	17
Distribution centres (total)	220	43,100	5,060	114	2,880
TOTAL	36,950	80,000	19,231	241	5,096

n.r. - not reported

CORE TARGET FOLLOW-UP FOR SITES REPORTING FOR 2008-2010

The table below shows the aggregated target results for the locations that have been reporting Green Company data since 2008. It aims to provide an overview regarding target achievements compared to specific quantified saving targets, the so-called core targets. The table depicts the target 2015, the linear (or pre-defined) annual target and the actual performance result of the reporting entities. Locations that have achieved the targets are marked in green. Furthermore, the table shows the total result for all these reporters and the results per facility type: administration office, own production site and distribution centre.

The following key trends were identified:

- 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.

CORE TARGET FOLLOW-UP FOR ALL SITES REPORTING FOR 2008-2010

	Energy savings MWh/m ²			Carbon savings t/m ²			Water savings m ³ /person		
	Target 2015	Target linear	Result 2010	Target 2015	Target linear	Result 2010	Target 2015	Target linear	Result 2010
Administration offices	-20%	-5.7%	0.5%	-30%	-8.6%	5.3%	-20%	-5.7%	-23.1%
Own production sites	-20%	-5.7%	6.5%	-30%	-8.6%	-5.4%	-20%	-5.7%	9.0%
Distribution centres	-20%	-5.7%	-15.9%	-30%	-8.6%	-10.2%	-20%	-5.7%	10.6%
Total	-20%	-5.7%	-0.4%	-30%	-8.6%	0.7%	-20%	-5.7%	-11.8%

	Household waste reduction t/person			Paper savings t/person		
	Target 2015	Target linear	Result 2010	Target 2015	Target linear	Result 2010
Administration offices	-25%	-7.1%	-23.3%	-50%	-20.0%	-24.5%
Own production sites	-25%	-7.1%	-5.1%	-50%	-20.0%	-12.4%
Distribution centres	-25%	-7.1%	-9.8%	-50%	-20.0%	12.7%
Total	-25%	-7.1%	-16.7%	-50%	-20.0%	-17.7%

- achieved
- not achieved

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 more detailed and comprehensive report that analyses the results and performance of Green Company data is posted on our corporate website http://www.adidas-group.com/en/sustainability/Environment/green_company/default.aspx

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EMPLOYEES

EMPLOYEE STATISTICS

GLOBAL EMPLOYEE BASE CONTINUES TO GROW

On December 31, 2010, the Group had 42,541 employees, which represents an increase of 7% versus 39,596 in the previous year. This development is primarily related to new employees in the Retail segment, mainly on a part-time basis. On a full-time equivalent basis, our Group had 36,444 employees on December 31, 2010 (2009: 34,437). Due to the high share of employees working on a part-time basis in the Retail segment, this figure is lower than the figure reported on a headcount basis.

OWN-RETAIL ACTIVITIES IN EMERGING MARKETS DRIVE EMPLOYEE GROWTH

The number of employees working in the Wholesale segment decreased 8% to 4,329 at the end of 2010 (2009: 4,723), mainly due to reorganisation measures following the implementation of the joint operating model in 2009. Staff in our Retail segment increased 14%, primarily as a result of the expansion of own-retail activities in emerging markets. The Retail segment comprised 22,286 employees at year-end (2009: 19,576). In Other Businesses, the number of employees decreased by 4% to 1,676 (2009: 1,750), primarily due to reorganisation initiatives at TaylorMade-adidas Golf and Reebok-CCM Hockey. The number of employees working in our headquarter functions increased by 5% to 14,250 (2009: 13,547). This development reflects the changes in the organisation structure.

At the end of 2010, 23% of our Group's staff were employed in Western Europe (2009: 23%), 34% in European Emerging Markets (2009: 31%), 24% in North America (2009: 25%), 4% in Greater China (2009: 8%), 9% in Other Asian Markets (2009: 6%) and 6% in Latin America (2009: 7%).

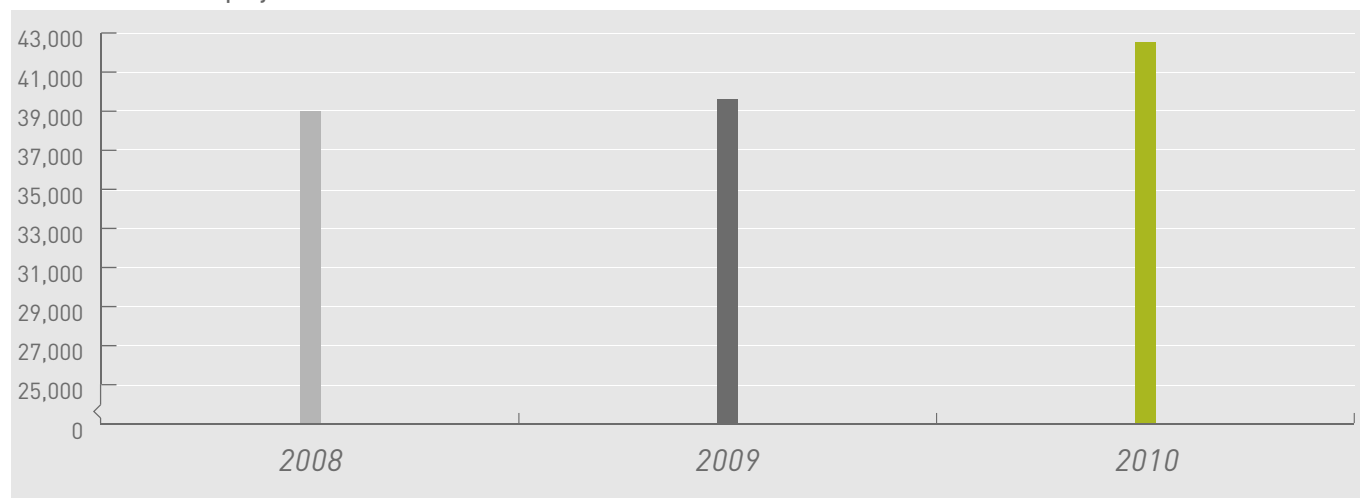
KEY EMPLOYEE STATISTICS

Index/reporting unit		2008	2009	2010
Total number of employees		38,982	39,596	42,541
Total employees (in %)	Male	51%	50%	52%
	Female	49%	50%	48%
Management positions held by (in %)	Male	72%	69%	72%
	Female	28%	31%	28%
Average age of employees (in years) ¹		29	31	33
Employee turnover (in %) ²		14.7	14.7	22
Average tenure per employee (in years)		3.9	4.1	4
Annual training hours by employee (in hours)		10.8	7.3	13

¹ At year-end.

² For 2007-2009 excluding the retail sector; the 2010 number reflects the complete adidas Group.

Total number of employees



Total number of employees	38,982	39,596	42,541
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HEALTH & SAFETY STATISTICS FOR OUR MAIN ADMINISTRATION OFFICES, PRODUCTION SITES AND DISTRIBUTION CENTRES

Name of the site	Number of employees			Number of workplace accidents			Number of lost days due to accidents		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Administration offices									
adidas Group Headquarters – WOS Herzogenaurach, Germany	1,903 ⁸	1,681 ⁸	1,903⁸	18	20	9	79	136	52
adidas Group Headquarters – ADP Herzogenaurach, Germany	1,122 ⁸	1,146 ⁸	1,146⁸	3	10	3	14	25	37
adidas Group Headquarters – WOGIT Herzogenaurach, Germany	563 ⁸	575 ⁸	575⁸	1	2	0	5	4	0
adidas Factory Outlet, Herzogenaurach, Germany	150 ⁸	150 ⁸	150⁸	3	3	4	21	11	24
adidas Office, Portland, America ¹	850	850	850	0	10	0	0	112	0
Reebok Headquarters, Canton, USA	1,061	1,120	1,153	0	0	2	0	0	12
TaylorMade-adidas Golf Headquarters, Carlsbad, USA ²	848	725	870	4	4	4	17	58	47
TaylorMade-adidas Golf Office, Koto-ku, Japan ³	190	145	157	0	1	0	0	27	0
adidas Group, Administrative Service Building 3, Spartanburg, USA	180	180	192	0	0	0	0	0	0
adidas Group, Office, Shanghai, China	600	600	490	0	0	0	0	0	0
Administration offices (total)	7,467	7,172	7,486	29	50	22	136	373	172
Own production sites									
adidas Footwear Factory, Scheinfeld 1, Germany ⁴	155 ⁸	134 ⁸	155⁸	3	2	5	7	18	43
adidas Footwear Factory, Scheinfeld 2, Germany ⁴	67 ⁸	67 ⁸	67⁸	4	9	5	27	57	44
adidas Apparel Factory, Suzhou, China	260	264	243	0	0	0	0	0	0
adidas Canada Assembly Factory, Brantford, Canada	61	64	76	0	2	1	0	8	7
Reebok-CCM Hockey Factory, St. Hyacinthe, Canada	152	150	140	1	2	8	18	23	10
Reebok-CCM Hockey Factory, St. Jean, Canada	140	127	127	3	12	10	117	449	773
Reebok-CCM Hockey Factory, Tammela, Finland	99	64	72	2	2	1	10	7	3
Reebok-CCM Hockey Factory, Malung, Sweden	141	110	76	1	0	1	10	0	4
Sports Licensed Division, Factory, Indianapolis, USA	950	823	1,204	0	12	52	0	181	23
Sports Licensed Division, Factory, Mattapoisett, USA	109	106	108	1	0	0	2	0	2
Sports Licensed Division, Factory, Cedar Rapids, USA	173	108	112	3	2	2	6	141	19
TaylorMade Assembly Factory, Togane-Shi, Japan ⁷	147	147	27	0	0	0	0	0	0
Own production sites (total)	2,454	2,164	2,407	18	43	85	197	884	928

Name of the site	Number of employees			Number of workplace accidents			Number of lost days due to accidents		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Distribution centres									
adidas Distribution Centre, Uffenheim, Germany	250 ⁸	250 ⁸	250 ⁸	n.r.	n.r.	16	n.r.	n.r.	147
adidas Group, Distribution Centre 1 (Apparel), Spartanburg, USA	815	725	808	0	1	4	0	2	64
adidas Group, Distribution Centre 2 (Footwear), Spartanburg, USA ⁵	n.a.	50	808	n.a.	0	5	n.a.	0	175
adidas America, Office/Distribution Centre 4 (Footwear), Spartanburg, USA ⁶	475	400	8	0	0	0	0	0	0
Reebok-CCM Hockey, Headquarters and Distribution Centre, Montreal, Canada	500	440	179	54	39	22	982	1,283	1,612
adidas Group Distribution Centre, Suzhou, China	590	485	575	14	8	3	172	54	9
Distribution centres (total)	2,630	2,399	2,603	68	48	50	1,154	1,339	2,007
TOTAL	12,551	11,735	12,496	115	141	157	1,487	2,596	3,107

¹ Site was named 'adidas America Inc., Portland, USA' in previous report

² Figures cover TaylorMade Headquarters and assembly factory

³ Site was named 'TaylorMade-adidas Golf Office, Japan' in previous report

⁴ Site was named 'adidas Footwear Factory, Scheinfeld, Germany' in previous report, now split into Scheinfeld 1 and Scheinfeld 2

⁵ Site started operating in 2009

⁶ Site was closed in 2010

⁷ Production in factory was stopped

⁸ Number of workplaces at site

n.a. = not applicable

n.r. = not reported

This table includes all sites that started reporting in 2008 and 2009

COMMUNITY AFFAIRS

COMMUNITY AFFAIRS STATISTICS*

In 2010, we saw a further increase of donation requests compared to the previous year and 2008. Donation requests significantly varied in nature and purpose. All requests were carefully reviewed on the basis of the adidas Group Corporate Giving Guidelines. In particular, we supported those requests which were in line with our policies and guidelines.

Compared to 2009, the number of supported projects increased by 12%. The amount of product donations increased in 2010, in particular to support requests from aid organisations for product shipments that were used for relief efforts. The amount of volunteer hours increased significantly which primarily resulted from the restructuring and the associated rising activities of the Adi Dassler Fund in the year 2010.

Region	Donation requests received			Total number of projects supported		
	2008	2009	2010	2008	2009	2010
EMEA	1,424	1,564	1,792	215	208	191
Latin America	46	150	131	7	3	3
North America	3,504	5,784	6,429	1,238	569	733
Asia Pacific	106	108	69	101	78	38
Total	5,080	7,606	8,421	1,561	858	965

Region	Units of products donated			Volunteer hours		
	2008	2009	2010	2008	2009	2010
EMEA	94,695	17,246	53,545	5,250	4,213	5,234
Latin America	549	29,000	2,800	400	1,020	700
North America	57,838	143,201	133,500	3,123	1,838	3,514
Asia Pacific	12,281	38,112	79,664	4,652	3,737	7,020
Total	165,363	227,559	269,509	13,425	10,808	16,468

* Numbers include: brand activities, corporate activities, Reebok Foundation, Adi Dassler Fund

PROGRESS AGAINST 2010 TARGETS

- 100% Target achieved
- 75% Target largely achieved
- 50% Target half achieved
- 25% Target partly achieved
- 0% Target not achieved

Key Targets 2010	Comments	Target Achievement
ENVIRONMENTAL SUSTAINABILITY		
Develop a Group Environmental Strategy 2015.	The Group Environmental Strategy was finalised and launched. The Strategy encompasses all business functions and brands and sets several quantitative and qualitative targets through to 2015.	100%
Map and roughly calculate the environmental footprint of our whole value chain.	Project scope and boundaries were defined for the mapping exercise; calculation to be carried out in early 2011.	25%
Launch the environmental supply chain programme.	The programme was launched at the beginning of 2010 and includes Environmental Guidelines, audit tools and audit coverage. The tools include audit checklists and remediation guidelines.	100%
Achieve ISO 14001 ¹ certification for Group and brand headquarters' sites.	Environmental management systems (EMS) of major sites in North America (Portland, Canton, Carlsbad, Spartanburg, Montreal) and at the adidas Group level obtained ISO 14001 certification (certification scope: the planning, operation and maintenance of buildings). Certification audit of the EMS of adidas Group facilities in Herzogenaurach, Germany, is scheduled to take place in 2011.	75%
Meet annual Green Company milestones for own sites.	Reporting data for 2009 was completed, reported and evaluated to fulfil this target.	100%
Expand Green Team network globally.	Nine Green Teams were in place in 2010. Green Teams organised events on Earth Day, April 22, 2010.	50%
SOCIAL COMPLIANCE IN THE SUPPLY CHAIN		
Systems and Guidelines		
Enable a seamless transition to using the tools developed by the multi-brand Sustainable Compliance Initiative (SCI).	SCI data management platform is being developed by the Fair Labor Association (FLA), but IT execution is experiencing delays.	25%
Complete and launch revised social compliance key performance indicator (KPI).	The KPI template and its function have been upgraded and several indicators were added. In addition, the tool has a link to the Global Sourcing organisation's supplier performance evaluation to bring about higher consistency. The revised tool has been launched and is being used.	100%
Drive forward partnership and collaboration with brands and other stakeholders.	Maturing strongly with other brands and FLA participating companies and suppliers. It includes the harmonisation of remediation plans and joint field activities.	75%
Direct Sourcing Model		
Direct monitoring efforts to drive better supplier performance.	Self-governance concept has been launched for the higher performing suppliers (4C and 5C-rated suppliers), and Standard Operating Procedures (SOP) as well as briefing materials have been developed. Briefing to suppliers was completed by end of 2010. Full implementation will take place in 2011.	75%
Drive efficiencies in monitoring coverage.	Programme activities were redefined based on suppliers' KPI scores. Suppliers were notified of the need to upgrade the performance of 1C factories. Focus was on risk management of 2C factories and performance assessment of 3C factories. The services of external monitors were used for audits where internal resources were lacking. A capacity building programme is being developed for 2C and 3C factories to improve their performance.	75%

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Key Targets 2010	Comments	Target Achievement
Indirect Sourcing Model		
Extend the range of service capabilities (action plan development, KPI assessments) of external monitoring providers.	All external monitoring companies are now developing corrective action plans. Only two external monitoring companies are qualified to complete KPI assessments.	50%
Drive business entities' accountability for compliance through the expanded use of report cards.	This area of work is maturing well. Report cards have been developed for 55 business entities.	100%
ENGAGEMENTS		
Continue dialogue with critical stakeholders and use the results to improve our programme.	There has been extensive and ongoing engagement with key stakeholders, in particular over employment concerns, minimum wages, trade union rights, supply chain transparency and other systemic issues. In some cases these drove programmatic changes.	100%

¹ ISO 14001 is an international standard for environmental management systems, which commits a company to seeking continuous improvements in its environmental performance. To become certified, a company's environmental management system needs to be checked by accredited auditors.

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TARGETS

ENVIRONMENT

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. 	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"> Risk mitigation Performance improvement 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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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 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	<p>Integrate environmental sustainability into global HR programmes:</p> <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	<p>Reduce the environmental footprint of IT infrastructure 20% through the following initiatives:</p> <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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SOCIAL COMPLIANCE IN THE SUPPLY CHAIN (LABOUR, HEALTH & SAFETY)

2015 Targets	2011 Milestones
<ul style="list-style-type: none"> 80% of direct supplier factories to meet '3C' (good) or better under our social compliance KPI rating. 25% of direct suppliers to be in a self-governance compliance model (where they take responsibility for their own performance) that includes reporting of key social and health and safety indicators. Common industry-wide monitoring platform used to check workplace conditions. Strategic suppliers to have transparent reporting practices about their sustainability performance in place. Scorecards for business units and intermediaries managing our indirect suppliers to achieve an average performance rating of 70% or higher. 	<ul style="list-style-type: none"> Tackle the lowest performers by improving 1C-rated suppliers to a minimum rating of 2C and exit those suppliers that do not meet this grade. Promote the mainstreaming of the FFC as an industry-wide tool for compliance collaboration and harmonised activities. Integrate the next generation of monitoring tools by benchmarking our tools and practices against those of other brands in key industry alliances, such as the FLA and GSCP. Address external requirements for transparency and disclosure: <ul style="list-style-type: none"> Fulfil LOCOG requirements and contract obligations on supplier disclosure and SEDEX uploads. Publicly disclose Olympic supplier list from mid-2011 and update quarterly to ensure it is current and accurate. Drive efficiencies and effectiveness in the monitoring and improvement of workplace conditions by leveraging our partnerships and collaborations with selected brands, multi-stakeholder initiatives and other stakeholders by: <ul style="list-style-type: none"> Promoting the harmonisation of Corrective Action Plans at a factory level through brand collaborations and engagement with key suppliers. Completing a Fair Wage pilot in collaboration with FLA and ILO by prototyping in the Philippines and Central America. Drive business entities' accountability for their supply chains' compliance performance by: <ul style="list-style-type: none"> Expanding the number of Strategic Compliance Plans (SCP) and Report Card assessments. Launching an environmental component to the SCP.

EMPLOYEES

2015 Targets	2011 Milestones
<ul style="list-style-type: none"> Leadership Excellence – Our leadership culture is recognised as best-in-class by our employees and the external business world. Talent acquisition – We become a world-class talent acquisition organisation that utilises branding, strategic search and internal recruiting excellence to ensure the continuous pipeline of top talent required to achieve business objectives. Learning Organisation – Our learning strategy and opportunities support our employees to help them achieve their targets, deliver high performance and set the basis for efficiency and innovation. Learning is a key performance driver within the adidas Group and ensures the fitness of our employees. 	<ul style="list-style-type: none"> Based on the findings of the global employee survey, drive the engagement R2A ("Results To Actions") process in all business areas to further improve employee engagement. Focus on the activation of our concepts and tools that constitute our HR foundation and help us to become the employer of choice.

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G3 CONTENT INDEX

We recognise that the Global Reporting Initiative (GRI) Guidelines are the international benchmark for sustainability reporting. We have used the GRI to inform our sustainability reporting and, in accordance with the GRI, we present here a content index highlighting where we have and have not covered the GRI indicators in our reporting.

We have also referred to the draft GRI Apparel and Footwear Sector Supplement. While this remains a draft, it does go some way to address concerns we have expressed in the past about the relevance of the GRI to a sporting goods company such as ours where our principal social and environmental impacts lie not under our direct control but are within our supply chain. The Sector Supplement indicators are included below the standard disclosures.

As well as this sustainability report, we do cover certain information on our corporate website at www.adidas-group.com or in our Annual Report and we have indicated where this is the case. There are however still gaps in our reporting and it is part of our commitment to transparency not to hide these by superficially addressing issues in the report that are not backed up by effective policies and programmes. Any gaps are clear from the index below.

For more information about the Global Reporting Initiative, please see www.globalreporting.org

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							
	Third Party Checked							
Optional	GRI Checked							

STANDARD DISCLOSURES PART I: PROFILE DISCLOSURES

1. Strategy and analysis

GRI-Indicator		Link/page ref
1.1	Statement from the most senior decision-maker of the organisation. <i>Comment: Broader trends affecting our sustainability performance are covered in Challenges, vision and governance. Our Workplace Standards draw from international law and the International Labour Organization conventions.</i>	CEO Statement, p8.
1.2	Description of key impacts, risks, and opportunities.	Challenges, vision and governance, p5. Managing sustainability p9. Progress 2010, p97. Targets, p99.

2. Organisational profile

GRI-Indicator		Link/page ref
2.1	Name of the organisation.	Front cover
2.2	Primary brands, products, and/or services.	About our business, p4.
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	About our business, p4.
2.4	Location of organisation's headquarters.	About our business, p4.
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	About our business, p4. Corporate website at http://www.adidas-group.com/en/ourgroup/locations/default.aspx
2.6	Nature of ownership and legal form.	About our business, p4. Corporate website at http://www.adidas-group.com/en/investorrelations/corporate_governance/default.aspx
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	About our business, p4. Corporate website at http://www.adidas-group.com/en/ourgroup/strategy/default.aspx
2.8	Scale of the reporting organisation.	About our business, p4.

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2.9	Significant changes during the reporting period regarding size, structure, or ownership.	About our business, p4.
2.10	Awards received in the reporting period.	Corporate website at http://www.adidas-group.com/en/sustainability/awards_and_recognition/default.aspx

3. Report parameters

GRI-Indicator		Link/page ref
3.1	Reporting period (e.g., fiscal/calendar year) for information provided. <i>Comment:</i> Information provided in the report cover fiscal/calendar year 2010.	About the report, p2.
3.2	Date of most recent previous report (if any). <i>Comment:</i> The 2009 Sustainability Report was published on 3 March, 2010.	About the report, p2.
3.3	Reporting cycle (annual, biennial, etc.) <i>Comment:</i> The adidas Group publishes a report annually.	About the report, p2.
3.4	Contact point for questions regarding the report or its contents.	Contact, p114
3.5	Process for defining report content.	About the report, p2.
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	About the report, p2.
3.7	State any specific limitations on the scope or boundary of the report. <i>Comment:</i> See any notes to specific data in the Performance section.	About the report, p2.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations. <i>Comment:</i> See any notes to specific data in the Performance section.	About the report, p2.

GRI-Indicator		Link/page ref
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols. <i>Comment:</i> See any notes to specific data in the Performance section.	Performance, p72.
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods). <i>Comment:</i> See any notes to specific data in the Performance section.	Performance, p72.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. <i>Comment:</i> See any notes to specific data in the Performance section	About the report, p2.
3.12	Table identifying the location of the Standard Disclosures in the report.	GRI Index, p102.
3.13	Policy and current practice with regard to seeking external assurance for the report.	About the report, p2.

4. Governance, commitments and engagement

GRI-Indicator		Link/page ref
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Challenges, vision and governance, p5. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx

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GRI-Indicator	Link/page ref	GRI-Indicator	Link/page ref		
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members. <i>Comment:</i> <i>Not applicable since the adidas Group doesn't have a unitary board structure. The highest governing body is the Supervisory Board (Aufsichtsrat).</i>	Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Challenges, vision and governance, p5.
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Employee involvement, p62. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx	4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. <i>Comment:</i> <i>The Supervisory Board is formally informed at least five times a year by the Executive Board. Ad hoc information is provided on a case by case basis. The CEO is in permanent contact with the responsible functions, especially with the General Counsel, Chief Compliance Officer and Group Risk Officer.</i>	Challenges, vision and governance, p5. 2010 Annual Report, p20.
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	2010 Annual Report, p30. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. <i>Comment:</i> <i>The Annual General Meeting evaluates the performance of the Supervisory Board and the Executive Board. The Audit Committee of the Supervisory Board checks on the respective performance of the Executive Board in five sessions a year.</i>	2010 Annual Report, p25. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided. <i>Comment:</i> <i>German Code on shareholding/publicly traded companies (AktG), Code of Conduct.</i>	2010 Annual Report, p25. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	2010 Annual Report, p158. Challenges, vision and governance, p5.
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics. <i>Comment:</i> <i>German Code on shareholding/publicly traded companies (AktG), Code of Conduct.</i>	Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses. <i>Comment:</i> <i>Our Workplace Standards are informed by the International Labour Organization (ILO) conventions.</i>	
			4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation has positions in governance bodies, participates in projects or committees, provides substantive funding beyond routine membership dues and/or views membership as strategic.	Collaborations and memberships, p16.

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GRI-Indicator	Link/page ref
4.14	List of stakeholder groups engaged by the organisation. Engaging our stakeholders, p10.
4.15	Basis for identification and selection of stakeholders with whom to engage. Engaging our stakeholders, p10.
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. Engaging our stakeholders, p10.
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. 2010 engagements, p11.

STANDARD DISCLOSURES PART II: DISCLOSURES ON MANAGEMENT APPROACH

GRI-Indicator	Link/page ref
DMA EC	Disclosure on Management Approach EC (Economic performance; Market presence; Indirect economic impacts) 2010 Annual Report, p80.
DMA EN	Disclosure on Management Approach EN (Materials; Energy; Water; Biodiversity; Emissions, effluents and waste; Products and services; Compliance; Transport; Overall) Strategy 2015, p18. Performance, p72. Green Company, p36.
DMA LA	Disclosure on Management Approach LA (Employment; Labour/management relations; Occupational health and safety; Training and education; Diversity and equal opportunity) Employees, p57. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx 2010 Annual Report, p115.
DMA HR	Disclosure on Management Approach HR (Human Rights) (Investment and procurement practices; Non-discrimination; Freedom of association and collective bargaining; Child labour; Forced and compulsory labour; Security practices; Indigenous rights) Suppliers, p41. Workplace Standards, p43. Managing our suppliers, p45. Employees, p57. Corporate Governance, p6. 2010 Annual Report, p115.

GRI-Indicator	Link/page ref
DMA SO	Disclosure on Management Approach SO (Community; Corruption; Public policy; Anti-competitive behaviour; Compliance) Community, p64. Corporate website at http://www.adidas-group.com/en/investor-relations/corporate-governance/default.aspx
DMA PR	Disclosure on Management Approach PR (Product Responsibility) (Customer health and safety; Product and service labelling; Marketing communications; Customer privacy; Compliance) Product safety, p30. 2010 Annual Report, p25 and p158.

STANDARD DISCLOSURES PART III: PERFORMANCE INDICATORS

Economic

GRI-Indicator	Link/page ref
Economic performance	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. Corporate website at http://www.adidas-group.com/en/investor-relations/financial-data/default.aspx 2010 Annual Report, p130.
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.
EC3	Coverage of the organisation's defined benefit plan obligations. 2010 Annual Report, p188. <i>Comment:</i> <i>Other benefits include our 401-K pension plans in the USA and the adidas Group pension plan for our employees in Germany. In 2010, 2,060 employees participated in the latter, which represents 58% of all eligible employees.</i>
EC4	Significant financial assistance received from government. <i>Comment: No financial assistance of that kind given.</i>

Market presence

EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. <i>Comment:</i> <i>Not reported.</i>
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

GRI-Indicator	Link/page ref
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. <i>Comment:</i> At the adidas Group we follow an equal opportunity recruiting policy. We recruit at senior management level (i.e. positions that are responsible for people and budget) preferably from inside the organisation with a declared target of at least 80% internal development. When recruiting from outside, we consider the best fit for the role, taking diversity and inclusion aspects into consideration.

Indirect economic impacts

EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. Community, p64
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.

Environmental

GRI-Indicator	Link/page ref
Materials	
EN1	Materials used by weight or volume.
EN2	Percentage of materials used that are recycled input materials.
Energy	
EN3	Direct energy consumption by primary energy source. <i>Comment:</i> Partial coverage – most of our sites are now gathering this data but we do not have a complete dataset for all our facilities. Reporting 2010 covers between 70-80% of the total emissions.
EN4	Indirect energy consumption by primary source.
EN5	Energy saved due to conservation and efficiency improvements. Green Company, p36. <i>Comment:</i> Partial coverage – most of our sites are now gathering this data but we do not have a complete dataset for all our facilities.
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved. Green Company, p36. <i>Comment:</i> Partial Coverage

GRI-Indicator	Link/page ref
Water	
EN8	Total water withdrawal by source. Green Company, p36. <i>Comment:</i> Partial coverage – most of our sites are now gathering this data but we do not have a complete dataset for all our facilities. Reporting 2010 covers between 70-80% of the total water withdrawals.
EN9	Water sources significantly affected by withdrawal of water.
EN10	Percentage and total volume of water recycled and reused. <i>Comment:</i> Not reported.

Biodiversity	Link/page ref
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. <i>Comment:</i> No sites owned by the adidas Group are in or adjacent to protected areas.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
EN13	Habitats protected or restored.
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

Emissions, effluents and waste	Link/page ref
EN16	Total direct and indirect greenhouse gas emissions by weight. Green Company, p36. Global travel, p39. Performance, p87. <i>Comment:</i> Partial coverage – most of our sites are now gathering this data but we do not have a complete dataset for all our facilities. Reporting 2010 covers between 70-80% of the total emissions.
EN17	Other relevant indirect greenhouse gas emissions by weight.

GRI-Indicator		Link/page ref
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Green Company, p36. Global travel, p39. Performance, p87.
EN19	Emissions of ozone-depleting substances by weight.	
EN20	NOx, SOx, and other significant air emissions by type and weight.	
EN21	Total water discharge by quality and destination.	
EN22	Total weight of waste by type and disposal method.	Green Company, p36. <i>Comment:</i> <i>Partial coverage</i>
EN23	Total number and volume of significant spills.	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	
Products and services		Link/page ref
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Product safety, p30. <i>Comment:</i> <i>Partial coverage</i>
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	
Compliance		Link/page ref
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	 <i>Comment:</i> <i>No non-compliances have been identified which led to sanctions or fines.</i>

GRI-Indicator		Link/page ref
Transport		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Transport, p35. Global travel, p39. Performance, p87. <i>Comment:</i> <i>Partial coverage</i>
Overall		
EN30	Total environmental protection expenditures and investments by type.	 <i>Comment:</i> <i>Not reported.</i>
Social: Labour Practices and Decent Work		
GRI-Indicator		Link/page ref
Employment		
LA1	Total workforce by employment type, employment contract, and region.	2010 Annual Report, p115.
LA2	Total number and rate of employee turnover by age group, gender, and region.	2010 Annual Report, p115. Performance, p92.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	 <i>Comment:</i> <i>Benefits that adidas Group entities provide to employees (e.g. life and accident insurance, additional health care, company pension schemes, company cars) are granted by internal guidelines and legal regulations.</i> <i>In our benefits provisions we are legally compliant in all locations which we generally provide at market median. Respective full benefits packages are provided to all full-time and permanent employees. Wherever it is required to equally treat part-time/non-permanent employees, we adhere to this.</i>
Labour/management relations		
LA4	Percentage of employees covered by collective bargaining agreements.	 <i>Comment:</i> <i>Data recording is currently in progress. Collective bargaining agreements are in place at least in Group entities in the following countries: France, Germany, Finland, Lithuania, Greece, Norway, Portugal, Spain, Sweden, Latvia, South Africa, UAE, Korea, Brazil, and Chile (partial).</i>
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	 <i>Comment:</i> <i>Not reported.</i>

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GRI-Indicator		Link/page ref
Occupational health and safety		
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	
	<i>Comment:</i> Not reported.	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Green Company, p36. Health & safety, p60.
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	
	<i>Comment:</i> The adidas Group has a Major Incident Response Policy, a Global Risk Management Policy and an HIV-Aids Policy in place.	
LA9	Health and safety topics covered in formal agreements with trade unions.	
	<i>Comment:</i> Health and safety topics are covered through specific local laws. Additional bargaining agreements are in place regarding preventive medical check-ups and allowance for personal protective equipment (Germany).	
Training and education		
LA10	Average hours of training per year per employee by employee category.	Performance, p92.
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Developing employees, p58. 2010 Annual Report, p115.
LA12	Percentage of employees receiving regular performance and career development reviews.	Developing employees, p58. 2010 Annual Report, p115.

GRI-Indicator		Link/page ref
Diversity and equal opportunity		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Performance, p92. 2010 Annual Report, p115 and p24.
	<i>Comment:</i> Breakdown reported by male/female.	
LA14	Ratio of basic salary of men to women by employee category.	
	<i>Comment:</i> Salary levels are paid according to pay grade, not according to gender.	

Social: Human Rights

GRI-Indicator		Link/page ref
Diversity and equal opportunity		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Suppliers, p41.
	<i>Comment:</i> 100% of our key first tier suppliers are monitored on labour, health, safety and environmental standards and human rights.	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Performance, p77. Training our suppliers, p45.
	<i>Comment:</i> The most significant area is training our suppliers. The number of hours is not included but the number of training sessions conducted is.	
Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken.	
	<i>Comment:</i> As for our own adidas Group employees, no incidents were reported through existing lines of communication. Regarding our external supply chain, no exact number can be reported, but any incident is always subject to investigation by our own Social and Environmental Affairs team and external monitors. Action plans are developed together with the supplier in order to remediate the non-compliance.	

GRI-Indicator	Link/page ref
Freedom of association and collective bargaining	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. <i>Comment:</i> External supply chain is covered through the Workplace Standards and related programmes. Employees of the internal organisation are covered by the Labour Rights Charter and related programmes.
	Workplace Standards, p43. Rights and rules, p61. Challenges, vision and governance, p5.
Child labour	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour. <i>Comment:</i> External supply chain is covered through the Workplace Standards and related programmes. Employees of the internal organisation are covered by the Labour Rights Charter and related programmes.
	Workplace Standards, p43. Rights and rules, p61. Challenges, vision and governance, p5.
Forced and compulsory labour	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour. <i>Comment:</i> External supply chain is covered through the Workplace Standards and related programmes. Employees of the internal organisation are covered by the Labour Rights Charter and related programmes.
	Workplace Standards, p43. Rights and rules, p61. Challenges, vision and governance, p5.
Security practices	
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. <i>Comment:</i> Security personnel are regularly trained on their specific rights and obligations.
Indigenous rights	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken. <i>Comment:</i> No incidents were reported.

Social: Society

GRI-Indicator	Link/page ref
Community	
S01	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.
Corruption	
S02	Percentage and total number of business units analysed for risks related to corruption.
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures. <i>Comment:</i> In 2010, 3,711 employees participated in the Code of Conduct training. By the end of 2010, 48% of the global workforce was covered by the adidas Group Code of Conduct training.
	Rights and rules, p61.
S04	Actions taken in response to incidents of corruption.
	Rights and rules, p61.
Public policy	
S05	Public policy positions and participation in public policy development and lobbying. <i>Comment:</i> Activities through trade associations for sustainable development and fair trade without barriers and protectionism.
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. <i>Comment:</i> According to our Corporate Giving Guidelines we do not make donations to political parties.
	Collaborations and memberships, p16.
Anti-competitive behaviour	
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes. <i>Comment:</i> None.
Compliance	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. <i>Comment:</i> No significant non-compliance issues which led to fines and non-monetary sanctions under laws or regulations.

Social: Product Responsibility

GRI-Indicator	Link/page ref
Customer health and safety	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. <i>Comment: Partial coverage</i>
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. <i>Comment: No product recalls due to health and safety issues took place in 2010.</i>
Product and service labelling	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. <i>Comment: The adidas Group complies with local laws and regulations regarding the provision of information on products and services.</i>
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.
Marketing communications	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. <i>Comment: The adidas Group complies with local laws and regulations related to marketing communications. A Code of Conduct, Marketing Guidelines and local policies are in place.</i>
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. <i>Comment: None.</i>

GRI-Indicator	Link/page ref
Customer privacy	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. <i>Comment: No substantial complaints received from outside parties or regulatory bodies.</i>
Compliance	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. <i>Comment: No issues of that kind.</i>

APPAREL AND FOOTWEAR SECTOR SUPPLEMENT

SUPPLY CHAIN STANDARDS AND PRACTICES SECTION

Disclosure on management approach

GRI-Indicator	Link
AF1.	Code of Conduct – Code of conduct content and coverage.** Workplace Standards, p43.
AF2.	Audit Process – Parties and personnel engaged in code of conduct compliance function.** Monitoring compliance, p49.
AF3.	Audit Process – Compliance audit process.** Monitoring compliance, p49.
AF4.	Grievance Procedures – Policy and procedures for receiving, investigating, and responding to grievances and complaints.** Managing our suppliers, p45. Worker hotlines, p50.
AF5.	Capacity Building – Strategy and scope of efforts to strengthen capacity of management, workers and other staff to improve in social and environmental performance.** Training suppliers, p45.
AF6.	Business Integration – Policies for supplier selection, management, and termination.** Managing our suppliers, p45. Enforcement. p52. Rating our suppliers, p52. Sourcing decisions, p53.

Specific performance indicators

GRI-Indicator	Link/page ref
AF7. Code of Conduct – Number and location of workplaces covered by code of conduct.**	Performance, p73.
AF8. Audit Process – Number of audits conducted and percentage of workplaces audited.**	Performance, p77.
AF9. Non-compliance findings – Incidents of non-compliance with legal requirements or collective bargaining agreements on wages.**	Monitoring compliance, p49.
<i>Comment:</i> The numbers are presented as a percentage of the total non-compliances found.	
AF10. Non-compliance findings – Incidents of non-compliance with overtime standards.**	Monitoring compliance, p49.
<i>Comment:</i> The numbers are presented as a percentage of the total non-compliances found.	
AF11. Non-compliance findings – Incidents of non-compliance with standards on pregnancy and maternity rights.**	
<i>Comment:</i> Not reported.	
AF12. Non-compliance findings – Incidents of the use of child labour.**	Monitoring compliance, p49.
<i>Comment:</i> The numbers are presented as a percentage of the total non-compliances found.	
AF13. Non-compliance findings – Incidents of non-compliance with standards on gender discrimination.**	
<i>Comment:</i> Not reported.	
AF14. Non-compliance findings – Incidents of non-compliance with code of conduct.**	Monitoring compliance, p49.
<i>Comment:</i> The numbers are presented as a percentage of the total non-compliances found.	
AF15. Non-compliance findings – Analysis of data from code compliance audits.**	Monitoring compliance, p49.
<i>Comment:</i> The numbers are presented as a percentage of the total non-compliances found.	

GRI-Indicator	Link/page ref
AF16. Remediation – Remediation practices to address non-compliance findings.**	Managing our suppliers, p45. Rating our suppliers, p52.
AF17. Business Integration – Actions to identify and mitigate business practices that affect code compliance.**	Managing our suppliers, p45. Strategic developments, p54.

ENVIRONMENTAL SECTION

Environmental disclosure on management approach

GRI-Indicator	Link/page ref
AF18. Materials – Programmes to replace organic-based adhesives and primers with water-based adhesives and primers.	Materials overview, p26.
AF19. Materials – Practices to source safer alternative substances to those on the restricted substances list, including description of associated management systems.	Product safety, p30.

Environmental performance indicators

GRI-Indicator	Link/page ref
AF20. Materials – List of environmentally preferable materials used in apparel and footwear products.	
AF21. Energy – Amount of energy consumed and percentage of the energy that is from renewable sources.	

SOCIAL SECTION

Labour disclosure on management approach

GRI-Indicator	Link/page ref
AF22. Employment – Policy and practices regarding the use of employees with non-permanent and non-fulltime status.**	Supporting guidelines, p44.
<i>Comment:</i> The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.	
AF23. Employment – Policy regarding the use of home working.**	Supporting guidelines, p44.
<i>Comment:</i> The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.	

GRI-Indicator	Link/page ref
AF24. Employment – Policy on the use and selection of labour brokers, including adherence to relevant ILO Conventions.** <i>Comment:</i> <i>The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.</i>	Supporting guidelines, p44.
AF25. Wages and hours – Policy and practices on wage deductions that are not mandated by law.** <i>Comment:</i> <i>The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.</i>	Supporting guidelines, p44.
AF26. Wages and hours – Policy on working hours, including definition of overtime, and actions to prevent excessive and forced overtime.** <i>Comment:</i> <i>The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.</i>	Supporting guidelines, p44.
AF27. Diversity and Equal Opportunity – Policy and actions to protect the pregnancy and maternity rights of women workers.** <i>Comment:</i> <i>The Guidelines on Employment Standards set out standards, case studies and examples of common non-compliance, suggested systems and solutions for avoiding non-compliance, documentation requirements, and relevant international laws.</i>	Supporting guidelines, p44.

Labour performance indicators

GRI-Indicator	Link/page ref
AF28. Employment – Percentage of foreign migrant workers as a portion of total workforce, broken down by region. <i>Comment:</i> <i>Not reported.</i>	

AF29. Labour/Management Relations – Percentage of workplaces where there is one or more independent trade union(s), broken down by: – Workplaces with a collective bargaining agreement – Workplaces without a collective bargaining agreement. Also provide information broken down by country.** <i>Comment:</i> <i>We promote the importance of freedom of association to our suppliers. It is part of our Workplace Standards and features in our training and regular engagements with our suppliers. However, we do not collect the numbers of workplaces where unions operate.</i>	
AF30. Labour/Management Relations – Percentage of workplaces where, in the absence of a trade union, there are worker-management committees, broken down by country.** <i>Comment:</i> <i>We promote the importance of worker-management relations but we do not gather this data.</i>	
AF31. Occupational Health and Safety – Initiatives and programmes to respond to, reduce, and prevent the occurrence of musculoskeletal disorders.	OHSO Programme, p48.
AF32. Diversity and Equal Opportunity – Actions to address gender discrimination and to provide opportunities for the advancement of women workers.	

Society performance indicators

GRI-Indicator	Link/page ref
AF33. Community Investment – Priorities in community investment strategy.	Projects in supplier countries, p66.
AF34. Community Investment – Amount of investment in worker communities broken down by location. <i>Comment:</i> <i>Not reported.</i>	

** Reporting organisations must also include entities that they monitor (i.e. those defined as under significant influence by the Report Boundary guidance)

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